NEW INDUSTRIAL POLICY

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—EUGENE BLACK

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The text of the statement on the industrial policy released by the Government of India in December 1977 is a mixture of politics and economics as could only be expected. However, the statement on industrial policy cannot be viewed in isolation and must be considered as a part of the overall economic policy of the ruling Janata Party released in November last year.

Both these documents comprehensively cover the several factors which have been responsible for the stagnation in the Indian economy in the past decade and are basically directed towards removing the distortions of the past. Realising the potential of the Indian economy, more particularly that of industry, to grow at a much faster rate than in the past, these documents have attempted to diagnose the reasons for the lack-lustre performance and to offer policy prescriptions which would help achieve the various objectives and goals the party has set before itself. The broad objectives sought to be achieved are — doubling the rate of national growth from 3.5% to 7% per annum, a rapid increase in the rate of growth of industrial production, creating much larger employment opportunities and, reducing wide regional disparities and imbalances. The economic

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policy statement has set out as its goal the removal of poverty and destitution, by making the right to work a reality, within the time period of ten years. Looking to the backlog of over 20 million totally unemployed and the addition to the employment pool of over 5 million a year, this is indeed a very formidable task.

The economic policy statement also expresses the desire to bring about the widest possible dispersal of ownership of property and means of production by imposing a curb on economic power and physical limits where feasible, both on existing possessions and future acquisitions, through fiscal measures, as also regulating or demarcating the techniques, mode and scale of economic operations particularly in the sphere of industrial production. However, a deeper analysis of the remedies suggested to solve the basic problems afflicting the Indian economy does not arouse much enthusiasm as to the efficacy of the tools the Government proposes to use to get us to the promised land.

Going through the new industrial policy statement, we do not find any radical departure from the existing policy framework. In fact, the industrial policy resolutions of 1948 and 1956 and subsequent amendments were formulated broadly on the same premises. However, there is a refreshing departure which must be taken note of, namely there being no built-in bias for any particular ideology. The policy statement rejects both capitalism and communism. It stands squarely for Gandhian economic thought and philosophy. Like several other policy documents of this nature, it suffers from the defect that it tends to cover a wide spectrum of objectives many of them social, some even conflicting and hence difficult to harmonise. Consequently, it places stress on decentralisation of the economic apparatus and lays great emphasis on agriculture and rural development and the development of small cottage and village industries. The following excerpt from the text of the statement would bear this out:

"Great opportunities and great challenges are open to us now, but they cannot be seized by timid and halfhearted policies. A new approach is called for in several areas of our national life. This new approach should reflect not only our vast resources and special endowments but should show particular concern for the utilisation of these resources and amelioration of the living conditions of the majority of our people. The new industrial policy should and will hereafter place men at the centre of planning and implementation of project and schemes." The industrial policy recognises the following: —

(1) The close inter-action between agricultural and industrial sectors cannot be over-emphasized. In order to increase agricultural productivity by adoption of modern technology, important inputs have to come from the industrial sector;

(2) Highest priority must be accorded to generation and transmission of power;

(3) Cement, steel, fertilizers, and pesticides, oil and a wide range of industrial products are essential for increasing the level of agricultural production;

(4) Prosperity and distribution of income arising from broad-based growth of agriculture and allied activities has to provide the basic demand for a wide range of industries producing articles of consumption.

Small-scale sector: In keeping with the broad objectives of creating larger employment opportunities and decentralisation of economic power, the thrust is on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. The policy contemplates that whatever can be produced by small and cottage industries must only be so produced. For this purpose, the list of industries which would be exclusively reserved for the small-scale sector has been consequently expanded to cover 504 items compared to about 180 items earlier. While the existing definition of small-scale industries is sought to be retained special attention will be given to the units in the tiny sector, i.e., those with an investment in machinery and equipment upto Rs. 1 lac and situated in towns with less than 50,000 people. It is nevertheless proposed that the larger reservation to the small-scale sector will not be at the expense of over-riding considerations of cost and quality. The list of industries reserved for this sector will be continually reviewed so that capacity creation does not lack behind requirements of the economy.

