2

Evolution of Industrial Policy

Some Modifications

For about a decade after independence, the management of industrial policy was comparatively free from controversy except in the political arena, mainly because the contradictions in policy had not yet surfaced. During those years India enjoyed a comfortable foreign exchange position, and there were many cases where the government did not strictly adhere to its regulations over the private sector, thus showing a less than rigid attitude toward private industry. For example, a sugar factory was permitted to import over 90 per cent of its equipment. In the cement industry, a turnkey project was allowed in order to attain rapid growth in the industry.[1] Other examples were cited in the preceding part of this paper. All indicate a flexible government approach toward private industrial activity.

It was during the Third Five Year Plan (1961–66) that the atmosphere started to change. During this period the economy began to experience mounting difficulties and there was a growing realization that a policy change was needed. A good deal of lively debate and discussion took place over industrial policy and the pattern of economy to be pursued. The latter issue revolved around such problems as the role of government in economic management, relations between the public and private sectors, and the introduction of foreign capital and technology. A second major issue was the problem of economic concentration. Since this issue was viewed as solely involving the private sector and closely connected with the political issue of social justice, it naturally caused much heated discussion. Several committees of inquiry were established to look into these issues. An examination of their reports along with the changes that

TABLE 2-1
FOREIGN EXCHANGE RESERVES

End of	Reserves (Rs. 1 Million)			Total Reserves (US$ Million)	Transactions with IMF (US$ Million)		
	Gold*	Foreign Exchange	Total		Drawings	Repurchases	Outstanding Repurchase Obligations
1950/51	1,178	9,114	10,292	2,161.3	—	—	100.0
1955/56	1,178	7,846	9,024	1,895.0	—	15.0	12.5
1956/57	1,178	5,633	6,811	1,430.3	127.5	12.5	127.5
1957/58	1,178	3,034	4,212	884.5	72.5	—	200.0
1958/59	1,178	2,611	3,789	795.7	—	—	200.0
1959/60	1,178	2,451	3,629	762.1	—	50.0	150.0
1960/61	1,178	1,858	3,036	637.6	—	22.1	127.5
1961/62	1,178	1,795	2,973	624.3	250.0	127.5	250.0
1962/63	1,178	1,773	2,951	619.7	25.0	—	275.0
1963/64	1,178	1,880	3,058	642.2	—	50.0	225.0
1964/65	1,338	1,159	2,497	524.3	100.0	100.0	225.0
1965/66	1,159	1,821	2,980	625.8	137.5	75.0	287.5
1966/67	1,825	2,959	4,784	637.9	187.5	57.5	417.5
1967/68	1,825	3,561	5,386	718.1	90.0	57.5	450.0
1968/69	1,825	3,942	5,767	768.9	—	78.0	372.0

Source: Government of India, *Economic Survey, 1969/70* (1970), Table 6.1, pp. 117–18.
Note: Figures for 1966/67 and thereafter are not comparable with those before 1965/66 due to devaluation of the rupee in June 1966.
*Gold reserve was 7.1 million ounces until January 7, 1965; 7.4 million ounces until February 18, 1965; 8 million ounces until 27 February, 1966; and 7 million ounces thereafter. Gold was valued at 53.58 rupees per ten grams until May 1966, and at 84.39 rupees per ten grams thereafter following the change in the par value of the rupee.

took place in industrial policy shows that toward the latter half of the 1960s, flexibility and realism exhibited hitherto in economic management was pushed into the background, while modifications of existing policy became the primary approach to policy formulation.

The Swaminathan Committee

Problems began to arise with the IDRA following its introduction, and these were seen as largely arising in the procedural area, particularly delays in issuing licenses and the complicated application system. Another problem was the country's constantly deteriorating foreign exchange position which stimulated debate over the effective allocation of scarce resources.

Hanson observes that licensing was of little practical importance until the period of the Second Five Year Plan when resources for both the public and private sectors became extremely scarce.[2] Marathe takes a similar view, observing that the licensing mechanism as well as the release of foreign exchange for import equipment were relatively uncomplicated during the first few years after the IDRA came into force. During this period he says that a great deal of time and effort had to be spent dealing with the so-called Registration Certificates provided for under Section 10 of the IDRA which concerned the registration of existing industrial enterprises.[3] The clearance of foreign exchange for the import of raw materials and capital goods became difficult after 1958 when foreign exchange constraints began to surface.[4] Table 2-1 shows the rapidly deteriorating trend in foreign exchange reserves from 1950/51 to 1968/69. The government became greatly alarmed over the critical external payments position which plagued the country from the late 1950s onward.

Delays in issuing licenses was a major difficulty. Originally licenses were supposed to be issued within three months after application, but it commonly took five months. One reason was the time needed to get clearance from the various offices in the government. Another cause was deficiencies in the application forms. There were also problems of companies failing to commence production after obtaining licenses, of using licenses as "insurance," or denying them to potential competitors and of deficiencies in the criteria used for issuing licenses.[5]

In an effort to deal with these problems, the government in September 1963 appointed T. Swaminathan to chairman of a committee which was to review the procedures governing (1) the establishment of additional industrial capacity under the IDRA, (2) the import of capital goods, (3) the issue of capital, and (4) foreign investment and collaboration. The committee was to suggest modifications to reduce delays in these procedures.

The committee submitted its final report on March 18, 1964.[6] To simplify procedures, it recommended the submission of two applications for industrial licenses. One would be a preliminary application enabling the speedy issuance of a "letter of intent"; the other would be the final application submitted at the time of the issuance of a formal industrial license. The consideration which guided the committee's suggestion for two applications was that at the time of initial application, entrepreneurs usually did not have a clear, detailed picture of all the items prescribed in the application form. Another recommendation was that whenever the availability of foreign exchange was not the main limiting factor, after the issuance of a letter of intent, all subsequent clearances should be given within three months from the date of receipt of an applications.[7] The committee also suggested that industries which did not import capital goods and/or raw materials should be exempted from the licensing provisions of the IDRA.

The government accepted these recommendations, and eleven industries were exempt from licensing in May 1966. In November 1966, twenty-nine more industries were exempt. The main reasons behind the exemptions were the need to create additional capacity, exploit export potential, and increase agricultural production.[8] The government did not accept all the committee's recommendations. It rejected the two application system.

Since the review undertaken by the Swaminathan Committee was confined to procedural matters, there naturally was a limit in the scope of its recommendations. This limit was crucial especially when the role and purpose of industrial licensing were being called into question in an industrial environment which had changed considerably since the enactment of the IDRA. The change in the industrial environment necessitated new committees and commissions to go into the problems of the industrial licensing system from a much wider perspective. The time coincided with a worsening of the economy as a whole, unsatisfactory industrial growth and a deterioration in the balance of payments.

The Mahalanobis Committee

In February 1964, a month before the Swaminathan Committee report, the government received a report from a committee chaired by Mahalanobis which since October 1960 had been studying the trends and changes in the distribution of income and wealth in the economy and the concentration of economic power. The committee had made a study of the assets of twenty large industrial groups during the first decade of planning from 1950 to 1960.[9]

In its report the committee defined two types of concentration. One was "product-wise" or localized concentration; the second was the concentration of wealth and the means of production. The report showed that in the Indian economy, a small number of groups which controlled only a small part of the economic resources could exercise a disproportionately large influence over the economy, and could exercise economic power which could not be measured by the mere ratio of concentration.[10] In other words, the committee observed that a small number of individuals or groups who held a concentration of economic power did not need to command individually a large share of the nation's aggregate capital, income, or employment in order to exercise economic power. A noteworthy feature of the report was its somewhat positive attitude toward concentration. Taking into account the economies of scale, the scarcity of resources, the need to achieve maximum utilization of these resources, and the relatively small size of the market, the committee concluded that any attempt to reduce the degree of concentration by breaking down economical large-size production enterprises into numerous uneconomical small-size production enterprises only lead to economic waste.[11] This positive attitude was exhibited again in the report of the Monopolies Inquiry Commission which will be discussed in the following section, but did not show up in actual policy formulation because of its politically negative implications.

The Monopolies Inquiry Commission

During the Third Five Year Plan (1961–66), the government felt compelled to go into the issues of monopolies and restrictive trade practices as well as the concentration of economic power. For this purpose, the Monopolies Inquiry Commission was set up in 1964, and it presented its report in October 1965.[12] The commission was set up to:

(1) examine the extent and effect of the concentration of economic power in private hands and the prevalence of monopolistic and restrictive practices in important sectors of economic activity other than agriculture: special reference was to be given to (a) the factors responsible for such concentration and monopolistic and restrictive practices, (b) their social and economic consequences, and the extent to which they might work to the detriment of the common good;

(2) suggest legislative and other measures that would be considered necessary to protect essential public interests and the procedures and agencies for the enforcement of such legislation.[13]

The report dealt more with the matter of concentration than with monopolistic and restrictive practices. The commission defined two types of concentration which were different from those defined by the Mahalanobis Committee. The first was "product-wise" or "industry-wise" concentration; the second was "country-wise" concentration. The former type was one where the production and distribution of any particular commodity or service was controlled by a single concern or a limited number of concerns. The second type of concentration was one where a large number of concerns engaged in the production, or distribution of different commodities was controlled by one individual, family, or group of person.[14]

The commission listed the following causes for concentration:

1. The tremendous growth of technology gave large producers the ability to control large amounts of capital.
2. The tendency of industrialists to seek a commanding position and achieve greater control over capital.
3. The possession of managerial skills was a source for concentrating economic power.

4. Investments by one corporation to acquire the assets, or shares of another corporation led to concentration.
5. The Second World War and the need to produce war materials gave big industrialist an opportunity to expand capacity, providing a chance for concentration.
6. The planned economy itself was a major factor for increasing concentration. Big business was at an advantage in securing licenses for starting new industries or expanding existing capacity.[15]

Monopolistic and restrictive practices were not greatly dealt with in the report, and this part was limited to only a few important private industries. The commission defined a monopolistic practice as one where a person enjoying a monopolistic power uses that power to benefit himself. Any action, understanding, or agreement tending to or calculated to preserve, increase, or consolidate such power should be construed as a monopolistic practice. A restrictive practice was defined as one which obstructs the free play of competitive forces or impedes the free flow of capital or resources into the production stream or the flow of finished goods through the distribution system at any point before reaching the final consumer.[16]

One of the difficulties facing the commission was that the scope of study was confined to the private sector only. Public sector enterprises which were well positioned to exercise monopolistic and restrictive practices were excluded from scrutiny. The commission did not comment on this exclusion, but it was apparent that it had handicapped the study. By the mid-1960s the public sector had expanded greatly under government protection which also tended to reinforce the monopolistic and restrictive character of public sector enterprises. This was contrary to the original idea that government policy was not "to protect" the public sector, but to promote the mutual complementing of the public and private sectors.

