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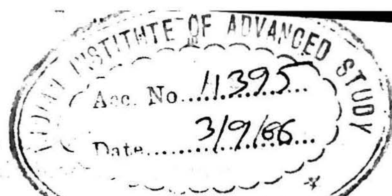
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Industries in Indian Planning

Industrialisation an Essential Item—When an under-developed country aims at the modernisation and diversification of its economic structure, and that too at a quick pace, industrialisation becomes an essential item in its programme. The backwardness and stagnation of an economy are the outcome of its almost exclusive dependence on primary occupations which shelter a vast multitude of its working population ; and in this sector, while the scope for diversification is extremely limited, any attempt at modernisation is thwarted by the displacement of population which, in the absence of necessary openings, cannot be absorbed. An under-developed economy, like that of ours, also shelters a tertiary sector, consisting mostly of middlemen and money-lenders, but in the absence of a strong 'secondary' manufacturing sector and of a prosperous primary sector, many of these intermediaries are no more than parasites, without any suitable economic function, and subsisting, if not thriving, at the cost of the producer and/or the consumer. If we are to accept Colin Clark's criterion for socio-economic progress, the population pressure needs be redistributed, with maximum dependence on the tertiary and a minimum pressure on the primary sectors. This tertiary sector, however, thrives on a growing secondary sector rather than being a vampire on a lean, outworn primary sector. The *sine qua non* of progress for a backward economy is, therefore, to have a prosperous tertiary sector side by side with a growing secondary sector while the population pressure on the primary sector

is reduced to a minimum. This signifies a complete change in occupational distribution of population.

The above is, however, the goal ; but it cannot be realised by a hurried programme in a country where population pressure on resources is rather too high. For, a programme of industrialisation being, by its very nature, not much labour-absorbing, any effort at rapid agrarian reorganisation will bring to the fore the surplus people who are sheltered therein, whose volume is pretty high and technical competence nil. While, therefore, industrialisation should grow apace, by private as well as governmental efforts, diversifying occupational structure and providing strength and support to a prosperous and growing tertiary sector that may absorb a part of the population flow, the organisational set-up in the primary sector should not be immediately disturbed. It is well-known that there is nothing wrong in small-scale farming as such provided the farmer is acquainted with modern techniques, with the use of good seeds, fertilisers, pesticides, with free or cheap supply of water for irrigation. Meanwhile, a consistent and continuous process of industrialisation will bring about a steady change in the economy in which the percentage of industrial to total investment will rise. If, on the contrary, rural depopulation commences at the very early stage of an industrialisation programme which is being fed by inflationary impetus, this will, in the absence of necessary preparation for the absorption of the flow of surplus population, create a virtual chaos in the economic system, from which there is no easy escape.

Unfortunately, this is the very thing that we have been doing so far. The forerunners of Indian planning were a number of schemes,—irrigation projects, land reclamation and fertiliser production being the more im-

portant of them—which aimed at raising agricultural productivity. But in the planning period, the emphasis shifted from production to agricultural reorganisation, including governmental acquisition of land, tenancy reform, land redistribution, ceiling on holdings, co-operative village management, etc., while irrigation ceded place to power generation, and fertiliser output started flowing to foreign markets. This enthusiasm for agrarian reorganisation has destroyed the balance of the primary sector with the consequence that unemployment is everyday increasing in intensity and the planners are groping in the dark for avenues to employ them. Since no commodity-producing line is readily available, effort is being made to absorb them in non-commodity-producing projects. But still the flow of dislocated people continues unabated while the 'unproductive' items in planning are threatening the stability of the economic system by perpetuating an inflation whose potentiality seems inexhaustible. Both these problems,—unemployment and perpetual inflation—are, therefore, the outcome of our planners' folly and have placed the entire economy in chaos.

An industrialisation programme is no panacea for a backward economy with a heavy pressure of population. Modern industries being capital-intensive, they make man a 'surplus' of his own creation. In so far as an industry introduces a new line of production, it creates employment for some trained as well as manual labourers; but when it replaces a large number of small, independent artisans, the dislocational effect is pretty high. A new unit in textile goods production will leave many weavers and spinners stranded; if, however, the new manufacturing unit undertakes the production of textile machinery which the country imports, it will have no dislocational effect ; rather it will help in the creation of extra employ-

ment in the country. A programme of industrialisation should always keep in view the probable dislocational effect. If industrialisation signifies a process of rationalisation in the existing units with a view to modernise the entire industry, the dislocation effect is bound to be high; if, on the contrary, it concentrates on the starting of new lines, manufacturing machinery, machine parts, mill stores, etc., in which the country is deficient, and of which she imports a lot every year, it will create employment for a number of unemployed people, reduce pressure on foreign exchange resources and strengthen the economy at the base.

The above is, however, no plea for preserving a *status quo* in existing lines or sheltering inefficiency there for all times. As industrialisation progresses, even these sectors will be affected by a modernisation process. A capital-goods industry will prove useless if its products are not absorbed in the country in consumption-good- or export-industries. What is implied is that a programme of industrialisation should give top priority to industries that are essential and yet do not exist, while rationalisation and modernisation of existing lines may wait for some time and will be a slow process. The former will create extra jobs, while the latter will keep in check the dislocational effect. This suggestion should not, however, be confused with the enthusiasm that some people have in this country for small and cottage industries in which they probably see the reminiscences of ancient Indian culture. There are others, like the Karve Committee that reported sometime back, who make no secret of their intention to cry a halt to mechanical production even when it is an additional, rather than a substitutional, line. They believe that if further expansion of, say, textile mills is stopped and no new units are allowed to come into

existence, more and more people will take to small-scale cloth manufacture. The idea is thus conceived to create more employment opportunities in small industries, which, they believe, will stop if more mills are allowed to start. The argument is apparently attractive; but there are two equally weighty counter-arguments, *viz.*, that the process will give premium to inefficient production and that the flow of output from labour-intensive processes will be less at a moment when extra output is most required. Even though we accept the potentiality of small-industries as immediate employment-creating agencies, from a long-run point of view we are not enthusiastic about them when it is a question of output and efficiency. What is desired is that while extra employment be created in additional lines of production and expansion of the existing units, modernisation and conversion of the 'domestic' sector should be a gradual process, more particularly so, where the dislocational effects are close at hand. Small industries may at most be set up as complementary units but should never be substitutes for organised industries, looking permanently for state aid or subsidy in order to hide their own inefficiency.