That the Government is quite conscious of some inherent limitations of the small-scale sector is borne out by the observations made by Mr. H. M. Patel, Finance Minister, addressing a group of industrialists shortly after the announcement of the economic policy: "The thrust of our policy in future should be to choose a labour intensive technique, if it is available. I am aware there are difficult problems involved here. I am not suggesting that wasteful techniques should be used merely because they employ more people. Secondly, inspite of a great deal of discussion of labour intensive techniques there may not be really any such labour intensive techniques in some fields. Finally, the benefit conferred by labour saving techniques may be so large in some cases that it would be foolish not to adopt them. A strategy for employment generating growth will have to be continuously concerned with the social costs of alternative techniques as opposed to private cost calculations which most of you will be making when deciding upon an investment."

Large-scale sector: The large-scale industry sector is also to be assigned a clear role, the areas broadly earmarked being:

(a) basic industries such as steel, non-ferrous metals, cement, oil refineries;

(b) capital goods industries for meeting the machinery requirements of basic industries as well as of the small-scale sector;

(c) high technology industries such as fertilizers, pesticides and petro-chemicals; and

(d) other industries such as machine tools, organic and inorganic chemicals which are outside the reserved list.

However, what is pertinent here is that the expansion of existing undertakings and establishment of new undertakings by large-scale industries and larger houses will be subjected to the provisions of the M.R.T.P. Act, and will require specific approval of Government except in areas eligible for automatic growth of capacity. Besides, larger houses will have to rely on their own internally generated resources for financing new or expansion projects. However, in the case of capital intensive industries such as fertilizers, paper, cement, shipping and petro-chemicals, an appropriate debt equity ratio will be permitted.

The licensing policy will regulate the activities of larger houses to bring them in line with the country's socio-economic goals. No expansion will be allowed for units in this sector which are engaged in the manufacture of items reserved for the small scale sector. In fact, the share of these units in these items will be steadily reduced and that of the small-scale increased. Thus it is intended that the Government should not permit any expansion in the weaving capacity in the organised mills sector and new weaving capacity should be created only in the decentralised sector consisting of handlooms and power looms. Weaving and production of footwear and soap and if possible other articles, in the organised sector should be progressively reduced so that the entire production of these items is allocated to the decentralised sector within the framework of a ten year phased programme.

Public sector: Public sector will be assigned an expanding role not only as a producer of basic and strategic goods but also as a stabilising force for maintaining essential supplies to the consumer. It will be charged with the responsibility of encouraging the development of a wide range of ancillary industries. Public sector enterprises will be operated on profitable and efficient lines.

Technology: In order to promote technological self-reliance, the necessity is recognised for continued inflow of technology in sophisticated and high priority areas, where Indian technology is not adequately developed. However, preference would be for outright purchase of the best available technology. This is also recognised with a view to improving the competitive position of Indian industry in export trade.

Pricing policy: A sound pricing policy is to be aimed with a view to meeting the dual objective of ensuring reasonable price stability and fair parity between prices of agricultural and industrial products. In cases where there is price control, the controlled price will include adequate return to the investor when operating at a fairly high utilisation of capacity.

Employment Profile: Let us examine the present employment profile as revealed by the Annual Survey of Industries 1975-76, wherein we find that in 1975-76 the total number employed in the industrial sector was 6.38 million; small-scale sector (fixed assets upto Rs. 10 lakhs) 2.04 million; medium-scale sector (fixed assets over Rs. 10 lakhs and upto Rs. 25 lakhs) 0.42 million, large-scale sector (fixed assets over Rs. 25 lakhs) 3.57 million and unspecified sector (fixed assets on lease or rent) 0.35 million. The total industrial employment in the organised private sector in 1975-76 was 4.56 million and in which there was virtually no increase in the previous four years. Taking a sixteen-year perspective, 1959 to 1975-76, the total growth in industrial employment in all sectors taken together has been 2.7 million, i.e., an increase of about 170,000 or 3.7% per annum.

There is no doubt whatever that the number of jobs that can be created per unit of capital is much larger in the small-scale sector than in the medium or large-scale sectors. The average capital per employee in the various sectors in 1975-76 was: Rs. 4,500 small-scale sector; Rs. 17,250 medium-scale sector and Rs. 33,395 large-scale sector. However, this is not the whole story. There are wide variations *inter se* the various sectors in terms of output per employee and value added per employee and more particularly the rate of growth in productivity.