Compared with the limited scope given to monopolistic and restrictive practices, that dealing with concentration was much wider. The commission's understanding of concentration was strongly preconditioned by the existing ideology which regarded the concentration of economic power as entirely evil to the economy and society. Nevertheless the commission rejected the idea that big business alone was responsible for all economic problems and argued instead that such concentration had promoted India's economic development. This was particularly true where special advantage was given to start up and maintain capital-intensive industries, and also to obtain foreign collaboration. In the commission's opinion concentrated economic power could be expected to make an important contribution to industrial development. Thus the commission saw that there was a close relationship between rapid industrialization and greater concentration of economic power. It therefore concluded that concentration could be allowed to some extent if this helped to accelerate the pace of industrialization.[17]

But the commission did not go beyond this evaluation of economic concentration. The reason was partly because such evaluation was outside of the scope of its study, but also because the commission was well aware of the general dislike in India for economic concentration. This ambiguity of seeing positive aspects in economic concentration which ran against the prevailing ideology led the commission to make the ambivalent conclusion that the "bright picture of what concentrated economic power has achieved in the past and is fairly certain to achieve in the future must not however make us blind to certain evil effects of such power on the country's economy."[18]

This line of thinking was reflected in the commission's recommendations. These fell into two categories, non-legislative and legislative. Its non-legislative recommendation were:

1. the establishment of a permanent body with duties and responsibilities to watch for and guard against concentrations of economic power, and monopolistic and restrictive practices,
2. maintaining a proper distribution in the issuance of import licenses,
3. taking appropriate measures to protect consumers against exploitation by monopolistic enterprises,
4. using countervailing action by the public sector to prevent concentrations of economic power on the condition that the efficiency of the public sector existed and increased, and
5. encouraging small-scale industries.[19]

The commission also looked into the licensing system and concluded that abolishing the system would not diminish the concentration of economic power by removing the main obstacle to the free entry of entrepreneurs. The commission thought it impractical to abolish the system because it was already an integral part of economic policy. Instead, it recommended that the licensing policy be "liberalized" in order to streamline the procedures for granting licenses. This was similar to the suggestion for "liberalization" proposed by the Swaminathan Committee.[20] Based on the suggestion, the government made some systematic effort between 1966 and 1969 to relax its licensing policy. In May 1966 a list of industries which were exempted from industrial licensing was announced. The list was enlarged in July 1966 and again in November 1966, and by May 1969, forty-one industries had been exempted.

The commission made two major legislative recommendations. The first was a proposal to set up a watchdog system centering on a permanent body which was to guard directly against restrictive and monopolistic practices.[21] The second was a proposal for legislation to be passed which would carry out the recommendations. The commission also produced the draft of a bill known as the Monopolies and Restrictive Trade Practices Bill, 1965 which called for the establishment of the proposed permanent body named the Monopolies and Restrictive Trade Practices Commission.

Following these recommendations, the government passed the Monopolies and Restrictive Trade Practices Act in 1969 which introduced a new era of tighter government control over large private enterprises.

An important feature of the Monopolies Inquiry Commission, which shows a great deal about how the role of government in the economy was viewed, was its restriction to examining the private sector only. This was at a time when the public sector in the economy was growing rapidly due to national development planning and government efforts to build up a "mixed economy" in the country. The commission made a few references to the public sector, such as when it cited cases where the public and private sectors had to compete against each other; here the commission noted that the government tended to give preferential treatment to the public sector, but it made no particular recommendation, only expressing the hope that the government would seriously consider whether the public sector should be allowed to enjoy special immunity or whether it should be treated in the same manner as the private sector.[22] This attitude and approach to the public sector was based on the firm ideological assumption that "monopoly by the state" was absolutely good for the economy. This assumption had started to solidify during the preceding period and would become one of the strongest characteristics of economic policy in the succeeding period.

The Hazari Report

The first comprehensive study of the licensing system under the IDRA was undertaken by R.K. Hazari who was appointed by the Planning Commission in July 1966. The study had two objectives:

(1) to broadly review the operation of the licensing system under the IDRA over the previous two five-year plans, and to examine the system more closely during the previous six to seven years including the orderly phasing of licensing with targeted capacity;

(2) to suggest where and in what directions modifications could be made in the licensing policy given the existing stage of economic development.[23]

Hazari submitted his final report in September 1967. The report covered industrial licensing from 1959 to June 1966 with detailed breakdowns of data for individual states, 200 industrial products, 99 categories of industrial "houses" or groups including co-operatives, state governments and government companies, three types of industrial licenses (new enterprises, substantial expansion, and new articles), and varying amounts of investment. The frequency of foreign collaboration was estimated for 1959, 1960, and 1964.

The *Hazari Report*'s contribution to academics is its analysis of the data on the licensing system at the state, industry, and industrial group level. I am not going to deal with this data since my main purpose is to trace the trend and change in policy. Moreover there are already a lot of contributions by quite a few scholars who have added to Hazari's analysis. I am going to discuss primarily the policy aspect in the *Hazari Report*.

One of the interesting issues of the licensing policy is the kind of role it could play in the economy. As Hazari pointed out, the major assumption in the IDRA was that growth and allocation of resources could be looked after wholly or mainly by administrative guidance, promotion, and control, but the market mechanism was hardly taken into consideration. Hazari argued that this assumption was justified where the market mechanism could not deliver the goods, especially in the absence of an adequate infrastructure, direct government participation in industry and trade, and planned manifestation of interdependent growth of various sectors.[24]

Generally speaking, the main objectives of industrial planning was to minimize the total cost, both internal and external, of the industrial program, and to maximize the total output in relation to investment and input. The industrial licensing system was supposed to contribute to these objectives. So the inevitable question that arose was how administrative measures, such as channeling investment and determining output, could be effective in the presence of a strong market mechanism which determined investment and production for the most part via its own mechanisms. This question was not seriously raised at the time the IDRA was enacted in 1951 because, as Hazari explained, the scale and complexity of the economic activities that the public and private sectors became involved in and the acute shortage of foreign exchange that developed were practically unforeseen in the early fifties.[25]

As plans for industry acquired significance, the essentially negative instrument of licensing assumed a positive role of being the principal administrative instrument and sanction for projecting the installation of capacity up to or near the targets laid down in planning. At this point Hazari brought up a serious theoretical question on the contradiction between administrative controls and the market mechanism over determining the share of resources and production. He set forth his explanation clearly saying that "in a mixed economy, with a relatively small but fast growing public sector in industrial production, and a large but not so fast growing private sector subject to various administrative controls, the allocation of resources is guided by a combination of market forces and administrative directions. Since the private sector generates the bulk of resources which are a common pool upon which both public and private sectors draw and since economic activity takes place in a traditionally free environment, it is obvious that the market mechanism is in fact of greater importance than administrative fiat."[26]

Based on the above conclusions, Hazari examined the shortcomings and deficiencies of the licensing system in relation to industrial planning in the following manner:

1. There was no overall policy guidelines to reinforce and supplement planned targets which indicated the capacity and output to be achieved.
2. In the absence of well ordered priorities and flexibility in interrelated programs at different levels, there was a tendency to rely on various ad hoc criteria.

3. In attempting to cover nearly the whole range of large-scale industrial development, licensing inevitably lost sight of the relative importance of different projects and/or products.
4. The maintenance or reshuffling of three lists of "rejection," "merit," and "relatively free," which euphemistically passed as an industrial licensing policy, had nothing to do with priorities of their fulfillment of actual fructification of licenses. These lists are based on the historical or contrived accident of the pace of previous licensing in relation to end-plan targets.
5. The basic idea of a license was that it represented a social sanction for drawing scarce resources from the national pool for a project of significant size. To the extent that licenses or letters of intent had not in fact been utilized implied that licensing had not performed this function.[27]

Hazari then made a number of recommendations to overcome these deficiencies. These recommendations covered much more than just the licensing system and included the planning process and fiscal policy. The following are the recommendations Hazari made:

1. The Planning Commission had to lay down the criteria for fixing priorities and suggest the broad policies on taxation, credit, prices, and the allocation of foreign exchange required to fulfill the targets.
2. The government should preempt foreign exchange and rupee resources after deciding priorities and selecting a few basic industries/projects; it then had to allocate resources for these.
3. The planned targets computed on a macro-economic basis had to be consistent with projected capacity, output, and returns for major individual programs and projects.
4. Better and more effective use needed to be made of the technical servicing capacity of the DGTD.
5. Industrial programs had to specify in advance the industries where the setting up of new capacity or the substantial expansion of output from existing capacity was amenable to regional allocation, so that more effective utilization of resources was possible.
6. Large industrial groups did not need to receive assistance from financial institutions.
7. In fiscal policy, tax concessions had to be adjusted to match planned priorities and profitability.
8. Credit planning had to be consistent with planned priorities and the objective of reducing the concentration of economic power.
9. Any project with a total fixed investment of 10 million rupees and above or having a capital goods import component of 2.5 million rupees and above would be considered for government approval if it was supported by a thorough feasibility report.[28]

One of the distinguished points of Hazari's report was his attempt, especially in his recommendations, to look at the problems of the licensing system from the wider perspective of economic structure and to locate the problems in the economic planning area rather than only in the licensing policy. What he envisioned was the effective allocation and utilization of resources within prevailing economic conditions. For this reason his recommendations centered more on the planning system, government institutions and the fiscal system. Hazari explained this by stating that "the policy adopted for modification of the scope and mechanism of licensing is a relatively secondary matter because most of the defects of licensing policy appear to have arisen from planning deficiencies though administrative complications, too, have made their contribution."[29]

Hazari offered suggestions on the scope of licensing, but here he was careful enough to say that they needed to be consistent with the planning approach which he suggested in his report. Thus he raised a crucial question which concerned not only the fundamental issue of the licensing system but of the whole mechanism of economic planning. However the question he raised was not and still has not been adequately answered, because it was too fundamental a question.

I am not going to go into the details of Hazari's recommendations in this study. Instead, I am going to look at his analysis of several modifications to the licensing system. My purpose here is to focus on problems which would become a big burden in the later period.

Hazari took up the issue of industries and products which had been exempt from licensing on the grounds that they required little foreign exchange. He also took up the issue of substantial expansion which had been increased in 1966 from 10 to 25 per cent of existing licensed capacity subject to no additional expenditure of foreign exchange and to some other criteria. He was critical of these modifications to the licensing system because they were concerned primarily with conserving foreign exchange rather than with channeling investment which was the original purpose of the IDRA.[30] For this reason he expressed reservations about "liberalizing" the licensing system along the lines recommended by the Swaminathan Committee as well as the Monopolies Inquiry Commission since their recommendations had not been worked out from the wider perspectives of economic planning. Hazari did not see any rationality in this kind of "liberalization." It lacked sufficient coordination with the priorities and targets set by the planning authority whose aim was to attain efficient utilization of resources and rapid economic development.