Industrialisation in a backward economy should, therefore, be viewed not as an employment-creating agency in itself but as a step towards a greater utilisation of its raw materials and for the creation of extra output. Most backward economies have, so far, fed industrialisation in the West by their raw materials and minerals and have themselves served as markets for their products. If the tide has now turned, they should know how to utilise their resources within their borders and be self-sufficient and progressive. If the employment of man-power remains a problem, no less important is the question of utilisation of raw materials. While the former should, reasonably,

seek shelter in an elastic tertiary sector of banking, insurance, trading and transport, the use of raw material should be the preoccupation of the industrial sector.

Industrial Economy in India—Though the major part of the Indian economy is still backward, primitive and agrarian, using bullock power and manual process, it has simultaneously a strong sector of modernised industries, which is no survival from the historic past, but has developed during the last one hundred years mainly due to the individualistic enterprise of the managing agents, British as well as Indian. This sector received no assistance from the Government for a pretty long time and depended on external markets for the sale of its output. This was true of the spinning section of the cotton textile industry, of the jute industry, of the tea and iron and steel industries. Since the war, of course, the internal market for domestic output has expanded owing to the steady rise in internal purchasing power; but the basic nature of Indian industrialism has not very much changed, with the consequence that whether we start a steel plant or a fertiliser factory, the output continues to flow mainly to foreign markets.

Industrial development in India in recent years has given rise to a two-fold politics, one between the public and the private sectors and the other among different states and regions. The first item we shall consider separately under industrial policy. Let us, however, give some thought to the second. We have said earlier that a federal constitution with a national plan for economic development has already started a race among individual states to have as much of the outlay within their own borders and through their own agencies as available. This feeling even haunts the programme of industrialisation. A recent official survey indicates that in

matters of industrial development, different states have not been equal beneficiaries in the two plans, the greatest benefit having gone to those that are already industrialised, not only in matters of schemes approved for substantial expansion of existing units but also in those approved for new units. The results of this survey are as follows :

State	Schemes approved for		State	Schemes approved for	
	New units	Expansion		New units	Expansion
Bombay	105	222	Mysore	4	22
West Bengal	48	82	Andhra	9	10
Madras	38	90	Orissa	9	5
Punjab and			M. P.	7	13
Delhi	39	27	Kerala	7	12
U.P.	18	24	Rajasthan	4	6
Bihar	10	17	Assam	4	1

Total—New 302, Existing 531

The above figures relate to industrial units in the private sector. If to these be added those in the public sector, the picture will not materially differ. This has obviously created a feeling of disquiet among those states which are not the beneficiaries of the plan-outlay and they are bringing pressure for necessary recompense in the third plan.

This interpolation of politics in industrial planning is going to take shape in a peculiar way in the third plan. There is a consensus of opinion in this country that the industrial structure needs diversification. But under political pressure from the non-beneficiary states, this diversification is likely to be interpreted in terms of outlay on small industries. We have already noted that these enterprises can never be efficient and stand no justification unless the state is determined to be

perpetually lavish in extending a helping hand for their subsidisation. Unfortunately, this distorted version of diversification is making too frequent an appearance and is likely to be adopted for meeting the problem of regional disparity in industrial development during the third-plan period.

Obviously, the states concerned are not interested in the industrial development of the country or their region. Their exclusive interest is about the outlay and if this is incurred, no matter whether on sound or spurious projects, that at least saves their face to the electorate. What is, however, missed in this connection is that industrial development is already a controlled item under the Industries (Development and Regulation) Act, 1951, and if inspite of the statutory regulation of industrial location, certain areas are becoming over-industrialised while others fail even to attract sufficient enterprise to themselves, it is surely the over-whelming economic advantages of the former. Private industries apart, even industries in the public sector are influenced by similar considerations. The removal of regional disparity does not mean that every region and state must have some fresh industries, no matter whether such canalisation of investment is otherwise justifiable or not. For the sake of balanced growth, different regions of a country must be closely 'integrated'; but integration does not carry with it a promise to provide a number of industrial units to each one of them. Even those countries, which are modernised and industrialised and where integration between different sectors is an accomplished fact, have certain areas where industrial units are more concentrated than at others. Industrial location, even in a planned economy, is governed by strong economic considerations; if these are superseded by political factors

and industries are started in every state in order to maintain the fetish of a regional balance, these can never stand on their own legs but will be a perpetual drag.

Politics is, however, the supreme consideration in this subcontinent, and in order to keep the non-beneficiary states contented, it is likely that a good part of the third plan outlay will be lavishly wasted on small industries, industrial estates or industrial co-operatives. Already the Ministry of Commerce & Industry of the Government of India has issued a booklet indicating the lines on which the government is prepared to offer assistance. This assistance extends to such diverse items as technical knowledge, industrial information service, training both managerial and technical, finance, marketing service and accomodation. Hurried steps are being taken for establishment of Small Industries Service Institutes. The State Financial Corporations are to provide the initial finance and the state governments the current finance. The State Bank of India, with its various branches will participate in the scheme.

