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Industrial Policy As the Means to Enhance Social Justice

Evolution of Policy Focused on Rural, Cottage, and Small-Scale Industries

After the split in the Congress Party in 1969, Indira Gandhi, then prime minister, aggressively started to project herself as a dynamic national leader, claiming herself capable of looking after and uplifting the poorer sections of society by announcing and taking various progressive measures. Behind these measures was the realistic political recognition of the need for reorienting economic development strategy toward a strategy emphasizing more equal distribution of income and consumption. The government set two strategic goals: the removal of poverty by reducing inequality of income and consumption, and the attainment of economic self-reliance which at the same time was to be closely associated with a high rate of growth. Of these two goals, the government proclaimed the removal of poverty as its first priority. The shift in strategy was based on a shrewd political calculation of the situation which forced Indira Gandhi to take steps to strengthen the power base of her party which had been eroded by the split in 1969. The strategy of focusing on the poor masses and appealing to them directly was the logical conclusion. For this purpose, issues such as integrated rural development, the dispersal of industries, industrialization of backward areas, and the development of rural, cottage, and small-scale industries were vigorously taken up.

It is necessary to examine at least two important policy documents in order to understand the nature of the change in the policy which took shape in the 1970s and which has been pursued right to present time. One is the Fifth Five Year Plan (1974–79), and the other is the Statement on Industrial Policy of 1977.[1] The former document was prepared by the Congress government under the leadership of Prime Minister Indira Gandhi; the latter was issued by the Janata Party government which succeeded Indira Gandhi's government in 1977. The nature of the two documents was different because they were prepared by parties which opposed each other; moreover one was a planning document and the other was a policy statement. Nevertheless they shared a similar view concerning the development of rural areas and cottage and small-scale industries on which both put a lot of importance.

The Fifth Five Year Plan acknowledged that poverty remained the biggest problem of the country in spite of two decades of effort to promote economic development. It declared that the elimination of poverty had to be given the highest priority in economic planning. The goal of removing poverty had to be achieved through a strategy of growth which aimed not only at a higher rate of growth but also at reducing inequality in the distribution of income and consumption. The five-year plan also declared that rural development and the promotion of rural, cottage, and small-scale industries were needed.

Though issues like rural development, dispersal of industries, and the development of rural, cottage, and small-scale industries had always been stressed, they had been virtually neglected in the past. But the shift in policy brought these issues to the center of planned development. A heavy responsibility was assigned to them. The shift in policy, therefore, brought about a rearrangement of policies for investment, resource mobilization, production, distribution, and consumption in those areas. The shift also created a situation where certain areas needed to be protected, promoted, and attended, and other areas were expected to support this shift.

The Janata government issued its Statement on Industrial Policy in December 1977 (SIP of 1977). The policy put special emphasis on small-scale and cottage industries and decentralization of industries. The policy was hardly executed because the government was in power for only a short while. But an interesting thing about the policy was that the central part of the SIP of 1977, which pertained to cottage and small-scale industries and the dispersal of industries, was carried over virtually intact to the policy of the succeeding Congress government led again by Indira Gandhi, though the Statement on Industrial Policy of 1980 issued by the Gandhi government[2] was silent about the SIP of 1977. Being completely ignored by the succeeding government but making up a conspicuously important part of the new government's policy, the SIP of 1977 occupied a unique position in the history of India's industrial policies.

In order to ascertain this point, it is necessary to review the history of policies for cottage and small-scale industries, the dispersal of industries, and related subjects before looking into the Fifth Five Year Plan and the SIP of 1977.

The Industrial Policy Resolution of 1948

The IPR of 1948 indicated the government's approach to the problem of cottage and small-scale industries. The idea set forth in the IPR of 1948 was not formulated after detailed discussion and examination, especially in comparison with other parts of the policy such as the paramount role of the state in industrialization. It seems reasonable that the part was included in order to show that rural industrialization and rural development were not being neglected in the policy statement. But even though it was vague and untested, it was this statement which set the basic orientation for the future policy on cottage and small-scale industries and which gave birth to future confusion and contradiction.