The idea that the government could assume the biggest responsibility for developing the economy through planning was based on the belief that it was feasible for the government to control the allocation of resources, the size of production and the distribution of goods in a planned way. In a mixed economy, this system is supposed to work though a network of collaboration between the public and private sectors, but strong administrative devices are required for the system to run smoothly. In India this was supposed to be done by the licensing system under the IDRA. The licensing system, when it was designed, was seen as playing crucial role in planned economic development. This created a situation where, if something went wrong in economic development, the administration sought to remedy the trouble by modifying the licensing system and resorting to other devices that increased government control over investment, production, and distribution which in turn induced more detailed and complicated procedures. Most of the modifications to the licensing system after the enactment of the IDRA come about this way. But Hazari's suggestions in his report were different from these conventional modifications. He did not confine himself to minor modifications or "liberalization" of the system. He suggested a comprehensive change in the developmental planning structure and administrative setup. It was difficult for the government to accept such suggestions. Instead it continued to follow its conventional approach of resorting to modifications, and the *Hazari Report* had virtually no impact on policy; however the report's academic value has continued to grow.

The *Hazari Report* did help bring about one result, although this was not directly related to the licensing policy. Hazari proposed the nationalization of commercial banks. He wrote that, "at the risk of overstepping my terms of reference, I should express my doubts about the viability of carrying through the suggestions so long as many of the major credit institutions are under the direct control and influence of those who might suffer under the suggested arrangement. It would be difficult to undertake credit planning unless the linked control of industry and the banks in the same hands is snapped by nationalization of banks."[31] When the government nationalized fourteen commercial banks in July 1969, its explanation for nationalization was quite similar to Hazari's reasoning. Thus one of his suggestions was realized, but it was only a fragmentary realization and not at all in accordance with Hazari's fundamental idea for a total revision of planned economic development.

Report of the Industrial Licensing Policy Inquiry Committee

In May 1967, the Ministry of Industrial Development made an announcement in the Rajya Sabha (Upper House) that a committee was being appointed to reexamine the functioning of the licensing system and the advantages some of the "large industrial houses" obtained through it. The committee was set up in July 1967 as the Expert Committee on Industrial Licensing to inquire into the working of the industrial licensing system during the previous ten years.[32] The committee was later renamed the Industrial Licensing Policy Inquiry Committee and was under the chairmanship of Subimal Dutt. The committee was to undertake the following tasks:

1. to inquire into the functioning of the industrial licensing system during the previous ten years and to ascertain whether larger industrial groups had an undue advantage over other applicants,

2. to assess the extent that licenses issued to larger industrial groups had actually been implemented,
3. to examine the extent that licenses issued had been in accord with government policy as set down in the IPR of 1956, particularly regarding the regional dispersal of industries, the growth of small-scale and medium industries, and the policy of import substitution, and
4. to find out whether the policies followed by financial institutions had given any undue preference to larger industrial groups.[33]

The objectives of the Dutt Committee were basically the same as those given to Hazari. The differences were that the Dutt Committee's scope was more extensive and it put more emphasis on examining the benefits that larger industrial groups were supposed to enjoy under the licensing system. This second matter had also been taken up by Hazari in his report. In fact the *Hazari Report* had devoted more attention to analyzing this matter than it had to procedural problems in the licensing system. Looking at the objectives of the Dutt Committee, one gets the strong impression that they were exactly what Hazari had tried to examine. This in turn makes it appear that the government had to set up another committee on a bigger scale to examine the same matters because it could not accept the conclusions and recommendations of the *Hazari Report* which had proposed a comprehensive revision of the whole planning mechanism.

The government was also facing unfavorable economic conditions. The Second Five Year Plan (1956–61) had ended suffering from the adverse effects of bad weather, a balance of payments crises, and rising prices. The Third Five Year Plan (1961–66) had also suffered from poor agricultural production and had shown signs of industrial stagnation. This deteriorating economic performance can be seen in Tables 2-2 and 2-3. Table 2-2 shows the change in net national income and per capita national income. The annual growth rate of net national income is low with severe fluctuations and that for per capita income is stagnant or negative in many years which indicates a deteriorating economy. Table 2-3 shows the deepening crisis in the balance of payments. The worsening balance of payments position forced India to devaluate its currency by 36.5 per cent in 1966. This devaluation caused further adverse effects on the economy.

Given the worsening economic conditions, it would seem the Dutt Committee was set up as a face-saving act on the part of the government. It had rejected the recommendations of the *Hazari Report* because they were politically and ideologically unacceptable, so the government took another step which looked beyond what Hazari had concluded and proposed. In other words, the conclusions of the Dutt Committee could be seen as more or less predetermined because of the circumstances under which it was created. This is apparent from the scope of the study itself. Emphasis was on preferential treatment the licensing system gave to larger industrial groups and the non-implementation of issued licenses on the part of larger industrial groups. Furthermore, three out

TABLE 2-2
NATIONAL INCOME: 1948/49 TO 1966/67 (AT 1948/49 PRICES)

	Net National Product		Per Capita National Product	
	Value (Rs. 1 Billion)	Annual Growth Rate (%)	Value (Rupees)	Annual Growth Rate (%)
1948/49	86.5		249.6	
1949/50	88.2	2.0	250.6	0.4
1950/51	88.5	0.3	247.5	−1.2
1951/52	91.0	2.8	250.3	1.1
1952/53	94.6	4.0	255.7	2.2
1953/54	100.3	6.0	266.2	4.1
1954/55	102.8	2.5	267.8	0.6
1955/56	104.8	2.0	267.8	0.0
1956/57	110.0	5.0	275.6	2.9
1957/58	108.9	−1.0	267.3	−3.0
1958/59	116.5	7.0	280.1	4.8
1959/60	118.6	1.8	279.2	−0.3
1960/61	127.3	7.3	293.2	5.0
1961/62	130.6	2.6	294.3	0.4
1962/63	133.0	1.8	293.1	−0.4
1963/64	139.5	4.9	300.6	2.6
1964/65	149.8	7.4	315.6	5.0
1965/66	147.0	−1.9	302.7	−4.1
1966/67	149.8	1.9	301.4	−0.4

Source: Government of India, *Economic Survey, 1970/71* (1971), Table 1.1, p. 77.

of the four items the committee was to look into referred to "larger industrial houses" or groups. Therefore, it is not surprising that the Dutt Committee came out with affirmative conclusions on these issues.

The following were the main deficiencies the Dutt Committee found in the functioning of licensing policy:

1. Licensing authorities and financial institutions lacked clear instructions on the treatment of applications from large industrial groups to prevent the concentration of economic power. As a result large industrial groups were favorably treated.
2. There was a lack of clarity about the relation of the licensing system to planned targets and to the created capacity. There were many cases of granting licenses with more capacity than projected in the plan.
3. The licensing system was ineffective in controlling import substitution and foreign exchange savings.
4. The licensing system played only a limited role in regional dispersal.[34]

The committee supported the continuation of the licensing system. To remove the defects mentioned above, it proposed a list of changes and clarifications in the function of licensing policy.

1. The licensing system was to be used to prevent economic concentration in the hands of large industrial groups. The system had to be used for

specific purposes, viz., granting or refusing permission to start a new industrial enterprise or to expand existing capacity.

2. Where a very large proportion of the cost of a new project was going to be met by public financial institutions either directly or through their support, such projects were to be set up in the public sector. Where the government had to permit such projects in private sector, these were to be treated not as private sector projects, but as "joint sector" projects with the state taking an active part in direction and control.
3. Licensing decisions affecting industries in the "core sector," which was made up of basic, strategic, and critical industries supporting economic development, had to be determined within the framework of the plan for that sector.
4. The licensing system had to be used to promote regional dispersal and to protect small industries.
5. The "middle sector," made up of industries not in the core sector or in the banned sectors including the reserved sector for small-scale industry, could be left open except for larger groups with total assets exceeding 350 million rupees[35] and foreign concerns.[36]

The committee advocated a "three sector approach" (core sector, joint sector, and middle sector) under which licensing would be used as a "positive" instrument for industrial planning in the core sector, but as a "negative" instrument in the other two sectors to check the entry of larger industrial groups whose assets exceed 350 million rupees.[37] This approach created some confusion about the nature of the report as to whether it was pro-large industrial groups or anti-large industrial groups. The political motivation behind the committee was certainly anti-large industrial groups and most of the studies on the Dutt Committee report have drawn attention to this fact. However the report can also be seen as opening up the closely guarded core sector to investment from large industrial groups. Moreover, since the Dutt Committee's policy emphasis was on stimulating the core sector, any impression of inviting investment from large industrial groups into this sector could be construed as encouragement for large industrial groups.

The Dutt Committee had been set up in the midst of a badly deteriorating economic situation, and because of ensuing political instability, the government was unable to implement the Fourth Five Year Plan as scheduled. It had to resort to annual plans for the three years from April 1966 to March 1969. In September 1967 the Planning Commission was reorganized under its deputy chairman, D.R. Gadgil. The Fourth Five Year Plan (1969–74) was finally introduced in April 1969. The Dutt Committee submitted its report in July 1969.[38] Based on the recommendations of the committee, the government modified the IDRA in 1970.