Obviously, the scheme has no serious thought behind and is probably no more than an expedient for an otherwise chaotic economy. Indian planning that contains many other items that are ill-grafted will have one more addition to that list. But its short-comings are so obvious that the planners won't be able to take refuge behind the plea of ignorance. In the first place, such small-scale industries as are in competitive line with organised industries do not stand the chance of success. Secondly, if they are of a complementary or auxiliary nature, their ideal location should be in the neighbourhood of organised industries rather than in a far-off out-of-the-way place. Only those small industries may have some chance of success in these states that command a

small local market. But since such industries will be few in number and since demand in an under-developed region is likely to be limited and stereotyped rather than growing and diversified, the prospect for them is not bright. Even industrial estates provide a new idea, untested in the Indian context. The Government seems to be very sanguine about their prospect. But there are two aspects demanding more serious consideration, *viz.*, first, whether these are able to secure sufficient economies in matters of purchase, market, advertisement, finance, etc., and second, whether the degree of co-operation among different owners is really high. The idea should have been adopted on an experimental basis rather than being straightway incorporated as an integral part of the industrialisation programme.

For the sake of balanced development, the entire country rather than each administrative division should be taken as an unit. In a federal constitution with a national plan, there is always the risk that the planning authority has to keep the constituent states in perfect contentment, no matter whether that helps or hampers broad national interest. It is actually this that is happening in India. Each time an item comes up, the states loom large, as if the latter are the real planning authorities while the Planning Commission is a mere co-ordinating body. This leads to wastage of resources. Since each state must get its due quota and spend it within the scheduled time under penalty of lapse, there is absolutely no guarantee of effective use of resources. If we stick to national planning, it should be truly national, the centre being the planning, executing and spending authority. If, however, execution of the plan items devolves on the states, it is the latter who should find full resources for them. To continue with the fetish of national plan-

ning when the latter is overwhelmed by political considerations emanating from the states is a great misnomer of Indian planning.

The real diversification in India's industrial structure will take place only when we make a sincere beginning with capital goods industries. As already said, Indian industries are being started principally with foreign market in view ; the attainment of self-sufficiency is no where our goal. Much is made in this country of the steel plants in the public sector. But it is forgotten that even steel which is a semi-manufactured product for further processing is meant for export. Steel may be a finished product of the steel plant ; but it is raw material for machinery production and unless the emphasis shifts in favour of the latter, our industrial economy can never attain balance. In comparison to machinery which we import steel is a cheaper item and even if the export of the latter earns some foreign exchange, it can never be commensurate with our import needs. India's industrial planning is basically wrong and even after two plans, her industrial economy has not even assumed a shape, the country being badly dependent on imported staff. So long as the politicians and the planning experts are not conscious of this short-coming, India's industrial economy will not attain balance or show diversification and the drain on her external resources will not stop.

Trends in Industrial Production— The first plan provided for a total outlay of Rs. 100.99 crores or 6.7% of the total outlay for industries in the public sector. This was mainly due to the fact that during the first-plan period, industry had remained the major responsibility of the private sector, the governmental outlay being earmarked for assistance to private agencies for the expansion of steel production, ship-building, newsprint, small-

scale industries and for state-owned enterprises. Inspite of an erratic monetary policy, a hostile fiscal policy and an unfavourable industrial policy, the private sector, on the Planning Commission's own admission, was able to give a good account of itself, the total outlay being Rs. 1600 crores as against an envisaged figure of Rs. 1700 crores, the whole amount representing investment in productive assets. In the public sector, the outlay fell short by 17.6%. The private sector also accounted for the bulk of the fixed investment of Rs. 233 crores. The trend in industrial output in the private sector has been shown to be steadily upward, being 103.6 in 1952, 105.6 in 1953, 112.9 in 1954 and 121.9 in 1955, the base being 1951.*

	Unit	Base Year 1950-51	Plan Target 1955-56	Actuals 1955-56
Finished Steel	Lakh Tons	9.8	16.5	12.8
Pig Iron	,, ,,	15.7	28.3	17.9
Cement	,, ,,	26.9	48.0	45.9
Aluminium	'000, Tons	3.7	12.0	7.3
Fertilisers :				
(a) Am. Sulphate	,, ,,	46.3	450.0	394.0
(b) Superphosphate	,, ,,	55.0	180.0	71.0
Locomotives	Nos.	3	173	179
Textiles :				
(a) Yarn	Mill. lbs.	1179	1640	1633
(b) Mill Cloth	,, yds.	3718	4700	5102
(c) Handloom	,, ,,	810	1700	1449
Jute Manufactures	'000, Tons	824	1200	1054
Bicycles	'000, Nos.	97	530	513
Sewing Machines	,, ,,	33.0	91.5	111.0

* Reserve Bank of India, *Report on Currency and Finance* 1955-56, p. 126.