What caused confusion and contradiction for future policy was that from the beginning the policy for small-scale industries was intended to be closely related to rural and backward area development, and the responsibility for creating job opportunities was entrusted to small-scale and rural industries. Problems arose later when the policy had to deal with matters such as diversification, expansion, and modernization, or the choice of appropriate technology in small-scale industries. Deliberation always had to be given to whether the change would cause any negative effect on the creation of job opportunities, dispersal of industries to the rural areas, and the development of backward areas. On quite a few occasions those binding conditions proved to be harmful to the development of small-scale industries especially those using modern technology and less labor force. The government was not successful in making a comprehensive promotional policy for those industries.

The IPR of 1948 states that "cottage and small-scale industries have a very important role in the national economy, offering the opportunities for individual, village or co-operative enterprise, and means of rehabilitation for displaced persons." These industries such as certain types of essential consumer goods, like food, clothing, and agricultural implements were regarded as particularly suited for the better utilization of local resources and for the achievement of local self-sufficiency. Thus, what was envisaged in the IPR of 1948 was to develop the rural economy by promoting "cottage and small-scale industries" using local materials and resources and producing local consumer goods.

The IPR of 1948 also stated that the healthy expansion of cottage and small-scale industries depended upon a number of factors such as the provision of raw materials, cheap power, technical advice, organized marketing of produces, education of the worker in the use of best available technique, and, where necessary, safeguards against intensive competition from large-scale manufactures. These factors were stated as being crucial for the healthy expansion of cottage and small-scale industries, but in fact, they were equally crucial for other industries, except for the statement related to the safeguarding against the large-scale sector. On this point also, the policy failed to elaborate the problems this sector had to face. The idea of safeguarding cottage and small-scale industries was subsequently to develop as the protective-promotional policy for cottage and small-scale industries.

The IPR of 1948 did not specifically mention anything about industrial development in backward areas, but suggested in its discussion of promotional measures for cottage and small-scale industries that an investigation should be made into how far highly centralized industries could be decentralized with advantage. This was a starting idea which developed later as one of the characteristic strategies for "balanced regional development." These strategies depended mainly on protective-promotional measures for cottage and small-scale industries especially in the industrially backward areas.

The IPR of 1948 did not go into matters like the definition of cottage and small-scale industries or their role in the economy as a whole, but only stated that the central government would investigate how far and in what manner these industries could be coordinated and integrated with large-scale industries. The matters were left for future examination.

The IPR of 1948 proposed the setting up of machinery to foster cottage and small-scale industries and also a Cottage and Small Scale Industries Directorate within the Directorate General of Industries and Supplies. The IPR of 1948 also made it clear that most of the measures to be taken to promote this sector should fall in the provincial (state) sphere, thus giving the primary responsibility for promoting these industries to the provincial (state) governments. This part of the policy was retained, while the medium and large-scale industries came under the central government jurisdiction.

Finally, another important aspect of the IPR of 1948 was its categorization of industries. The cottage and small-scale industries were put into one category and were discussed together. This categorization has been maintained to the present without any major change. There have been a few exceptions where cottage industries and small-scale industries were dealt with separately. One of these was the First Five Year Plan (1951–56) where cottage industries and small-scale industries were dealt separately.[3] The inconsistency in the categorization of industries was not due to any intentional policy of definition, as the policy for these industries has not been a main concern for policymakers for a long time, and had not been intensely discussed.

The First Five Year Plan

The First Five Year Plan (1951–56) displayed a similar vague and undefined attitude toward cottage and small-scale industries as was seen in the IPR of 1948. Although the plan does not seem to have put much importance on the development of these industries, it had separate chapters for "Rural Cottage Industries" (Chapter 6) and "Small-Scale Industries" (Chapter 12), as well as a chapter for "Programme of Industrial Development" (Chapter 11), which made this plan unique from the other plans. The Third and Fourth Five Year Plans had chapters on "Village and Small Industries."

The First Five Year Plan drew a comparatively clear line between cottage industries and small-scale industries. The plan expected cottage industries to play a central role in the rural development program to help cope with the large population of unemployed and underemployed in rural areas.[4] The First Five Year Plan was based on the traditional view of cottage industries as made up of traditional artisans, and because of this, the line drawn between cottage industries and small-scale industries could be kept clear.