The government's position on the Dutt Committee report was set forth in the Fourth Five Year Plan. It stated that the regulation of industrial development had to be considered primarily in relation to the allocation of foreign ex-

TABLE 2-3
BALANCE OF PAYMENTS: 1961/62 TO 1969/70

(Rs. 1 million)

	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69*	1969/70*
1. Balance of trade:	−3,280	−3,981	−4,152	−5,869	−5,834	−9,046	−7,978	−3,731	−1,784
Imports	9,963	10,790	12,168	13,878	13,679	19,911	20,557	17,405	15,823
Exports	6,683	6,808	8,016	8,009	7,845	10,865	2,929	13,674	14,039
2. Nonmonetary gold movement (net)	—	—	—	160	—	—	—	—	—
3. Invisibles (net)	−295	−486	−431	−847	−659	−1,382	−1,534	−1,344	−1,491
4. Current account	−3,575	−4,467	−4,583	−6,556	−6,493	−10,428	−9,512	−5,075	−3,275
5. Capital transactions									
Private (net)	−60	−50	12	−113	−148	−330	−155	−73	−220
Government (net)	117	244	372	492	122	858	1,353	699	395
Amortization payment (gross)	−603	−532	−577	−771	−847	−1,438	−1,938	−1,843	−2,155
Repurchase of rupees from IMF	−607	—	−238	−476	−357	−431	−432	−585	−1,254
Banking capital (net)	−25	99	—	−137	26	57	103	−120	258
6. Errors and omissions	78	59	−546	−488	−124	134	−748	−1,137	−145
7. Total deficit (4 to 6)	−4,675	−4,647	−5,560	−8,049	−7,821	−11,578	−11,329	−8,134	−6,396
Total deficit financed by:									
8. External assistance:	3,421	4,505	5,668	7,011	7,649	10,320	11,361	8,515	7,829
Loans	2,253	3,063	3,794	4,423	4,711	5,984	7,550	6,378	6,147
Grants	305	228	201	294	435	1,246	882	958	734
PL 480 rupee loans	863	1,214	1,673	2,294	2,503	3,090	2,929	1,179	948
9. Drawing from IMF (gross)	1,191	119	—	476	655	893	676	—	—
10. Allocations of SDRs	—	—	—	—	—	—	—	—	945
11. Decline (+) and increase (−) in reserves	63	23	−108	562	−483	365	−708	−381	−2,378
12. Total (8 to 11)	4,675	4,647	5,560	8,049	7,821	11,578	11,329	8,134	6,396

Sources: Figures for 1961/62, 1962/63, and 1963/64 from Government of India, *Economic Survey, 1967/68,* Table 6.2, pp. A52−A53; for 1964/65 from *Economic Survey, 1970/71,* Table 6.2, pp. 134−37; for 1965/66 through 1969/70 from *Economic Survey, 1974/75,* Table 6.2, pp. 96−97.

Note: The rupee was devalued by 36.5 per cent in June 1966.

*Preliminary.

change; at the same time however it was advantageous to allow the market much fuller play within the broad framework of controls in strategic areas.[39] This statement could be viewed as a dual strategy based on the licensing system or as a conflicting orientation in policy. Whichever view one took, they both pointed to a system that was bound to be plagued by inconsistencies and conflicting problems in the years and decades to come.

There emerged during the 1960s a widespread realization brought out in the various studies and committee reports[40] that the restrictive character of licensing policy to check the expansion of large industrial groups had not been effective. Despite this fact, the Dutt Committee's proposal once again expected the restrictive instrument of licensing policy to control large industrial groups. This failure to present any viable proposals to cope with this crucial issue stripped the committee of its rationale, and the essence of its recommendations could be interpreted, at best, as a desire to promote large industrial groups in a controlled way.

The proposed strategy by the Dutt Committee was, of course, meant to control the concentration of economic power, but it also consisted of steps to strengthen the large industrial groups although in the limited field of the "core sector." Such a strategy undermined the basic regulatory framework of private investment which inevitably created contradiction and confusion. This was reflected in the revised industrial licensing policy of 1970 and again in the revised policy of 1973. The enactment of the Monopolies and Restrictive Trade Practices Act of 1969 discussed below also necessitated the modification of licensing policy. On top of these the government had to also issue a number of press notes and notifications to cope with the growing list of deficiencies and ambiguities created by its ideologically inspired licensing system.

The Monopolies and Restrictive Trade Practices Act

The Monopolies and Restrictive Trade Practices Act (MRTPA) was drawn up based on the draft produced by the Monopolies Inquiry Commission (discussed earlier). The bill[41] was passed by the Rajya Sabha (Upper House) on July 22, 1969 and the Lok Sabha (Lower House) on December 18, 1969. The bill became law when the president signed it on December 27, 1969, and it was enacted by official notification in June 1970. Under Section 5 of the MRTPA, the Monopolies and Restrictive Trade Practices Commission (MRTPC) was set up in August 1970.

Though in the past there were many policy statements and regulations which emphasized the need for restricting concentration of economic power, it was the MRTPA that first took comprehensive steps to deal with this matter.

The MRTPA had three main objectives:

(a) to control concentrations of economic power that would be detrimental to the public interest through the regulation of substantial expansion, the establishment of new industrial enterprises, mergers, takeovers, and the appointments of directors,

(b) to control monopolistic practices of dominant or oligopolistic enterprises, and

(c) to control restrictive trade practices carried on by two or more firms through restrictive trading arrangements.

The MRTPA covered the following types of enterprises which were called "MRTP undertakings" or MRTP enterprises:

(1) Enterprises which either by themselves or along with interconnected enterprises controlled not less than one-third of the total goods or services of any description, and also had assets of not less than 10 million rupees. These were defined as "dominant undertakings."

(2) Enterprises which, together with not more than two other enterprises, controlled one half of the total goods or services of any description, and whose assets exceed 200 million rupees. These were defined as "monopolistic undertakings."

"Dominant undertakings" could be both "dominant" and "non-dominant undertakings," but could have strong economic power. "Monopolistic undertakings" might exercise only limited power over resources, but could be dominant within their industries. Both types of "undertakings" were required to register with the Department of Company Affairs; and along with the other normal procedures set down in the IDRA and the Companies Act, these enterprises were also required to obtain government permission before they could:

1. substantially expand operations through issuance of fresh capital, through installation of new machinery or equipment, or through an expansion of assets,
2. expand capacity by diversifying existing operations through the production of a new item,
3. establish interconnected enterprises which could either manufacture one of the existing items of the enterprise or manufacture a new item,
4. merge or amalgamate with any other enterprise,
5. acquire, purchase, or take over the whole or a part of any other enterprise,
6. appoint directors from one's own enterprise to the board of directors of another enterprise.[42]

Ahuja, who worked as a member of the MRTPC, points out that the main emphasis of the MRTPC was to see that proposals take into consideration the public interest. It was particularly concerned with the consequences of the concentration of economic power. The MRTPC looked at the following matters when considering proposals from MRTP enterprises:

1. carrying out production by the most efficient and economical means; and producing goods of the type, quality, volume, and price that best meet the requirements of the home and overseas markets;
2. organizing supply in such a way that its efficiency is progressively in-

creased, carrying out technical and technological improvements in production, and expanding of existing markets and opening new markets;
3. ensuring the best use and distribution of men, material, and industrial capacity in the country; and regulating the control of materials and resources of the community to promote the common goods;
4. encouraging new enterprises as a countervailing force to the concentration of economic power, which by definition is a detriment to the common good; and
5. reducing disparities in development between different regions, particularly those areas which have remained markedly backward.[43]

The substantial list of considerations shown above meant that the MRTPC had to take many factors into consideration when deciding on proposals. Since these considerations were neither clearly defined nor easy to carry out, it made the task of the MRTPC difficult.

Soon after the enactment of the MRTPA, the government set up an interministerial Advisory Committee to lessen the burden on the MRTPC. The Advisory Committee was to decide whether applications from MRTP enterprises should be sent to the MRTPC for inquiry and report, or whether applications should be approved or rejected without reference to the MRTPC. This seems another typical example of the multiplication of authority as seen in the licensing policy.

The MRTPA had its supporters and critics. One criticism concerned the coverage of the act, something Vakil saw as a major defect in the MRTPA. He pointed out that under the act only large industrial groups in the private sector were defined as dominant or monopolistic enterprises, while the larger enterprises under government were excluded from the definition.[44] He argued that such discriminatory treatment was against the spirit of Constitution and that all large enterprises whether public or private should have been covered by the MRTPA.[45] Ahuja commented on the same issue, saying that the probable reason why enterprises under government control were exempted was because of the belief and consensus that the development of public enterprises was decided as part of development planning and thus for the public good. He also pointed out that no such exemptions were in the Companies Act of 1956 or the IDRA of 1951.[46] What Ahuja did not mention, however, was that under the IDRA the central government sector was exempt. But the real point here, as I noted in Hazari's observation and which I quoted in the section on the IDRA, there was a tendency among state governments and public sector bodies to skip the procedures of the licensing policy. Then with the enactment of the MRTPA, the public sector was legally excluded from any scrutiny for monopolistic activities. In later years this became a factor causing serious distortion in economic development.

Lack of criteria and lack of definition of crucial terms were also a point of criticism. Chaudhuri who analyzed the issue from the standpoint of being against concentration, basically supported the MRPTA but criticized the fact that there had been no attempt to define the fundamentals of the concept of "concentration of economic power."[47] In a similar way, he criticized the function of the MRTPC and the Advisory Committee also. He argued that much of the MRTPC's role depended on what the government wanted it to be, and there was nothing in the law which made it obligatory for the government to seek the advice of the MRTPC or to accept it. Many others have expressed similar opinions about this discretionary power on the side of the government. There was inevitably doubt about the function of the Advisory Committee which lacked any criterion to follow when it had to make decisions. It was quite similar to the defect that the Licensing Committee suffered.

As required by law, by the end of 1971, 829 enterprises had registered themselves as "large business houses" or "dominant undertakings," or as enterprises interconnected with these. But 85 of them applied for cancellation of their registration; in four cases the MRTPC agreed to the request. Meanwhile show-cause notices were sent to 188 enterprises which, in the commission's view, should have registered themselves.[48]

The MRTPA and the revised licensing policy issued in 1970 based on the Industrial Licensing Policy Inquiry Committee's recommendations completed the administrative and legal process of restricting the private sector, especially the large industrial groups.

In the following sections, I am going to examine the characteristics of the revisions and modifications of the licensing policy from the viewpoint of promotional as well as protective regulatory aspects.

The Industrial Licensing Policy of 1970

On the basis of the recommendations by the Dutt Committee, the government announced its revised industrial licensing policy in February 1970.[49] Thereafter the government selectively but gradually ceased to regulate the production capacity of the private sector.

The new policy reclassified industry into three sectors: the core sector, the joint sector, and the middle sector, as had been suggested by the Dutt Committee. The core sector was defined as the heavy investment sector in certain industries whose projects required heavy investment exceeding 50 million rupees. "Larger industrial houses" as defined in the report of the Dutt Committee, and foreign enterprises and foreign companies[50] were allowed to enter the core sector and heavy investment sector, except in those industries reserved for the public sector in the IPR of 1956.

The core sector consisted of:

1. agricultural inputs: (a) fertilizers, nitrogenous and phosphatic; (b) pesticides; (c) tractors and power tillers; and (d) rock phosphate and pyrites;
2. iron and steel: (a) iron ore; (b) pig iron and steel; and (c) alloy and special steels;

3. nonferrous metals;
4. petroleum: (a) oil exploration and production; (b) petroleum refining; and (c) selected petrochemicals such as integrated petrochemical complexes, D.M.T. caprolactum, acrylonitrile, and synthetic rubber;
5. coking coal;
6. heavy industrial machinery (specified);
7. shipbuilding and dredgers;
8. newsprint; and
9. electronics: (a) selected components, (b) testing and control equipment; and (c) wireless and microwave equipment.

The list shows the areas of industries into which the government wanted to promote larger investment from the private sector in order to mobilize necessary resources to promote those industries. The government realized that it had to rely heavily on the private sector for the development of those industries.