Power Alcohol	Mill. Gallons	5.0	18.0	10.4
Sugar	'000, Tons	1100	1500	1860

The second plan gives precedence to the public sector in matters of industrial and mineral development. The net output of the factory establishment is to go up by 64% and that of minerals by 58%. "The next few steps in industrial development are," we are told, "fairly clear in view of the large and growing requirements which are at present met to a significant extent by imports. As these pressing needs are satisfied and the superstructure of basic industries grows, it will be necessary to visualise an integrated programme of development for basic capital goods industries, for organised consumer goods industries and small-scale industries." We do not know if industrial development in two plans should have been enough to meet the 'pressing needs', nor do we know when the time for an 'integrated programme' will be ripe. Experts tell us that an integrated programme is the very soul of economic planning. Without it, planning becomes wasteful, as Indian planning has been. But what causes us a greater worry is that production has already started receding, as if the point of saturation has already been reached in most lines. The tempo created by the first plan seems to be near exhaustion. The trend in industrial production during the second plan period may be seen from the following figures :

	Unit	1956	1957	1958
Automobiles	'000, Nos.	32.1	33.1	26.9
Conduit Pipes	'000, R. ft.	10931	11145	10622
Hurricane Lanterns	'000, Nos.	5180	4345	3378
Oil-pressure Lamps	,, ,,	84	93	78
Power Transformers	'000, KVA	919	1219	1128
Twist Drills	'000, Nos.	1550	2258	1535
Wood Screws	'000, Gross	7502	8143	7176

Ring Spg. Frames	No.	1116	1368	852
Electric Lamps	'000, Nos.	29800	32100	29500
Grinding Wheels	'000, lbs.	2491	3253	2737
Copper Coductors	'000, Tons	103	85	73
Expanded Metal	Tons	2208	2163	1735
Scooters	Nos.	4735	6528	4391
Dry Cells	Mill. Nos.	181	166	168
Sulphur Black Dyes	'000, lbs.	3475	3807	1858
Vat Dyes	„ „	845	264	416
ACSR	„ Tons	113	154	144
Railway Wagons	„ Nos.	16	16	14
Buffers, Plungers, Castings	„ Nos.	99	119	83
Glue	'000, Tons	1.1	1.3	1.2
Plywood	Lakh sq. ft.	983	950	882
Cotton Yarn	Mill. lbs.	1671	1780	1683
Cotton Cloth	Mill. yds.	5307	5317	4924
Bichromates	'000, Tons	3.3	3.7	3.4
Power Alcohol	„ Galls.	10271	10136	8470
Sugar	„ Tons	1854	2029	1978
Soda Ash	„ „	84	92	89

The set-back is general, having affected most lines of production. It is not known if this set-back is the outcome of a feeling of exhaustion, as it was during 1946-50 after the most strenuous period of war-time production, nor is it possible to predict if production will revive, under inflationary impetus, in the closing years of the second plan, as it did in the first plan period, in order to make rapid strides to catch up the plan-targets. Whatever the reason for the set-back and whatever the prospect, the clear fact emerges that industrial planning in India has not been effective to generate a tempo of unobstructed growth. Industrial output may have recorded a growth here and there, but that would have been possible even

without a plan. Indications are clear that, but for the plan and consequent shock generations and interferences from the politicians, and with a better investment climate in the country, the private sector could have participated more effectively in the post-war industrial boom. But planning created a feeling of rivalry which operated as a definite handicap. India missed a chance for industrialisation during the war because of political factors; in post-war years, a second chance came, but she has missed that too, again due to political factors, though of a different nature. The first chance she missed for her dependence, the second for the folly and short-sightedness of her administrators and planners. The story, however, remains the same. If other countries could progress during this period, they could do so because of the free play of the forces of market economy; if India could not, it is because she had reversed them.

India's Industrial Policy—If India has failed to participate in the post-war boom, a part of the responsibility must be borne by an erratic, unfavourable industrial policy. Industries could not take full advantage of the war and under war-time pressure production recorded only a small rise. But as soon as the war was over, they were overtaken by exhaustion and ere they could recover from it, the entire atmosphere was charged with uncertainty, of which industrial production was the first casualty. There were loose talks about socialism in the Congress circle even during the 'thirties, obviously under the influence of Nehru and in order to keep him in good humour, but they had hardly any effect on the Indian economy. But in 1947, the whole situation having basically changed, such talks started again and were effective enough to create a stalemate. They did immense disservice to the country's economy at that time so much so that a clear-cut

policy statement had to be issued by the government. The Industrial Policy Resolution adopted by the Indian Parliament on April 7, 1948, laid down the broad objectives of the government's industrial policy and demarcated the respective spheres of state and private enterprises. The industries were placed into four categories, *viz.*, exclusively state monopolies, industries in which new units would be established by the state except where public co-operation was necessary in national interest, industries under central control and regulation, and private enterprises. The resolution, though putting an end for the time-being to the loose talks of the enthusiastic politicians, was by no means a concession to private enterprise nor was the line of demarcation beyond which the state would not lay its hands anything definite and clear-cut. For, even in the sphere allotted by the resolution to private enterprise, the state's policy was progressively to participate in it. Peculiarly enough, the new arrangement was given the name of a 'mixed economy', which signified that both public and private sectors were to work in their own spheres for the economic development of the country. But even in its own jurisdiction, the private sector had to succumb to a regulative legislation. The Industries (Development & Regulation) Act, 1951 envisaged the regulation and development of 37 industries or groups of industries and provided for the establishment of Development Councils for the purpose. The Act provided for the establishment of a Central Advisory Council, for the registration of existing industrial undertakings and the licensing of the new ones. It also empowered the Central Government, under certain circumstances, to cause an investigation into any industrial undertaking, to issue directives to it, to take over its management and to make rules for carrying out the functions specified in the Act.

Thus freedom of enterprise became a misnomer even within the limited sphere envisaged in the resolution and India failed to utilise her private sector for the building up of her industrial economy. It must, however, be said to the credit of the private sector that, even functioning under so many limitations, it could give a good account of itself during the first-plan period.