	Per Employee						Fixed Capital Output Ratio		Output Per Employee At 1961-62 Prices (Rs.)	
	Fixed Capital (Rs.)		Output (Rs.)		Value Added (Rs.)					
	'63	'75-76	'63	'75-76	'63	'75-76	'63	'75-76	'63	'75-76
Small-scale sector	1,760	4,500	11,196	33,502	2,072	5,041	0.15	0.13	10,835	13,195
Medium-scale sector	3,521	17,256	14,427	44,010	3,299	8,921	0.24	0.39	13,598	17,334
Large-scale sector	13,386	33,395	15,654	56,736	4,655	13,117	0.86	0.59	14,754	22,346

It will be seen from the above that the productivity of capital and labour was much higher in the large-scale sector as compared to the other two sectors, the rate of annual growth in employee productivity in the large-scale sector being 3.5% as against only 1.7% in the small-scale sector. It will also be observed that the capital intensity of the small-scale sector has remained almost constant.

It must be appreciated that the statistics regarding the small-scale sector are inadequate and somewhat confusing. According to the figures published in the Hand Book of Statistics issued by the Development Commissioner, S.S.I. and Annual Report of Ministry of Industry, the total employment in the case of small-scale industry units increased from 10.04 lakhs in 1961 to 55 lakhs in 1976. This covered over 5 lakh units with a fixed capital of Rs. 1,500 crores and a gross output of Rs. 6,700 crores in 1976. The figures of the small-scale sector as given in the Annual Survey of Industries are included in the above figures. However, the Annual Survey apparently covers the more organised section of the small-scale sector, i.e., units which come under the purview of the Factories Act. Recent studies have revealed that more than 90% of the small-scale units have a fixed capital investment of under Rs. 2 lakhs and employ on an average less than ten persons. It would be evident from the above that the bulk of these units operate on a cottage or tiny scale.

Taking the industrial sector as a whole the total employment today is in the region of 10 million and which has been growing at the rate of roughly 4 lakhs per annum in the last 10 years, over two-thirds of the growth in employment being in the small-scale sector.

Despite the admittedly much higher employment potential of the small-scale sector in the field of industry it would be fallacious to assume that more than 7 to 8 million jobs could be created in industry in the next decade. This would be based on the premise that the number of new jobs created will be at twice the rate achieved in the last twenty years. Even if this ambitious target is achieved it would have provided only 10% of the additional jobs proposed to be created in the next ten years.

Hence the problem of creation of larger employment opportunities will have to be tackled outside the industrial sector.

Need for Balanced Development: One of the most acute problems faced by units in the small-scale sector is marketing. State support in this direction can at best be limited and could amount to a high degree of subsidisation. Therefore, rather than retard growth by diverting resources and energies in favour of a structure which cannot survive on its own strength we should opt in favour of tried and tested structure.

Even the strong exponents of the small-scale labour intensive model concede that it cannot grow in isolation. Units in this sector depend almost entirely for their requirements of raw materials and intermediates on the medium and large-scale sectors. Besides the demand for the bulk of its finished products arises in the medium and large-scale sectors. Hence the growth and prosperity of the small-scale sector is very largely tied up with the growth and prosperity of the other sectors. Consequently small enterprises cannot grow in isolation and balanced integrated development is a MUST.

We are a country of 620 million people with consumption levels which are abnormally low. The new Government has rightly set the sights high in terms of growth targets. Between 1951 and 1976, *per capita* income in real terms increased by 45%. If we are setting ourselves an overall target of growth rate of 7% per annum, i.e. a growth in *per capita* income of 5%, the *per capita* income by the year 2000 AD would in real terms be three times what it is today. This would mean anywhere between a two to five fold rise in the requirement of most consumer and industrial goods. Can an industrial apparatus comprising of a vast number of small-scale units dispersed throughout the country, many having outdated technology and equipment and with relatively poor managerial and marketing skills, meet this challenge?

In the past, unfortunately, we have lived in an environment of perpetual scarcities. The leadership has tried to solve the problem in the short term by exhorting the people to restrict consumption. A time has come to reverse this psychology. If all that economic development promises is tightening of the belt, is the exercise worth the time, effort and sacrifice involved?