The government was not in a position to take any steps which would have meant virtually discouraging large-scale private investment. This was also seen in the fact that the government could not flatly reject the idea proposed by the Dutt Committee of prohibiting the entry of larger industrial groups and foreign companies into the sectors other than the core and heavy investment sectors.

Since one of the political purposes of the new policy was to exhibit the determination of the government to check concentrations of economic power, restrictive measures had to be imposed on larger industrial groups. First of all, it was loudly reconfirmed that larger industrial groups and foreign companies and their subsidiaries were not allowed to invest in industries reserved for the public sector under the IPR of 1956. At the same time, the new policy advocated promoting small-scale industries against the larger industrial groups. The list of industries reserved for the small-scale sector was expanded to include items like steel furniture, cycle tires and tubes, mechanical toys, aluminum utensils, fountain pens and ball point pens.

Under the new policy, it was decided to raise the exemption limit for licensing from 2.5 million rupees to 10 million rupees,[51] so that industrial projects requiring investment up to 10 million rupees were exempt from licensing. It was contrary to the recommendations of the Dutt Committee which suggested industry-wise exemption for investment from license. This relaxation was not available to certain categories of industry such as larger industrial groups, foreign subsidiaries whose foreign equity holdings exceeded 50 per cent of total equity, and dominant enterprises defined under the MRTPA. The new policy set another restriction on dominant enterprises under the MRTPA and enterprises with assets of over 50 million rupees. They had to acquire a license even for starting a new project with investment less than 10 million rupees which should come under the exempt category.

The new policy advocated special consideration for the private sector so that licenses would be given automatically for investment ranging between 10 million rupees and 50 million rupees in the middle sector. But here again, larger industrial groups, foreign subsidiaries, dominant enterprises, and also the projects which required substantial amounts of foreign exchange for importing equipment and materials were excluded from this provision.

The introduction of the joint sector concept had necessitated new arrangements and facilities. The concept of a joint sector was originally advocated in the IPR of 1956 as a means of reducing the concentration of economic power. The central and state governments could take equity participation with private parties either directly or through their corporations. The joint sector could also be made a promotional instrument in cases where state governments went into partnership with new and medium entrepreneurs in order to guide them in developing priority industry. In the policy of 1970, the importance of the joint sector was reemphasized, but its intention and precise role was not clearly stated. To understand the vagueness regarding the joint sector in the policy of 1970, Chaudhuri's assessment is instructive. He says that the real intention of the government was to lead large industries to invest in wider areas under the name of the joint sector.[52] Though the policy of 1970 does not seem to have been clear enough to produce any substantial effect, it was different from the explanation of the joint sector in the Dutt Committee's report. In the committee's opinion, the joint sector would include enterprises set up through public and private investment and the state taking an active part in direction and control. This had to be clarified in the industrial policy issued in 1973 which put more emphasis on the promotional aspects of this part of the policy, although Chaudhuri's observation was that in the policy revision in 1973, the concept of joint sector still remained conveniently vague.[53] The government seemed to have tried arming itself with vagueness to keep its political position safe on the matter of the joint sector. A large number of joint sector projects were begun 1970s promoted mainly by the central government but also by the state governments. Some of them were successful but some were not.

Another reason why the licensing policy of 1970 renewed the argument for the joint sector might have been to tackle the criticism that institutional financing had given more preference to large industrial groups. The government felt compelled to show its intention to check this tendency and to prove that it stood against them. By imposing conditions on substantial institutional financing going to joint sector projects, the government could publicly prove that it had expanded its controlling power over large industrial groups.

As a whole, what seems apparent in the new industrial policy of 1970 is the strong inclination to rely upon the conventional measures of putting more restrictions and regulations on large industrial groups in order to emphasize anticoncentration. The policy of enlarging the reserved list for small-scale industries and allowing exemptions from licenses except for larger industrial groups and foreign companies had the purpose of showing the government's political will to fight the concentration of economic power. Nevertheless, it failed to take substantial steps such as acquisition of ownership in order to check the expansion of larger industrial groups or penalizing the accumulation of unused licenses especially in the hands of larger industrial groups. No measures were tried to overcome the problem of the private sector's reluctance to invest in areas of industry that the government wanted to promote with the help of the private sector. These examples call into question the genuineness of the proclaimed intention of the policy.

Not much attention in the new policy was given to such problems as the effective utilization of resources in order to raise production and productivity in a coordinated way. Measures for this had to wait until the middle of the 1970s when a series of steps were issued. Attention was, at best, paid only to secondary problems, since the policy was more a politico-ideological decision than a economic one.

The unavoidable conclusion from the policy of 1970 is that it was again formulated in a strong political context at the cost of efficient economic management, but covertly with the undeniable recognition of the importance of the contribution made by the private sector, including large private enterprises, to economic development. It was inevitable for a policy produced under such condition to produce more loopholes and distortions in the system. This trend in policy was continued and repeated in a more intensified manner in the industrial licensing policy issued in 1973.

The Industrial Licensing Policy of 1973

The Industrial Licensing Policy of 1970 was formulated in the context of the Fourth Five Year Plan (1969–74). The enactment of the MRTPA in June 1970 increased the necessity of further policy adjustment, and thereafter there were various revisions and modifications to the licensing policy. A major modification was made in February 1973, in the government's press note of February 2, and in its notification of February 16.[54] The press note pointed out the need to amend the Industrial Licensing Policy of 1970 in the context of the specific priorities and production objectives to be laid down in the Fifth Five Year Plan draft and the need to provide new legal and institutional arrangements necessitated by the imposition of the MRTPA. The features of the licensing policy of 1970 which showed the government's political determination to curb the concentration of economic power were retained in the policy of 1973. Investment proposals of larger industrial groups were to continue to be subject to licensing regardless of size, and they were normally permitted to invest only in the core sector. At the same time, the new policy removed some obstacles restricting larger industrial groups by expanding the list of core sector industries which were open to them. It also redefined the larger industrial groups in order to attain conformity with the MRTPA.

Under the new policy, the core sector list was expanded from nine industries on the list of the policy of 1970 to nineteen industries. Below is the list of core sector industries which was open to larger industrial groups, as well as to foreign concerns and subsidiaries and branches of foreign companies.[55]

1. metallurgical industries,*
2. boilers and steam generating plant,
3. prime movers (other than electrical generation),*
4. electrical equipment,*
5. transportation,*
6. industrial machinery,
7. machine tools,
8. agricultural machinery (tractors and power tillers),
9. earth moving machines,
10. industrial instruments indicating, recording, and regulating devices for pressure, temperature, rate of flow, weights, levels, and the like,
11. scientific instruments,
12. nitrogenous and phosphatic fertilizers,
13. chemicals (other than fertilizers),*
14. drugs and pharmaceuticals,
15. paper and pulp including paper products,
16. automobile tires and tubes,
17. plate glass,
18. ceramics,* and
19. cement products (portland cement and asbestos cement).[56]

Larger industrial groups along with foreign concerns and subsidiaries and branches of foreign companies could participate in the industries listed above but were ordinarily excluded from the industries not included in the list except where the production was predominantly for export. Those investments would be subject as hitherto to the guidelines on the dilution of foreign equity and would be examined with special reference to technological aspects, export possibilities, and the overall effect on the balance of payments.

The government's explanation for the expansion of the list of core sector industries was that they were industries of basic, critical, and strategic importance for the development of the national economy in the future, and also they had significant export potential.

The expansion of the list produced some confusion in the policy. Larger industrial groups and foreign companies could not participate in the establishment of an industry included on the core sector list if that industry was also reserved for the public sector. At the same time however, the industries reserved for the public sector and industries which were open to the larger industrial groups overlap to some extent. Thus, iron and steel were reserved for the public sector (Schedule A of the IPR of 1956) while the same were open to the larger industrial groups (No. 2 on the list of the core sector in 1970). The government was far from clear about its position on iron and steel. Similarly, while industrial machinery (No. 6 on the list of 1970) was open to larger groups, heavy plant and machinery required for iron and steel production for mining, for machine tool manufacturing and for other such industries was reserved for the public sector (Schedule A). Again while steel castings and forgings (No. 1 on the list of 1973) were open to larger groups, heavy castings and forgings were reserved for the public sector (Schedule A). It was not clear where the line of demarcation between "heavy" and "non-heavy" could be drawn. Moreover, the open list conflicted with items reserved for the small-scale sector. While industrial instruments (No.10 on the list of 1973) were open to larger groups, water meters and weighing machines except for sophisticated items were reserved for the small-scale sector. There were numerous such examples.[57] A further complication was the inclusion of items like industrial machinery (No.6 on the list of 1973) and machine tools (No.7 on the list of 1973) without any further elaboration or specification. As Chaudhuri points out, by such blanket categorization the big industrial groups became free to produce any item that seemed to come under these categories. He argues that the inclusion of such non-priority but highly profitable industries as man-made fibers and synthetic detergents (No.13 on the list of 1973) in the core sector only suggests the government's anxiety to facilitate big industrial groups.[58]

Another feature of the policy was the definition of larger industrial groups for licensing purposes. The new industrial policy adopted the criteria laid down by the MRTPA in order to remove confusion between the definition of larger industrial groups for licensing purposes based on the report of Dutt Committee and for control of the concentration of economic power based on the MRTPA. The new definition of larger industrial groups as was provided in the MRTPA was industrial enterprises (monopolistic undertakings) whose assets were not less than 200 million rupees along with assets of interconnected companies. The lowest limit by this definition was lower than what was suggested by the Dutt Committee which proposed 350 million rupees to be the lowest.[59] According to the government, the reason for this was because the new definition needed to conform in all respects with what was adopted in the MRTPA. It was also to gain more effective control on the concentration of economic power by lowering the limit to 200 million rupees.

A number of criticisms were voiced against the government's explanation. For one, it was pointed out that difficulties were created by the linkage with the MRTPA. Because of this, the licensing authority had to apply the MRTPA for determining whether the applicant was a larger industrial group or not. This was apparently a difficult job in view of the fact that the criteria provided in the MRTPA were loose and vague, and unless the fact of interconnection was established, the question of total assets up to 200 million rupees or more could not be raised at all. The new criteria made the identification of larger industrial groups very complicated and in many cases led to an artificial reduction in the size of the larger groups which were listed in the report of Dutt Committee.[60]

In the policy the government tried to clarify and ensure that the joint sector would not be used by larger industrial groups, dominant enterprises, and foreign companies to enter into industries where they were otherwise precluded. In a wide variety of joint sector enterprises, the government promised that it would ensure for itself an effective role in guiding policies, management, and operations. For small-scale industry, the government assured that the existing policy of reserving industries for the small-scale sector would continue and the government would encourage competent small and medium entrepreneurs in all industries including those listed for reservation. They would be given preferential treatment over larger industrial groups and foreign companies in the setting up of new capacity.