But before long the talk of socialism obtained a fresh lease of life and was elevated to the Congress platform. The Avadi Congress broke way abruptly from the ideal of a mixed economy,—a sort of co-operative commonwealth, —to a socialistic pattern of society in which developmental planning became an almost exclusive monopoly of the state. Private enterprises were advised to move with the times and subordinate profit to service motive. Meanwhile the nationalisation programme was working with full vigour. Life assurance business was taken over by the government by the promulgation of an ordinance, so great being the feeling of urgency in the governmental sector. The Imperial Bank of India was nationalised and converted into a State Bank and the Reserve Bank's control over the banking system considerably elaborated. The year 1956 was the worst in the history of private enterprise in India—even worse than 1947, which became notorious for the Liaquat Ali Budget—when the government launched a three-pronged attack on it. The Securities Regulation Act elaborated the governmental control on the dealings in industrial shares; the Indian Companies Act, reduced the managing agent to a virtual nonentity and made the hand of the government felt everywhere; the Industrial Policy Resolution turned its back on the 'mixed economy' and fixed its gaze on a 'socialistic pattern of society'. Further shocks were generated in the Budget which were no less disincentive in effect.

Under the Industrial Policy Resolution of 1956, all industries of basic and strategic importance or in the nature of public utility services have been placed in the public sector. Other industries which are considered 'essential' and require investment on a scale which only the state can in the present circumstances undertake are also placed in the public sector. The remaining industries are, of course, open to private enterprise, though, even here, it is open to the state to start any industry. It is made clear by the revised resolution that industrial undertakings in the private sector have necessarily to fit into a framework of social and economic policy of the state, and will be subject to control and regulation in terms of the Industries (Development & Regulation) Act of 1951 and other relevant legislations.

Trend in Company Finance—An important feature of a backward economy is the low amount of capital per head of population and even this small amount is not of a diversified nature. It has been estimated by a UNO survey* that in 1939, real capital per worker in Asia and the Far East minus Japan was only about 10% of that of the U.S.A. This explains the low productivity of workers in this region. But the whole thing is a vicious circle. If they are ill-equiped, it is because of the low rate of capital accumulation, which in its turn is the outcome of a poor income and low productivity. Even when industries have been started, the poor purchasing power has always prevented their getting a good market. Hence Indian industries have all the time been looking for external markets. This uncertain foundation is not congenial to economic growth. Internal demand must be the first line of support to the industries ; only the surplus needs go to foreign markets. But

* UNO, *Economic Survey of Asia and the Far East*, 1949.

that will happen only when the real income of the people goes up. That prospect is, however, nowhere in sight.

This basic flaw apart, trend in company finance in India in the past has exhibited an institutional weakness, *viz.*, that it has centred round an institution called the managing agency system. That industrial leadership should be the function of expertise is not deprecated and that these leaders are born, not made, is a universal truism. What is disquieting is that the managing agents, with a few exceptions, are not the born leaders of industry. If still they hold the leadership, it is by virtue of their control of the purse. This does not mean that we are oblivious to the signal service rendered by them to the industrial economy of this country during the last one hundred years. Even then it must be admitted that Indian industries have not been financed by the savings of many people and are all the time dependent on the purse of the rich few. Low income of the people is a factor partly responsible for this. Unscrupulous functioning of some managing agencies and frequent company failures are other factors. But what is often lost sight of is the fact that the shares of most of the companies not being on the stock exchange lists, are impossible to purchase and sale. To purchase the share of any one of these companies is to make a permanent investment, and since many of these, again, do not declare any dividend as a matter of habit and convention, the investment yields no return. It virtually amounts to blocking one's own capital. Institutional investors being practically nil, the entire field of company finance is under the dominating grip of the managing agents. Institutional investors, if started, may offer a competition on a restricted basis. The real step is, however, to make dealings in shares broad-based and compel every company to have

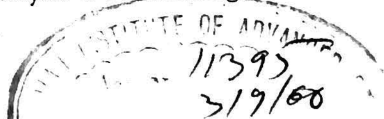
its shares on the stock exchange list. Till shareholding is broadbased, mere legislation can neither mend nor end the managing agency system. It will continue in a modified form and under a modified name. The managing agent will outlive his utility only when joint-stockism brings about a really joint stock of capital in industry.

Internal source of finance which was known only to a few companies before the war steadily increased during the war-time inflation when rising prices brought fabulous profits to the companies and enabled many of them to build up strong reserves. These reserves have imparted financial strength to many a company in the post-war and first-plan periods. If inspite of a dull share market and an exceptionally tight capital market, the private sector could successfully execute its own share in the plan, it was due to the mobilisation of these reserves, which, in individual cases, have been capitalised several times. A survey by the Reserve Bank* indicates that during the the first-plan period, the internal sources contributed Rs. 265 crores or nearly 60% of the total.

The worst sufferer during the entire period is, however the market for new issues, which includes both new issues by fresh companies and those by the existing ones for financing their expansion programme. No separate figures are, however, compiled for these. The available figures, however, indicate two things, *viz.*, wide disparity between the amounts applied for and amounts sanctioned, and a steady fall in both since 1948, the recovery having taken place only in the last two years of the first plan. The revival of activity in the new issues market during these two years coincided with generally rising equities market and is due partly to the improvement in

* *Reserve Bank of India Bulletin*, September, 1957.