A point which has been missed in the present debate is that in the 1950's and early 1960's India opted for a model of industrial development which was based on modern technology. This has put India among the ten most highly industrialised nations of the world. It has also made possible the dissemination of industrial skills and development of managerial and technical capabilities which have made possible manufacture of sophisticated equipment in this country such as jet planes and nuclear power equipment. It has also given India a widely diversified export base and has helped bring about self-reliance to a large extent in respect of her capital goods requirements. Would this have been possible had we opted for a labour intensive intermediates technology model? It is presumed that intermediate technology relevant to Indian conditions can be evolved which would more than neutralise the economies of scale realised in large-scale units. However, this technology is more talked about and there is nothing on the horizon to show that it can be evolved for several segments of industry within a short period of time.

The time has now come when we must face this question squarely. It is just not possible for a country of India's size to have an industrial structure which is half-modern and half-medieval. Small-scale units certainly have great relevance where special skills can be used to great advantage and where mechanisation of an expensive order is not required. Similarly there are many agro-based industries that can be developed on a small or cottage scale. But surely there are very serious limitations to the role it can play in producing the major inputs—raw materials, intermediates and heavy capital equipment—required both by agriculture and industry e.g. steel, aluminium, non-ferrous metals, cement, fertilizers, pesticides, paper, heavy chemicals, petro-chemicals and a host of plant and equipment required for the manufacture of these items.

For a country of our size there is no example to draw upon except of China which for many years tried to concentrate on development of small-scale technology especially in the rural sector. After fifteen years of experimenting with this strategy, the Chinese have realised that while it helped solve their problems of growing enough food, it certainly put the clock back in terms of industrial progress. China is now trying to make amends for this by going in increasingly for modern technology.

Notwithstanding the vital role assigned to large-scale industry, the policy statement stipulates that large houses would have to rely in future on their internally generated resources to finance new or expansion projects. The unrealistic pricing policy in the case of several basic raw materials/intermediaries; the high rate of corporate taxation, depreciation allowed on historical cost basis—these are some factors which have eroded the financial capacity of even the prudent and conservative industrial companies for ploughing back adequate funds into renovation and/or expansion, leave aside financing of new capacity. How large industrial units can find adequate financial resources to discharge effectively the role and responsibility assigned to it under the new policy is a big question.

While internally generated resources provide the necessary financial ballast to any corporation to withstand the vicissitudes of economic conditions, the reality of the Indian scene must be fully appreciated. A study of the recent trends in corporate capital formation and savings as made by "Economic Times" in respect of 101 large and medium sized public limited companies (non-government and non-financial) in the private industrial sector—accounting for about 71% of the aggregate total assets of the entire private industrial sector—are indeed disquieting. The relevant figures are reproduced below:—

(Rs. Crores)

Year	Gross Saving	Depreciation	Net Savings	Gross Fixed Assets Formation	Inventories	Gross Capital Formation
1971-72	643	436	207	479	418	897
1972-73	687	474	213	682	217	899
1973-74	814	488	326	726	607	1333
1974-75	1039	546	493	964	1208	2172
1975-76	772	584	188	1068	299	1367
1976-77	830	609	221	976	152	1128

It will be observed from the above that gross capital formation has declined sharply in the last two years and gross fixed assets formation has almost been stagnant during this period. What is even more disturbing is that net savings have not shown any rise at all during the last five years. The above figures, however, are worked at current prices and do not reflect the impact of inflation on capital formation and savings. In fact, in real terms, there has been a very sharp drop as the index number of wholesale prices for machinery and machine tools (1970-71 = 100) increased by 62% during the period 1971-72 to 1976-77.

The white paper on national income released on 22nd January, 1978 reveals that net capital formation of the private corporate sector declined by almost a half in 1976-77 from the previous year i.e. from Rs. 1,743 crores in 1975-76 to Rs. 907 crores in 1976-77. The savings fell even more precipitously from Rs. 314 crores in 1975-76 to Rs. 116 crores in 1976-77.

In view of this some basic structural changes in our pricing and fiscal policies are urgently called for if the large houses are to play the role expected of them. In the ultimate analysis policy pronouncements and good intentions have little significance. What is of the essence is the vigour with which policies are converted into reality. This calls for political will and efficient administration. In short the entire Governmental machinery must orchestrate as a team. This is yet to be demonstrated.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. SHROFF
(1899-1965)
Founder-President,
Forum of Free Enterprise.

376

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