Below is the list of articles reserved for the small-scale sector. It is on Schedule I of the Press Note issued on February 2, 1973. The list consisted of twelve groups with 177 items of products. Figures in parentheses are the numbers of items specified in the groups.

1. mechanical engineering industries (65),
2. electrical industries (12),
3. electronic industries (9),
4. automobile ancillary industries (28),
5. garage equipments (20),
6. chemical industries (19),
7. glass and ceramic industries (17),
8. leather based industries (2),
9. plastic based industries (4),
10. rubber based industries (3),
11. wood based industries (2), and
12. miscellaneous (5).

A small-scale or ancillary enterprise was defined as having fixed assets in plant and machinery not exceeding 750,000 rupees and 1 million rupees respectively.[61]

The policy especially emphasized that small-scale industries and ancillary industries were encouraged to produce mass consumption goods with the cooperation of the public sector. But here, the statement showed some consideration not to kill off economic development by citing several cases such as economies of scale which would result in reduced prices, technological improvements, large investment requirements, substantial export possibilities, or as part of modernization, where investors other than small-scale enterprises would be allowed to participate in the production of mass consumption goods. Unfortunately for the industry as a whole, this careful attitude was overwhelmed by the eagerness to protect small-scale industry at any cost. This reflected the atmosphere of political uncertainty when the government issued a rapid succession of populist policies in order to obtain the support of the poorer strata of society. From this period, the policy for the small-scale industries and for industries in the rural areas began to develop in a peculiar way which I am going to analyze in other chapter.

The policy of 1973 maintained the ceiling for investments exempt from licensing at fixed assets of less than 10 million rupees for small-scale or ancillary enterprises. But for other enterprises, it put more conditions to be eligible for exemption. For existing enterprises already covered by registrations, licenses, or permission, the total investment covered by approvals, permissions, or licenses together with the proposed investment was not to exceed 50 million rupees to carry out the project. Exemption was not available to larger industrial groups, dominant enterprises, or foreign companies. Also for enterprises other than small-scale or ancillary enterprises, the 10 million rupees exemption was not available in respect to specified items which numbered as many as 38 (First Schedule of the IDRA of 1951), in addition to the 177 items reserved for small-scale and ancillary enterprises. That the proposed investment should not require foreign exchange in excess of certain limits was another requirement to become eligible for the 10 million rupees exemption. The government explained that the purpose of this policy was to safeguard against the entry of large enterprises into areas which were primarily meant for small, medium, and new entrepreneurs.

It was inevitable for this policy which was based on vague definitions and criteria of its fundamentals, as mentioned earlier, to produce questionable areas where the government performed the crucial role and exercised its discretionary power to make decisions on disputable cases according to the political necessity or market pressure of the situation. Through the 1970s and 1980s this tendency would be observed more as industrial policy started to convolute with minute regulations and detailed exceptions. Another problem that arose from the policy was the contradiction between the government's populist appeal and its real intentions. An example is the Foreign Exchange Regulation Act (FERA) which was enacted in 1947 and was mainly concerned with foreign exchange transaction. Soon after the government issued its revised Industrial Licensing Policy of 1973 which expanded the core sector list open to large industrial groups and foreign companies, it amended the FERA to better regulate the entry of foreign investment into India by curtailing foreign shareholding in Indian companies to not more than 40 per cent. So the government tightened regulations on foreign investment in India with the revised FERA, but at the same time continued to loosen controls over foreign companies by various relaxation policies. The next section will examine further contradictions that developed.

Measures for Diversification and Capacity Utilization

I have explained in the preceding sections that with the enactment of the MRTPA the basic structure of industrial development policy, especially of a regulatory nature, was completed. One of the important characteristics of this regulatory policy was that it had virtually put the public sector industries out of the scope. Crucial questions such as the interrelation of the public sector with the private sector or the role of the public sector in economic development had not been taken up enthusiastically in the process of policymaking. The licensing policy and the MRTPA were the main elements in the policy, apart from other supplementary regulations concerned with protecting small-scale and rural industries.

It was only when the general economic condition greatly worsened that there came a strong feeling for the need for a remedy. The low growth rate of industrial production begun to be recognized as it remained below expectation since the mid-1960s,[62] and debate was about to start on a true model for industrial development. Production fell short of targets in most industries. Since the beginning of the 1960s underutilization of capacity had been high in the capital goods industries, followed by the metal based industries, intermediate goods and consumer goods industries. But the policymakers maintained their fundamental allegiance with the government which had a firm belief that to tighten state control over industry and to curtail economic activity by private sector would be the desirable way to serve society.

In such circumstances it was not desirable to go deeply into the negative aspects of regulatory policy, though there had been quite a few works which pointed out the defective aspects in the policy, especially in the controls over the activity of the private sector. The method the government adopted to cope with the deficiencies was to patch up the loopholes with supplementary regulations and minor policy changes instead of trying to review and reform policy structure as a whole or even in part.

From the beginning of the 1970s the government issued many regulations without changing the basic structure of the policy, and at the same time tried to stimulate economic activity as much as possible in order to meet the shortages which started to spread to various areas in the society. Because of the economic difficulties, strong, critical feelings began to grow against the government.

In this section I am going to look into the modifications of the policy in the 1970s, which show that the government had a hard time finding a way out of the dilemma of whether or not it could break out of economic stagnation by conventional rectifications to the policy. At the beginning of the 1970s, political pressure was so strong on the Indira Gandhi government to choose a more populist policy in her struggle to consolidate her power base among the poorer strata of society against the organized attack from the establishment groups in the ruling party and the government. Thus being in a weak political position, the Indira Gandhi government was in no position to take steps to give the private sector a free hand from regulatory policy, especially large industrial groups, at the cost of losing mass support. At the same time however, the government had to take action to tackle the economic difficulties by stimulating industrial production. The only way for the government was to compromise and relax controls over the economic activity of the private sector using trivial rectifications. The modifications made by the government under such conditions simply could not be consistent. The areas of uncertainty increased due to the contradictions created by the modifications, and problems had to be solved by the discretionary power of the government more than by the normal procedures of policy. I am going to take up some examples.

Before and after the Notification of February 16, 1973, several steps were taken for better utilization of capacity and diversification in certain industries mainly for the purpose of strengthening the production base in certain sectors of industry. Those steps included greater freedom for diversification, recognition of additional capacity through modernization and replacement, permission for capacity expansion by 5 per cent annum or up to 25 per cent in a five-year plan period in selected engineering industries, maximum utilization of capacity by allowing special facilities for diversification beyond the additional 25 per cent expansion of production, and exempting certain industries from licensing. Many of these steps were to promote growth by relaxing the regulatory elements of the policy, but at the same time they created other complicating problems in the process by placing many conditions on these facilities.

On capacity utilization there had already been a policy announcement issued in October 1966 enabling industrial enterprises to increase the production of articles for which they were licensed or registered up to 25 per cent of the licensed or registered capacity without obtaining a substantial expansion license and taking into consideration foreign exchange components and scarce raw material availability.

In 1972 the government introduced a scheme to more fully utilize installed capacity which among other things provided for endorsement of licenses issued on a single or double shift basis so as to allow for maximum utilization. Thus in a number of cases industrial licenses issued earlier on a single or double shift basis were made part of the maximum utilization of plant and machinery. Section 10 of the IDRA was amended in December 1973 to give the central government power to specify the productive capacities on the registration certificates of registered enterprises.[63]

Through a press note issued on January 28, 1975,[64] the government clarified that all industrial enterprises which still held industrial licenses specifying a single or double shift basis could apply for the endorsement of their licenses allowing for the maximum utilization of plant and machinery and that such request would be considered on the basis of a special procedure and allowed on the merits of each case.

For diversification, eight press notes were issued between March 1974 and July 1975.[65] Those press notes offered special facilities for diversification above the additional 25 per cent expansion of production for achieving higher capacity utilization in such selected industries as the machinery industry, machine tool industry, electrical equipment industry, steel casting industry, cement manufacturing machinery industry, and steel forging industry. As a result, the machinery industry, for example, was able to expand production without any restriction on any item included in the industrial machinery group listed in the First Schedule to the IDRA, and manufacturers of machine tools were able to diversify into the industrial machinery sector and vice versa.

Those steps did not mean that all applications for endorsement of licenses for higher capacity were automatically granted. The government had to consider the type of enterprises (viz., whether it was a MRTP company or a foreign company) in terms of the licensing policy of February 1973. The availability of imported and scarce indigenous raw materials also had to be considered, and for capacity expansion, the actual production of the applicant during the previous three years was taken into account.

Another press note was issued on August 7, 1975[66] by which the government extended the policy to promote fuller utilization of existing capacity to registered enterprises as well. It was decided that all the industrial enterprises registered with the technical authorities and also with the Directorate of Small Scale Industries, which had been registered specifically on a single or double shift basis, could apply to the concerned registering authority, giving details of the particulars for items manufactured as shown in the registration letter, the capacity on maximum utilization, the details of imported and indigenous raw materials requirements, and actual production during the previous three years. While examining such requests, the government would take into account the relevant priority of the industries, the availability of imported and scarce indigenous raw materials, and the eligibility of the party to participate in such industries in accordance with the Industrial Licensing Policy of February 1973.

The press note issued on August 21, 1975[67] permitted higher production capacity which resulted from replacement and modernization of obsolete equipment. However, it was stated that such replacement or modernization should neither result in any encroachment on product reserved for the small-scale sector nor lead to a net increase in the outgo of foreign exchange. If imported equipment was needed, government would further ensure that the proposed replacement or modernization did not lead any distortion in plan priorities for market shares. Subject to these conditions, MRTP companies and foreign companies could also request permission.

It was clarified that any increase in capacity arising out of replacement and modernization would be granted over and above the normally permitted additional limit of 25 per cent above authorized/licensed capacity. In the case of proposals received from foreign companies as defined under the Foreign Exchange Regulation Act of 1973[68] and enterprises coming under the purview of the MRTPA, these would be considered by a task force.

Another press note issued on August 21, 1975[69] clarified the government policy regarding the in-house R & D activities of industrial enterprises. The government would allow industrial enterprises to set up or expand capacity based on the results obtained by their own R & D efforts. While the enterprises would be required to obtain industrial licenses in accordance with existing statutory provisions, for the capacity being set up as a result of their own R & D efforts, such applications would ordinarily be allowed as a matter of course. However, MRTP companies and foreign companies were allowed to undertake R & D only in the core sector. If the enterprises covered by the MRTPA or the FERA wanted to take up R & D in fields not covered by Appendix I (core sector industries) of the Industrial Licensing Policy of 1973, they had to seek prior approval. If the approval of the government was obtained for the proposed R & D, they could then expect automatic permission to set up capacity in industries even outside the list of core sector industries.