the current profits and dividends of companies, but mainly to the intensification of public expenditure by the government. Of the amount sanctioned, the actual issues must have been smaller still, and the share of the new companies in them negligible. In the absence of available statistics, only inferences can be drawn about them. The newly-started Company Law Administration should make it a point to supply accurate statistical information on the above items separately. Even though it has the necessary staff, available statistical information shows no improvement. According to the Company Law Administration, *e.g.*, total number of companies registered in 1957-58 was 961 as against 848 in 1956-57. This has been claimed to be a definite improvement over the previous years' position. But this so-called improvement evaporates if account is taken of the total authorised and paid-up capital of the new companies. The total authorised capital of the new companies registered in 1957-58 aggregated Rs. 103 crores only as against Rs. 211 crores in the previous year. This is a definite set-back. Of these, again, new company floatations accounted for an authorised capital of Rs. 91 crores in 1956-57 and Rs. 94 crores in 1957-58,—a virtually static position. And when account is taken of the paid-up capital raised by new companies, which is the real criterion of fresh investment, it was Rs. 13 crores in 1956-57 and only Rs. 4 crores in 1957-58. The obvious interpretation is that the new companies were either reluctant to raise funds in order to go into operation, or that funds were not available to them—the latter interpretation being more plausible. The Administration's figures are based on total capital floatations which include companies, old as well as new, governmental as well as private. It will be more useful for purposes of analysis if relevant figures for each



type of company, along with capital floated by each one of them are presented separately.

Plight of Finance Corporations—The above is one side of the picture. There is still another side in which the government became concerned all on a sudden with the problem of long-term finance for industries in the private sector. A beginning was made with the Industrial Finance Corporation of India which was started in 1948. This was followed, shortly afterwards, with a chain of Financial Corporations at the state level for which necessary legislation was enacted in 1951. As in the case of the river valley projects, so here also, it was a sort of a race in which no state was ready to lag behind no matter whether industrial development in the state justified or not the starting of such an institution. With the exception of three of them, in no case did the percentage of loans and advances to capital reach 50, the lowest being Madhya Pradesh, where this percentage is only 5.5. Since the dividend on capital is guaranteed, every State Financial Corporation, without exception, has to meet it out of subvention. The working of the State Financial Corporations upto March, 31, 1957, along with their subvention figures is indicated below :

Financial Corporation	Paid-up Capital (Rs. lakhs)	% of Loans & Advances to Capital	Subvention upto 1.4.57. (Rs.)
West Bengal	100	34.7	6,86,155
Punjab	100	56.8	6,42,066
Bombay State	200	75.5	13,34,881
Andhra Pradesh	150	27.0	7,03,749
Assam	100	39.5	4,51,347
Kerala	100	83.9	3,94,029
Rajasthan	100	9.1	3,68,013

Bihar	50	47.7	3,07,444
Uttar Pradesh	100	18.0	3,74,042
Madhya Pradesh	100	5.5	2,49,733

The figures speak for themselves. Since the guaranteed dividend has to be paid out of public money, the Corporations are running at a net loss. Nor do they show bright prospects by any means, since the demand for their services is not likely to go up in the present investment climate. The off-take of loans offered by different Corporations has been steadily declining. The West Bengal Financial Corporation, *e.g.*, which was started five years back has been able to sanction advances aggregating not more than Rs. 2 crores during this entire period, of which only Rs. 1.26 crores have been actually disbursed.

Since the State Financial Corporations have failed to justify themselves either from their profit records or from the volume of business, now the move is to link them up with the small and medium-sized industries, which are looming large in the third plan as important agencies for creating jobs and for restoring regional balance. We have already exposed the futility of these for both the purposes. The State Financial Corporations are, however, to provide the initial finance while the government the current finance and, with these, private enterprise is expected to build up small and medium-sized industries. If the scheme proves abortive, as it is most likely to be, not only with the public funds belonging to the government be wasted, but even the State Financial Corporations will come down.*

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* In this respect, we should learn from the experience of loans granted by the Union Rehabilitation Ministry to the West Bengal Government for settling refugees in the state on small and medium-sized industries. It is now an established fact that these schemes have fallen short of expectations, loans have been granted in violation of the terms laid down and of all business principles, the

The Industrial Finance Corporation of India started well, but the initial optimism did not take a long time to evaporate. In the early years of its inception, this institution was an autonomous body with the least amount of governmental interference and control. Very soon it was discovered that the Corporation had invested most of its resources only in a few industrial units, none too sound, in which the dominant section of its management was interested. Obviously, there was much public criticism, both in Parliament and in the Press, followed by a parliamentary enquiry and a major shake-up in its management. Even then the IFC has not stood upto the original expectation mainly owing to a lack of investment climate.*

The government, however, did not stop with these. Within a short space of a few years, India has, apart from the IFC and the State Financial Corporations, a number of other institutions all purporting to help industries in matters of finance. In this list are the Industrial Credit & Investment Corporation, Ltd., the Re-Finance Corporation, the Rehabilitation Industries Corporation, the National Industrial Development Corporation, and a few others, to provide loans to industries, so much so that we can no longer say that in India there is a dearth of investment institutions. But the multiplicity of them has not increased the tempo of industrialisation in the country. The initial enthusiasm about these diminished by 1957 and 1958. So long as the private sector does not revive—and it will not revive till the investment climate changes—these institutions cannot have a full utility to the eco-

industries have not yet come up and the volume of employment created is a negligible fraction of the initial estimate. If such is the fate of small and medium industries in West Bengal which is one of the progressive states in India, what prospect do they hold in backward states ?

* For details about the functioning of the IFC, Lalwani, K. C., *Indian Capital Market*.

nomy, and since their resources remain 'under-employed', subvention from government revenue becomes a regular feature for an indefinite period of time. Indian capital market is already characterised by a dearth of capital. Too many of these institutions create a stampede for the resources of the market. And since there is no co-ordination among these various institutions, they often lead to chaos. There was a suggestion for merging some of these together, but vested interests stood in the way. Where the plan itself needs careful planning and serious thinking, it is no wonder that confusion should be its most logical outcome in the capital market.