The plan mentioned the relation between cottage industries and other industries, but reference was limited only to certain industries where cottage industries and large-scale industries or mill sectors were producing the same products. For those industries, the plan proposed common production programs for cottage industries and for large-scale industries.[5] What the plan envisaged was quite unique. It was a kind of production sharing among different categories of industries. The basic idea behind this was that cottage industries could ensure maximum rural employment. The plan suggested steps which included licensing of industrial enterprises and, in certain cases, a policy of nonexpansion of existing capacity, with the targets set for cottage, small-scale, and large-scale industries in common production programs.[6]

Though the idea was not fully accepted for any industry, some steps were taken to ensure the programs mentioned above. Even before the commencement of the First Five Year Plan, in April 1950, the government issued a notification prohibiting the cotton mill industry from producing certain types of cloth such as *dhoties* (loin cloths) of certain width and with certain borders, sarees, and *lungis* (loin cloths), and reserving their production for the handloom industry.[7] Subsequently, several other measures were taken in order to protect and assist the handloom industry. The government also began to examine the formulation of a common production program between the different sectors of the textile industry. Similar protective steps were tried for the match industry and leather, footwear, and tanning industries.

The common production programs were subsequently discussed by the Village and Small Scale Industries (Second Five Year Plan) Committee, known as the Karve Committee after the name of its chairman. The committee made recommendations in 1955. The report of the committee will be taken up in the following section.

The First Five Year Plan gave a clear definition of small-scale industries although it seems to be too simplistic. The plan said that small-scale industries were distinguished from large-scale or medium-sized industries by size, capital resources, and the labor force of the individual enterprise, and also from cottage industries which were generally associated with agriculture and providing subsidiary employment in rural areas. It further said that small-scale industries could be distinguished from cottage industries in the sense that the former, mainly located in urban centers, produced goods with partially or wholly mechanized equipment employing outside labor, while the latter involved operations mostly by hand and were carried on primarily with the help of family members.[8]

The plan tried to sort out the problems of small-scale industries in relation to large-scale industries, suggesting protective-promotional measures for the former. It was during the First Five Year Plan that the decision was made to discourage large-scale industries from producing a number of goods including furniture, sports goods, slates and pencils, *bidis* (local leaf-wrap cigarettes), writing inks, chalks and crayons, and candles. Those products were to be reserved for the smalls-scale sector.[9]

Finally, regarding organization, during the First Five Year Plan period, six all India boards were established or reconstituted for the planned development of village and small-scale industries. The All India Handloom Board and the All India Handicrafts Board were constituted in October and November 1952 respectively. The All India Khadi and Village Industries Board was set up in February 1953. The Small Scale Industries Board was constituted in November 1954 to coordinate the activities of the regional Institutes for Small Scale Industries and Small Industries Corporations. The Central Silk Board which had been functioning since 1949 was reconstituted in April 1952, and a statutory Coir Board was set up in July 1954. The activities of these six boards taken together were meant to cover the entire field of village and small-scale industries.[10]

The Village and Small Scale Industries Committee

In June 1955, shortly before the commencement of the Second Five Year Plan (1956–61), a Village and Small Scale Industries Committee was established to draw up an industry-wide, and wherever possible a state-wide scheme for the purpose of developing village and small-scale industries.

The main work entrusted to the committee was that of preparing allocations of resources required in the Second Five Year Plan by different administrations and industries to achieve objectives and targets set in the village and small-scale industries. In making its proposals, the committee kept three principal aims in view:

1. to avoid as far as possible, during the period of the second plan, further technological unemployment in the traditional village industries;
2. to increase employment as much as possible during the plan period in the various village and small-scale industries; and
3. to provide the basis for the structure of an essentially decentralized society and also for progressive economic development at a fairly rapid rate.[11]

The committee was required to frame its scheme with special reference to the following objectives:

1. that the bulk of the increased production of consumer goods during the plan period be provided by village and small-scale industries;
2. that employment provided by these industries be progressively increased; and
3. that production and marketing in these industries be organized mainly on co-operative lines.[12]

The committee tried to define the role to be played by the village and small-scale industries sector in the national economy, but a broad consensus on the expected role of the sector had already been established. The scheme which the committee tried to build up was encumbered by two contributory aspects to the national economy. These were the production of consumer goods and the expansion of employment opportunity, both of which became the essential elements of village and small-scale industry in the later period and were considered highly important in policymaking. Another important aspect was the categorization of combined village and small-scale industries into one industrial sector. It often put obstacles in the way of making diversified policies toward various industrial subsectors, and made it difficult for a long time to evolve a comprehensive policy approach.

Decentralization was also discussed. On this, the committee simply proposed that decentralization could be achieved by small enterprises widely scattered or dispersed throughout the country.[13]

Following the terms of reference, the committee made up development programs for certain consumer goods produced by village and small-scale industries. They were cotton cloth, woolen goods, handpounded rice, vegetable oils, *gur*[14] and *khandsari*,[15] leather footwear, and matches. It also suggested a program for small-scale industries and allocation of resources for them, but because of the heterogeneous character of this sector, it was unable to formulate a similar type of program for industries other than those mentioned above. The committee could only suggest that duplication of effort and waste of resources should be avoided.

On the matter of organization, the committee expressed the view that the existence of the six boards, mentioned earlier, was helpful, although it admitted that there were some clear areas of overlapping and lacunas. What was suggested by the committee was, at least for some time to come, to put the six boards under one ministry which should be an independent ministry dealing with small-scale and village industries. On this, there was a counterproposal published in the report which said that in order to ensure a common approach and effective coordination between the large-scale and small-scale sectors, it was essential from the beginning for both sectors to be the responsibility of the same ministry.[16] But the idea favoring the combining of the small-scale sector with large-scale sector could not get the support of the majority of the committee. After this, a clear line was drawn between the two sectors.

The Industrial Policy Resolution of 1956

Basically, the approach of the IPR of 1956 toward village, cottage, and small-scale industries was similar to that in the IPR of 1948. But the IPR of 1956 displayed an effort to elaborate the role of small industries including cottage and village industries and also tried to deal with the problem of economic backwardness by promoting these industries. The IPR of 1956, while stressing the role of cottage, village, and small-scale industries in the development of the national economy, pointed out three distinct advantages this sector had in contributing to the national economy. It claimed that the sector provided immediate large-scale employment. It offered a method for ensuring a more equitable distribution of national income, and it facilitated an effective mobilization of capital resources and skills which otherwise remained unutilized.[17] These three factors, which the IPR of 1956 put forward as important elements by which this industrial sector contributed to development, were thereafter repeatedly emphasized wherever the importance of this sector was discussed.

It is, however, important to note that the IPR of 1956 failed to mention anything about the actual implementation of the policy, such as how these factors could be successfully fulfilled, or how this sector could function in pursuit of the role determined in the policy. The lack of serious discussion and examination of the feasibility of the policy seems to have caused confusion in understanding the precise role of this sector.

The IPR of 1956 emphasized the need of regionally balanced industrial growth. It observed the lack of industries in different parts of the country and concluded that this was determined by factors such as the availability of necessary raw materials and natural resources. It then proposed that productive facilities be made available to areas which were lagging behind industrially or where there was greater need for providing opportunities for employment. The IPR of 1956 exhibited the government's strong belief that it could control not only resource diversification and material allocation but also marketing and the demand for the commodities. It proved to be a hard job for the government in later periods to disperse unwilling industries to backward areas where no sufficient industrial infrastructure was available. Rather than changing policy direction, the government chose the way of promoting industries in industrially backward areas and dispersing industries from industrial centers for the sake of "balanced regional development with social justice." This cost the government a great deal of expense in the form of various kind of financial and other incentives.

The IPR of 1956 supported a protective policy for the cottage, village, and small-scale sector by restricting the volume of production in the large-scale sector, by differential taxation, and by direct subsidies, although it stressed the necessity of improving the competitive strength of small-scale producers and their self-supporting capacity.