The notification of September 5, 1975[70] allowed fifteen specified engineering industries to expand licensed/registered capacity by 5 per cent per annum or 25 per cent in a five-year plan period in one or more stages subject to the following conditions:

1. the articles of manufacture should not be an article in the core sector,
2. the investment for such expansion should be met from the industry's own resources,
3. the expansion scheme should be subject to export obligations, if it involves import of capital equipment,
4. the industrial enterprise should not have any foreign collaboration agreement, and
5. the industrial enterprise would be eligible for exemption only if the expansion was to produce goods for which it was not a dominant enterprise determined by the MRTPA.

The interesting point about this notification is that larger industrial enterprises and foreign companies were not specifically excluded. Dominant enterprises, however, were kept out. But even a dominant enterprise could expand in an article in which it was not dominant. Listed below are the industries that were eligible to expand.

1. automobile ancillaries,
2. casting and closed die forgings,
3. tractors,
4. commercial vehicles,
5. conveying equipment,
6. diesel engines, pumps,
7. cranes,
8. earth moving, mining, and metallurgical equipment,
9. hydraulic equipment,
10. industrial machinery, including chemical plant and machinery,
11. machine tools,
12. textile machines,
13. power transmission and distribution equipment (other than cables and wires),
14. power transformers, and
15. switch gear.

Another notification was issued on November 1, 1975,[71] permitting twenty-nine industries to expand their capacities subject to certain conditions, namely,

1. the article should not be one reserved for the small-scale sector,
2. the industrial enterprises should not be the MRTP companies or foreign companies, and
3. the industrial enterprise should not install additional machinery.

The list of twenty-nine industries attached to the notification was mainly based on the list of fifteen industries attached to the notification of September 5, 1975. Textile machines (No.12 in the notification of September 5, 1975) was dropped and fifteen items were added: electric motors, electric furnaces, electric components and equipment, scooters, nitrogenous and phosphatic fertilizers, inorganic and organic heavy chemicals, fine chemicals, synthetic rubber and rubber chemicals, industrial explosives, insecticides, fungicides, herbicides and the like, paper and pulp, refractories and furnace-lining bricks, portland cement, and basic drugs.

With another notification issued in November 1975, the industrial licensing policy was further modified.[72] It was another major policy announcement which exempted twenty-one industries from licensing. Exemption was subject to the following conditions:

1. the articles of manufacture should not be those reserved for the small-scale sector as specified in the notification of February 6, 1973,
2. the industrial enterprise should not require imported raw materials or imported capital goods, or involve foreign collaborations, and
3. the industrial enterprise should not be an MRTP companies or foreign companies.

Below is the list of industries which were exempted under the above conditions:

1. cotton spinning for manufacturing cotton yarn up to a capacity of 50,000 spindles,
2. solvent extraction of oil/oil cakes from minor seeds including cotton seeds,
3. writing, printing, and wrapping paper from agriculture residue and waste,
4. rayon grade pulp from bamboo,
5. refractories,
6. water pumps beyond 10 cm × 10 cm in diameter,
7. cotton seed linter pulp,
8. tractor-drawn agricultural implements,
9. glass slag and mineral wood and products thereof,
10. hard board including fiber board/chip board and the like,
11. G.L.S. lamps,
12. industrial sewing machines,
13. basic drugs,
14. forged hand tools and small tools,
15. leather goods except those reserved for small-scale industries,

16. industrial machinery,
17. surgical and medical rubber products,
18. L.T. switch gears,
19. machine tools,
20. industrial and scientific instruments, and
21. basic insecticides.

On October 31, 1975, a press note[73] was issued aiming at streamlining the procedures for pre-investment approvals such as letters of intent, industrial licenses, foreign collaboration approval, capital goods clearance, and approval under the MRTPA. The press note defined the time targets for the procedures. For example, letters of intent, foreign collaboration approvals, and capital goods clearances were to be issued within 90 days of the receipt of application. For MRTP companies, it was to be issued within 150 days. The implementation of the new system of industrial approvals was placed under the overall supervision and guidance of the Project Approval Board which was an Inter-Ministerial Committee of Secretaries. Existing approval committees such as the Licensing Committee, the Foreign Investment Board, and the Capital Goods Committee would function as committees of the Project Approval Board. In order to facilitate the coordinated and timely issuance of licenses and MRTP clearances, a joint licensing cum MRTP Advisory Committee was formed.

The press note of October 31, 1975, implied that, while the process of relaxation, modification, reclassification, and reservation was being advanced, more complicated and strenuous effort was required despite claims of streamlining procedures.

What these modifications imply was that the government's main effort during this period was firstly to reduce negative elements in the licensing policy in an effort to promote production without changing the basic structure of the policy. It is clear from the notes and notifications issued during this time that a number of industries were permitted to "fully utilize their installed capacity" and to expand production well beyond licensed capacity. But important questions were raised about these changes. The most essential question was the one raised by Shetty and others. Shetty wanted to know what was left of the licensing system after so many of its regulatory elements had been taken away. He summed up the following detrimental effects on industrial development caused by the relaxation of regulations since the mid-1960s:

1. the building up of illegal capacity,
2. diversification and expansion which created possibilities for additional capacities, thus reducing the whole system of licensing to a farce,
3. investment decisions left to the private industries without any consideration for priorities, thus accentuating the distortions in capacities, and
4. the encouragement of the concentration of economic power.[74]

With the enactment of the MRTPA and the revised FERA, the government was forced to take up the tedious work of reclassifying industries which had developed intertwining networks according to their own convenience and rationality even under the regulatory policy of the government. Over the years there had been some relaxation of controls such as expansion of the core sector, exemptions from licensing, diversification, recognition of additional capacity, and so on, but these steps were basically limited to the sphere of readjustments or modifications in order to undo some of the overkill effects of industrial policy.

Almost all the documents dealing with industrial policy during this period used the term "liberalization" to describe the nature of the policy. Liberalization in an industrial economy has to mean: (a) liberalization of investment including foreign capital investment, (b) liberalization of trade, especially import trade, (c) liberalization of technology usage, including foreign technology, and (d) especially in the Indian context, liberalization of the production system. From this point of view, the nature of the policy steps taken during this period could not be termed liberalization in the strict sense. They were basically readjustment policies necessitated by the introduction of the MRTPA and the FERA into the areas of the IDRA, and also by the overall economic policy direction which aimed at raising production.

Further Modification in 1978

In October 1977, the government under the Janata Party appointed a study group to review the working of the IDRA, to look into changes if these were necessary, to identify bottlenecks, and to look for ways to simplify regulations and procedures related to the licensing system. The study group was called the Ramakrishna Study Group after the name of its chairman. The study group's main aim was to simplify the licensing system, but this was a complicated task because the Janata government's industrial policy issued in December 1977 pledged to protect and promote tiny, village, and small-scale industries, and the recommendations by the study group were expected to conform to this policy. The Statement on Industrial Policy of 1977 (SIP of 1977) issued by the Janata government will be discussed in detail in the following chapter.

Due to the absence of clear and strong political direction under the Janata government, the prevailing unstable political situation, and the rigidity of the SIP of 1977, it is not surprising that the Ramakrishna Study Group avoided any radical departure from the past toward simplifying the system by removing the regulatory mechanism and choosing a more selective licensing system.

At the time of the publication of the group's report,[75] industrial license was not required in the following cases:

1. if the items of manufacture relate to an industry which is not included in the IDRA;
2. small-scale and ancillary enterprises;
3. investment up to 10 million rupees, subject to: (a) overall limit of investment not exceeding 50 million rupees; (b) import of raw materials not

exceeding 500,000 rupees or 5 per cent of the value of annual production, whichever is lower; and (c) import components not exceeding 10 per cent of ex-factory value of annual production three years after the commencement of production or 500,000 rupees, whichever is less;

4. industries which have been specifically exempt from licensing, subject to conditions for exemption.[76]

The study group made the following recommendations:

1. The exemption limit for industrial licensing should be raised from the present level of 10 million rupees to 30 million rupees;
2. The existing stipulation regarding the overall limit of investment of 50 million rupees should be deleted;
3. The existing stipulations regarding the limit on imports of raw materials and components should also be deleted. Such imports would be governed by the import trade policy in force at the time;
4. Other existing stipulations, i.e., the items of manufacture, should not relate to industries reserved for the public sector and the small-scale sector;
5. The exemption of specified industries from licensing, announced in 1975, should be withdrawn, in view of the fact that the exemption limit for investment was raised to 30 million rupees without the present stipulation regarding foreign exchange.

Of the above recommendations, the ones which were liberalizing in nature were numbers 1, 2, and 3. But these could not be called positive recommendations for liberalization in the real sense, because they were more or less facilitated by the favorably changing economic climate such as the decline in the real value of rupee in the 1970s and the improved foreign exchange position. As for simplifying procedures, the study group failed to produce any effective recommendation, although it suggested several modifications.

On March 31, 1978, a decision to amend the licensing policy was taken based on the recommendations of the study group. The major change made to licensing policy was to raise the exemption limit of fixed assets from 10 million rupees to 30 million rupees where substantial expansion or the manufacture of new products was concerned.[77] The 30 million rupees limits was to be applicable to one or more activities whether single or taken together or whether in one or more stages. The existing stipulation regarding the overall limit of investment of 50 million rupees was deleted. However, the new policy stipulated that the foreign exchange requirement of such industrial enterprises for import of raw materials (other than steel and aluminum) and components should not exceed 2.5 million rupees or 10 per cent of the ex-factory value of annual production, whichever was less per year. The exemption from industrial licensing would remain subject to conditions that commodities proposed for production would not relate to industries reserved for the public and small-scale sectors. The MRTP companies and the companies with foreign equity exceeding 40 per cent would not be exempted from the licensing provision.

On the whole, the new licensing policy of 1978 was tilted more toward promoting economic growth than toward the aim of curbing the concentration of economic power, although it called for preferential treatment for tiny, cottage, and small-scale industries.

Restrictive Aspects of Industrial Policy

Industrial policy redirection throughout the 1970s had a good reason. It was not a mere coincidence that, in the mid-1970s, various relaxation measures were taken in order to accelerate industrial production in the organized sector without changing the basic regulatory system on the one hand, while the government started to stress the importance of developing rural, cottage, and small-scale industries on the other.

During the 1970s India's economic policy and industrial development policy went through a change not only for economic reasons but also for political reasons. The change in policy was apparent in the shift of policy emphasis. The government started to emphasize equal distribution. The new policy was explicitly represented at this time in the government and ruling party slogan of "removal of poverty."