Factors behind the Stalemate—The story is then one of colossal failure. Even after so much outlay of money, Indian economy remains as much stagnant as it was at the commencement of the plan, or at any time before. The problem was stupendous but its appreciation was little and the politicians erred in the over-estimate of their own ability. In their initial enthusiasm they lay their hands on everything, with a zeal to destroy them, so that they could rebuild India of their dreams but very soon they became entangled in a mesh of their own creation. The work of destruction has proceeded pretty well, but construction is nowhere in sight with the consequence that confusion reigns supreme in every sphere. In this general chaos, busy bodies are anxious reaping the harvest. The plan has brought financial prosperity to a few; but it is at the cost of the entire economy. Even J. J. Anjaria,* whose advice must in no part be less responsible for this general chaos says : "The plan has been looked upon as so much expenditure. Those who put forward projects are, naturally, anxious to see that they

* Address at the Commerce Graduates' Association, Bombay, reported in *Commerce* (Bombay), January 1, 1959.

get their due share of the total expenditure to be incurred. But in all this, there is insufficient balancing of costs and returns, and not enough care or effort is devoted to make sure that the projects earn adequate returns. It cannot be said that the country has not taxed itself. What has lagged behind is organisational effort......" One wonders what Anjaria and his associates are doing all the time in the government when the economy is heading towards bankruptcy. According to his own admission, while in the first-plan period, the contribution of external assistance and deficit finance was 35%, in the first three years of the second plan, these two are responsible for 64% of the finance. The third plan opens in an atmosphere in which sizeable payments by way of interest and repayments of old obligations will be necessary. Under the circumstances only Providence can enable the economy to bear the strain. A lavish plan without national saving is a misnomer. National saving, again, must imply real capital accumulation. A system of deficit finance inflates the national income but the real income goes down. And if the real income is low, there cannot be any adequate saving. Again, in so far as the plan depends upon external assistance, it repudiates the chances of the growth of real capital within the country. When machinery and equipments are imported from abroad, they create a financial obligation but do not lead to automatic industrialisation.

Industrial planning in India is based upon fundamental conceptional error regarding capital-output ratio. On this question, the Planning Commission tells us that "for the first-plan period, the investmental capital-output ratio works out at 1.88 : 1......A somewhat higher capital intensity than the one which prevailed in the first plan is to be expected in view of the shift in emphasis towards

industrialisation. ......This gives a capital-output ratio of 2.3 : 1...... For the third, fourth and fifth plan periods, we have in the present model, assumed capital-output ratio of 2.62, 3.36 and 3.70 respectively." Thus while the proportion of capital goes up from 1.88 in the first-plan period to 3.70 in the fifth plan period, the output remains stagnant at 1. The implications are not clear. It is not known whether it implies that with constant output, we should go on investing more and more capital over a period of twenty-five years, of which the posterity may reap fruit, or whether it implies that our investments are of a non-output-producing nature, so that the output remains constant over a series of plans.* The Planning Commission advices us not to make much of this capital-output ratio. In their words, "The capital-output ratio for the economy as a whole is only a shorthand description of the productivity of capital in various sectors. This productivity depends not only on the amount of capital employed, but on a large number of other factors, such as the degree of technological advance associated with the capital investment, the efficiency with which the new types of equipment are handled and the quality of managerial and organisational skill brought to bear in the use of capital." Needless to say that each one of these factors is important, but do we not presume, in importing costly and complicated machines from America, that these other requisites are available to a sufficient degree ?

The fact which is overlooked by the politicians and

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* We feel more tempted to agree with Vakil and Brahmanand (*Planning for an Expanding Economy*) that in the earlier stages of development, the value of the ratio may be of the order of 6 : 1. For transport and communication, they feel that the ratio would be even higher than 7 : 1, for irrigation projects 4 : 1, and so also for heavy industries. As an economy progresses and the heavy projects go into full operation, output tends speedily to go up, tending thereby to reduce the ratio of capital.

planners in this country is that industrialisation depends, not on how much we import in terms of machinery from abroad, but on the ability to absorb capital that our country possesses, and on her technological and organisational progress.* In these matters, we have cared the least so far, believing all the time that the installation of a few machines imported from America in different parts of the country will bring about an industrial revolution.† True, the politicians and planners are haunted by a sense of urgency and Nehru desires to attain socialism in his lifetime. But they forget that economic development is a process and it cannot be accomplised overnight, however impressive the outlay.

Investment whether in the public sector or in the private one must satisfy some investment criteria. In this respect, no universal criterion can, of course, be laid down that may hold for all countries and for all times. But, for a backward economy, with the output of money and population rapidly going up, the lines of production must not lag behind. In other words, the only investsment criterion is productivity—in agriculture, in industry and all round. The technique for the purpose should be labour-intensive, rather than capital-intensive, so far as practicable, and the ratio of current output to investment must be pretty high. Unfortunately, this is nowhere the motive in Indian planning, which is financial rather than physical, with utmost emphasis on non-commodity-producing projects of a quasi-permanent or ephemeral nature.

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* *Cf.* Meier & Baldwin, *Economic Development.*

† *Cf.* "It would not perhaps be entirely unfair to say that the plan relies largely on the introduction of a few big steel mills and engineering plants into an otherwise primitive economy . . . . The shadow that lies on the land is the population problem . . . . Herein lies a good part of the case for drawing more people into useful capital works at once, even before each man can be equipped with a bulldozer or steam shovel to lighten his toil." Rugnar Nurske, *Quarterly Journal of Economics*, May, 1957.