Another point was that the IPR of 1956 put cottage, village, and small-scale industries into one category to be treated and promoted collectively. The orientation set by the IPR of 1956 was so influential and definite that this categorization was never altered, and successive policies for this sector had to be formulated on it.[18] And even though it was occasionally felt that it would be more advantageous to treat each subsector independently or separately, no such approach was fully achieved. Moreover the IPR of 1956 did not pay much attention to the interrelation between large and medium-scale industries and small-scale industries. Nor did it try to identify areas where small-scale industries could contribute to the national economy positively and effectively, other than through increasing job opportunities and dispersing industries. The policy of segregating small industries from large and medium-scale industries seriously affected the balanced development of industries later on by creating hindrances to coordination between various sectors of industries and by distorting the whole system because of back door manipulation and intensifying discriminative-protective measures for small industries.

The Second and Third Five Year Plans

Since the Second Five Year Plan (1956–61) gave high priority to industrialization with particular emphasis on the development of basic and heavy industries following the development model composed by Mahalanobis, the aspect of increasing the supply of consumer goods tended to get less attention in the plan compared with the importance given to the basic and heavy industries. During the Second Five Year Plan period, the pattern of investment had shifted in favor of heavy industries, many of which were in the public sector. Plants for manufacturing steel, machinery, electrical equipment, and locomotives were established. During the later stages of the Second Five Year Plan, efforts were made to develop heavy chemical industries such as the fertilizer industry.

The production of consumer goods was entrusted to the cottage and small-scale industries sector. There was strong criticism of the Mahalanobis model on this matter. Voices were raised against the overdependence upon household and small-scale industries for consumer goods production and also claims that more emphasis should have been put on consumer goods production.[19]

The approach taken by the Second Five Year Plan failed to give any fully developed concept of the village and small-scale industries sector and instead produced a rather confused picture of the sector. This confusion arose from the approach which put cottage industries and small-scale industries together into one sector without specifying or differentiating the role and nature of these two industries. In some parts of the plan the sector was grouped with traditional rural industries, but in other places stress was put on developing the sector along new lines focusing more on modern small enterprises meeting diversified consumer demands.

Overemphasis on the ability to create job opportunities, which was nowhere in the part describing other industrial sectors in the Second Five Year Plan, was characteristic of the policy for cottage and small-scale industries. Apparently the stress was more on employment or fear of increasing unemployment rather than on increasing production when this sector was discussed. Little attention was paid to the relationship between the village and small-scale industries sector and the large and medium-scale industries, except the parts where the plan stressed that the former was given responsibility for producing consumer goods while the latter was expected to support development of core and heavy industries. Some measures were suggested in order to protect village and small-scale industries which had to deal with large and medium-scale industries as their suppliers of raw materials and also as consumers of their products.

The dispersal or diffusion of industries was another interesting point which was taken up along with the development of cottage and small-scale industries. Though the plan admitted that some of the small-scale industries were ancillaries to large industries and had to be located in urban or semi-urban areas, using machines, power, and modern techniques, it basically understood that the process of development of village and small-scale industries was from traditional village industries to small industries based on improved village industries.[20] The development policy for village and small-scale industries confined to a rural-oriented economy was many steps backwards even from the idea of the First Five Year Plan in which at least small-scale industries were given a progressive role.

The ideology of the time, which emphatically stressed social objectives, influenced the trend in policy. In the circumstances, it was natural that village and small industries were expected to contribute to the objectives since they were understood to be closer to the people and their effects were also expected to be directly enjoyed by the people.

Bhagwati and Chakravarty point out that the debate on the choice of appropriate technology grew out of the preoccupation of Gandhian ideology with the protection of traditional modes of production such as hand weaving and home spinning in the cotton textiles industry. This case was also discussed in the previous sections on the Karve Committee and the IPR of 1956. According to Bhagwati and Chakravarty, much of the debate on this issue occurred with the formulation of the Second Five Year Plan which was marked by its emphasis on the building up of the capital goods sector on the one hand while calling for the protection of traditional forms of production. They state critically that the second plan represented "a curious blend of Soviet and Gandhian economic philosophies—consistent with reputed Indian genius for reconciling the irreconcilables."[21]

The Third Five Year Plan (1961 – 66) emphasized balanced regional development by devoting a separate chapter to it, and aiming to extend the benefits of economic progress to the less developed regions.[22] But the plan was not clear about the precise manner that small industries could achieve their objectives or how they could fully utilize the growth potential of each region.