During the shift, what did not change was the basic recognition and belief that industries should be controlled and promoted by the government for the common good. In the new policy direction, the rural, cottage, and small-scale industries sector was regarded as one of the important sectors which could serve the policy purpose of achieving such goals as alleviating poverty, attaining fair distribution of income, and providing job opportunities for the more disadvantaged sections of society and the nation.

In order to pursue the new policy direction of the 1970s, rural, cottage, and small-scale industries were encouraged, in many cases at the cost of quality, efficiency, and public expenditure. It may be fair to point out that the government also made efforts to mobilize household savings in rural areas for industrial development by offering incentives and assistance during this period. This could be one of the main reasons why the government made some readjustments and relaxed regulations during mid-seventies. These steps continued and were intensified as the execution of special policies for rural, cottage, and small-scale industries was carried out.

The policy of 1973 maintained the licensing exemption ceiling on investment in fixed assets of land, buildings, and machinery at not more than 10 million rupees for small-scale or ancillary enterprises if they were not owned or controlled by any other enterprises. But for other enterprises, it put more conditions on eligibility for exemption. For existing enterprises already covered by registrations, licenses, or permits, the total investment proposed was not to exceed 10 million rupees to qualify of this exemption. For existing enterprises already covered by registrations, licenses, or permits, the total investment covered by approvals, permits, or licenses and the proposed investment was not to exceed 50 million rupees. Exemption was not available to larger industrial groups, dominant enterprises, and foreign companies. Also for enterprises other than small-scale and ancillary enterprises, the 10 million rupees exemption was not available for as many as 38 specified items[78] in addition to the 177 items reserved for the small-scale and ancillary enterprises.[79] That the proposed investment should not require foreign exchange in excess of certain limits was another requirement to become eligible for 10 million rupees exemption. The government explained that the purpose of this policy was to safeguard against the entry of large enterprises into areas which were primarily meant for small, medium, and new entrepreneurs.

Notes

1 H.V.R. Iyengar, "Role of the Private Sector," in *Industrial Development of India: Policy and Problems,* ed. C.N. Vakil (New Delhi: Orient Longman, 1973), pp.32–33.
2 Hanson, p.454.
3 Section 10 had been on the registration of enterprises and not on the registration of production capacity before it was revised in 1973 to include the registration of production capacity.
4 Marathe, pp.50–51. Chaudhuri makes a similar analysis. He sees that "the need to operate direct controls has to an extent been imposed by the critical balance of payments situation facing the economy since 1956–57, when the foreign exchange crisis first developed." Pramit Chaudhuri, "India: Objectives, Achievements and Constraints," in *Aspects of Indian Economic Development,* ed. Pramit Chaudhuri (London: George Allen & Unwin, 1971), pp.21 and 65.
5 Hanson, p.490.
6 Government of India, Ministry of Industries, *Final Report of the Industries Development Procedures Committee,* T. Swaminathan, the Chairman (1964).
7 This is regarded as practically the same as the former "condition letter" practiced until 1959. *Report of the Dutt Committee,* p.31. The government introduced the letter of intent from February 1964.
8 *Hazari Report,* p.14.
9 Government of India, Planning Commission, *Report of the Committee on Distribution of Income and Levels of Living,* P.C. Mahalanobis, the Chairman, Part 1 (1964) (hereafter *Mahalanobis Report*).
10 Ibid., pp.25–26.
11 Ibid., p.35.
12 Government of India, Monopolies Inquiry Commission, *Report of the Monopolies Inquiry Commission,* K.C. Das Gupta, the Chairman (1965) (hereafter the *Report of the MIC*).
13 *Report of the MIC,* p.1.
14 *Report of the MIC,* p.2.
15 *Report of the MIC,* pp.3–10.
16 *Report of the MIC,* p.126.

17 *Report of the MIC,* pp.135–37.
18 *Report of the MIC,* p.137.
19 *Report of the MIC,* pp.139–44.
20 *Report of the MIC,* p.141.
21 *Report of the MIC,* pp.159–66.
22 *Report of the MIC,* p.186.
23 *Hazari Report,* p.1.
24 *Hazari Report,* p.17.
25 *Hazari Report,* p.17.
26 *Hazari Report,* p.13.
27 *Hazari Report,* pp.19–20.
28 *Hazari Report,* pp.21–28.
29 *Hazari Report,* p.29.
30 *Hazari Report,* p.30.
31 *Hazari Report,* p.28.
32 M.S. Thacker was appointed chairman but resigned in April 1968. Subimal Dutt became the next chairman in May 1968, and the committee was renamed the Industrial Licensing Policy Inquiry Committee.
33 *Report of the Dutt Committee,* p.4. The term "larger industrial houses" is used in the report, but the usage is not consistent. "Large industrial houses" and "large industrial sector" are also used in place of "larger industrial houses" (ibid., p.185).
34 *Report of the Dutt Committee,* p.184.
35 "Total assets exceeding Rs.35 crores [350 million rupees]" was used by the Dutt Committee to define larger industrial "houses" or groups. As "larger industrial house" or "large industrial house" had not been clearly defined before, one of the first tasks to be taken up by the committee was to define this term.
36 *Report of the Dutt Committee,* pp.183–97.
37 *Report of the Dutt Committee,* pp.190–91.
38 *Report of the Dutt Committee.*
39 Government of India, Planning Commission, *Fourth Five Year Plan, 1969–74* (1970), p.305.
40 For example, the *Report of the MIC* and the *Hazari Report.*
41 The bill was introduced in the Parliament in 1967, and then referred to the Joint Committee of the House in December 1967. The committee approved the draft on February 17, 1968.
42 P.K. Ahuja, "Policy on Concentration of Economic Power in the Industrial Sector," in *Indian Economic Policies 1947–1977.* ed. J.N. Mongia (New Delhi: Allied Publishers, 1980), pp.263–64.
43 Ahuja, pp.264–65.
44 C.N. Vakil, "Concentration of Economic Power—Monopoly House," in *Industrial Development of India: Policy and Problems,* ed. C.N. Vakil (New Delhi: Orient Longman, 1973), p.420.
45 Ibid., p.421.
46 Ahuja, p.265.
47 Asim Chaudhuri, p.303.
48 Government of India, Department of Company Affairs, *The First Report on the Working and Administration of the Monopolies and Restrictive Trade Practices Act, 1969: For the Period from 1st June, 1970 to 31st December, 1972,* p.8.

49 Industrial Licensing Policy of 18th February 1970.
50 Foreign enterprises and foreign companies were determined under the Foreign Exchanges Regulation Act (FERA) of 1947. The FERA of 1947 was revised as the FERA of 1973 which provided greater power to the government for regulating foreign companies.
51 It was suggested in the *Hazari Report* and was also meant to adjust with the general rise in investment levels.
52 Asim Chaudhuri, pp.217–18.
53 Ibid., p.220.
54 "Industrial Policy: Government's Decision," Press Note, February 2, 1973; and Notification, February 16, 1973. The notification contained definite provisions, whereas the press note laid down broad guidelines.
55 Items with an asterisk were more specified on the original list in the press note.
56 Appendix I to the Press Note, February 2, 1973.
57 *Industrial Licensing Policy: A Report Prepared by Tata Economic Consultancy Services* (Bombay: Popular Prakashan, 1976) (hereafter the *Tata Report 1976*), pp.11–12.
58 Asim Chaudhuri, p.223.
59 *Report of the Dutt Committee,* p.190.
60 Asim Chaudhuri, p.221.
61 They were raised in the Press Note of May 19, 1975 to 1 million rupees and 1.5 million rupees respectively ("Revision of Definition of Small-Scale Industries and Small-Scale Ancillary Industries," Press Note, May 5, 1975). In March 18, 1985, they were raised again to 3.5 million rupees and 4.5 million rupees respectively; and in May 1990, the government proposed to revise the ceilings to 6.0 million rupees and 7.5 million rupees respectively.
62 Concerning the economy's stagnation since the mid-1960s, see Isher Judge Ahulwalia, *Industrial Growth in India: Stagnation since the Mid-Sixties* (Delhi: Oxford University Press, 1985); P.R. Brahmananda, *Productivity in the Indian Economy: Rising Inputs for Falling Output* (Bombay: Himalaya Publishing House, 1982); Deepak Nayyar, "Industrial Development in India: Growth or Stagnation?" in *Change and Choice in Indian Industry,* ed. A.K. Bagchi and Nirmala Banerjee (New Delhi: K.P. Bagchi & Co., 1981); K.N. Raj, "Growth and Stagnation in Indian Industrial Development," *Economic and Political Weekly,* Vol.11, Nos.5, 6 & 7, Annual Number (February 1976); S.L. Shetty, "Structural Retrogression in the Indian Economy since the Mid-Sixties," *Economic and Political Weekly,* Vol.13, Nos.6 & 7, Annual Number (February 1978).
63 *Tata Report 1976,* pp.15–17.
64 "Endorsement of Industrial Capacities on the Basis of Maximum Utilization of Plant and Machinery," Press Note, January 28, 1975.
65 Eight press notes of March 4, 1974; October 19, 1974; January 25, 1975; March 12, 1975; March 17, 1975; April 9, 1975 (two press notes); and July 7, 1975.
66 "Endorsement of Industrial Capacities on the Basis of Maximum Utilization of Plant and Machinery on Cases of Units Registered with the Technical Authorities and Directorate of Small Scale Industries," Press Note, August 7, 1975.
67 "Recognition of Additional Capacities as a Result of Replacement and Modernization of Equipment," Press Note, August 21, 1975.
68 "Foreign companies" are the enterprises having foreign equity of more than 50 per

cent in the paid up equity capital of the companies prior to the Notification of February 6, 1973. After this notification, the FERA of 1973 termed "foreign companies" as those having foreign equity of more than 40 per cent in the paid up equity capital. Press Note of November 16, 1976 made industrial enterprises having foreign equity of more than 40 per cent in the paid up capital of the company as ineligible for exemption from industrial licensing.

69 "Utilization of Results of In-house R & D for Commercial Exploitation," Press Note. August 21, 1975.

70 Notification of September 5, 1975.

71 Notification of November 1, 1975.

72 Another Notification of November 1, 1975.

73 "Streamlining of Industrial Approval Procedures," Press Note, October 31, 1975.

74 Shetty, p.237.

75 Government of India, *Report of the Study Group on Industrial Regulations and Procedures,* G.V. Ramakrishna, the Chairman (1978).

76 Marathe, pp.115–16.

77 "The Value of Fixed Assets in Terms of Land, Buildings, Plants and Machinery Shall Be Original Cost of Their Acquisition," Press Note, May 9, 1978.

78 First Schedule of the IDRA of 1951.

79 Schedule I of the Press Note of February 2, 1973.