While productivity should be the criterion of sound investment, inflation and too much foreign borrowing should scrupulously be avoided. Indian planning is already deep down the quagmire of inflation, while balance of payments difficulty is just being averted with the help of external assistance. This is happening year after year. And yet if you point these out to a politician, he will at once profess to be a pundit in the technique of controlling inflation and balance-of-payments disequilibrium. He does not realise that both these are grossly consuming, sapping the vitality of the plan, and even though the internal strain is mounting up almost to a breaking point and external assistance has placed us headlong in debt, the positive results are nowhere in sight. Inflation inflates the cost items; external assistance leads to the export of the country's employment potentiality. The real beneficiary is, therefore, the foreign manufacturer, the foreign labour and the foreign exporter. If we are earnest about developmental planning, it must be planning, not for show-pieces, but for productivity, and productivity now and in the near future, and productivity must be attained without inflation, begging or borrowing. But that sort of planning is not known to the present generation of our planners and politicians; that is yet to evolve out of costly failures.

Our deprecation of foreign loans and assistance does not tantamount to a repudiation of the need of foreign investment in India. The basic difference between the two should not be lost sight of. For, whereas loans and assistance come out of public funds, and are deeply influenced by political considerations,—even though without a political string—investment of foreign capital is invariably on private account and motivated by considerations of profits. Loans and assistance are a device of maintaining a high level of public spending on an international

scale in order to prevent, or at least postpone, the approach of secular stagnation in the donor country. But this prosperity is always at the cost of the capital-importing country. If this is not done, and a slump develops, it becomes necessary by the advanced country to spend a bigger amount by way of unemployment relief or on public works programme. Ever since the days of the Marshall Aid in Europe, America has developed a convenient short-cut in her aid-to-foreign-countries programme to provide the necessary purchasing power to these countries with which they purchase American goods. This is obviously a new technique in international salesmanship for maintaining the prosperity of American capitalism. The importing country is a two-fold loser. In the first place, it becomes a debtor, and secondly, it exports the employment potential to the extent it imports from abroad, and is thus deprived of the immediate benefits of growth in the near and the distant future. In foreign investment, the proposition is entirely different. In this, the foreigner brings his capital and technical know-how in order to start the manufacturing process in the backward country provided he expects a fair and sure return, the investment climate is favourable and political horizon clear. For a country which is poor in capital, and still poorer in technical and managerial efficiency, foreign investment, and not foreign borrowing, is a short-cut to quick industrialisation.

Unfortunately, the government has adopted the weaker and the faultier of the two courses, relying more and more on foreign loans and aids and making foreign investment less and less attractive. According to a survey by the Reserve Bank of India, * the gross increase in the private investment of foreign capital in India be-

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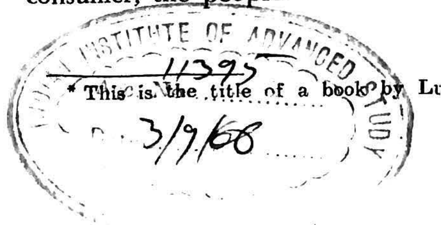
* Reserve Bank of India, *Survey of India's Foreign Assets & Liabilities.*

tween 1953 and 1955 was Rs. 61 crores including the revaluation of assets of the order of Rs. 22 crores. Making allowance for this amount, and another Rs. 5 crores representing banking capital mostly liquid, there was an increase of Rs. 35 crores in non-banking investment, making an annual investment of Rs. 17-18 crores, as against an annual investment of Rs. 24-25 crores during 1948-53. In the existing investment climate, the prospect of private foreign capital flowing to under-developed countries like India does not seem to be bright. According to an UNO report,* recent private capital exports, when adjusted for the post-war rise in prices remain well below the volume of 1920's and have lagged far behind the expansion in international trade, world industrial production and domestic investment. Business investments in general and long-term investments in particular are always made on long-range calculations but in under-developed countries long-range calculations are made difficult because of uncertainties in policy and instabilities in government. Meanwhile foreign exchange requirements in this country are steadily mounting up. According to some estimate, about one-third of the total expected investment of the second plan must come from external sources, and these invariably mean drawing upon American munificence. Whatever the harm to the country from such a programme, it persists to be the basis of Indian planning since it suits most the party that is in power and that aims at an undefined and indefinable 'socialistic pattern', no matter whether the benefits of growth in this process are available to the people of the land or migrate to foreign lands. That is the real woe of Indian planning. The politicians are actually producing mole-hills. Come to

* UNO, *International Flow of Private Capital*, 1953-55.

the people, and you find no sign of prosperity, no end of misery, no cheerfulness on their faces.

Prosperity through Competition*—Ten years of planned effort in India has not touched anyone of her basic problems. Inspite of gigantic works here and there, the stagnation remains unbroken. The politicians talk of a socialistic pattern and confuse it with the establishment of an exclusive state monopoly—which is virtually the same as their own monopoly—in everything. In real terms, a socialistic economy, which reverses the autonomy of the market, can at most be a closed economy and an inefficient one too. The competitive strength of the Russian economy is yet to be tested, since her link with the world market is the least important. A competitive economy, on the other hand, has stood the test of time. Inspite of the recent tendency in which the state is a collaborator with the competitive economy rather than an exclusive monopolist, competitive economy and freedom of enterprise are the rule rather than an exception all over the world. Controls may be essential here and there, but they do not signify a collectivist programme. A welfare state is a 'modern delusion'. We are actually running after a delusion, when realism is most wanted. The country and the people are much bigger than a party or an individual. If the former go, the latter do not exit. Erhard is, therefore, right when he says that "the yardstick and criterion of what is good or bad in economic policy are not dogmas or the point of view of pressure groups, but exclusively the human being, the consumer, the people."



* This is the title of a book by Lu