In some places the plan expected large-scale industries to make important contribution, but in other places it pointed out differences in regional factors and warned not to overestimate the significance of locating large industrial enterprises according to the living standard of the bulk of the population.[23] This precautionary assumption on the limited role of large-scale industries for balanced regional development was reflected in the development strategy which put importance on basic and heavy industries, leaving the development of other areas, such as consumer goods industries, to the village and small-scale sector.

It was expected that village and small-scale industries would spread all over the country, being provided various forms of assistance by the central and state governments. The third plan made a proposal for setting up "industrial development areas" in backward regions, providing basic facilities like power, water, and communications and also factory sites. This proposal was related to another proposal in the Fourth Five Year Plan (1966–71) in a modified form. This was the idea of setting up large projects as nuclei for regional growth. The original idea in the plan was that steel plants and other large industrial projects could provide the basis for the development of small and medium-scale industries in the regions, thus contribute to balanced regional development if they were located in less developed areas.[24] But later this idea was modified because it turned out to be impractical except for a few cases. Thereafter instead of promoting large projects, the idea of promoting small-scale industries in backward areas started to attract more attention from the planners. It was realized that although some village industries were located in rural areas, the substantial development of small-scale industries was by and large in or near the cities and larger towns. So the plan suggested first to identify the areas in which various basic facilities such as electricity, large supplies of agricultural raw materials, and improved means of transport were available, and then to provide various kinds of assistance such as training facilities, credit, technical advice, tools and machines, in an integrated manner to those who wanted to set up industries in rural areas and small towns.[25]

This idea began the evolution of the protective policy toward small-scale industries. All the policies toward small-scale industries issued in later years were basically formulated upon the idea set forth above in the Third Five Year Plan.

The Pande Working Group and Wanchoo Working Group

The Fourth Five Year Plan (1966–71) should originally have commenced in 1966 on the expiration of the Third Five Year Plan (1961–66). But the finalization of the plan was delayed because of various difficulties including the war in 1965, the steep fall in agricultural production between 1965 and 1967 because of unfavorable weather conditions, and the devaluation of rupee in June 1966. The Planning Commission was reorganized in September 1967. Finally, the Fourth Five Year Plan (1969–74) started in 1969.

During the period between the end of the Third Five Year Plan and the commencement of the Fourth Five Year Plan, there were some moves concerning regional development.

The committee of National Development Council in its meeting held in September 1968 decided to set up two working groups, one for suggesting steps to identify industrially backward areas and the other for recommending fiscal and financial incentives for the promotion of industries in backward areas. These were set up by the Planning Commission in November 1968. They were the Working Group on Identification of Backward Areas (Chairman, B.D. Pande) commonly known as the Pande Working Group, and the Working Group on Fiscal and Financial Incentives for Starting Industries in Backward Areas (Chairman, N.N. Wanchoo) known as the Wanchoo Working Group. The Pande Working Group submitted its report in February 1969 and the Wanchoo Working Group in April 1969.[26] The recommendations of the two working groups were discussed by the National Development Council in September 1969 and the criteria for identifying industrially backward districts was finalized by the Planning Commission. The following is a brief explanation of the Pande Working Group and the Wanchoo Working Group.

The Pande Working Group

The Pande Working Group was asked to recommend criteria for identifying backward regions which would qualify for special treatment and incentives for industries to be set up in such regions. It made the following recommendations on criteria to identify industrially backward areas:

1. total per capita income,
2. per capita income from industry and mining,
3. number of workers in registered factories,
4. per capita annual consumption of electricity,
5. length of surfaced road in relation to
   (a) the population, and
   (b) the area of the state,
6. railway mileage in relation to
   (a) the population, and
   (b) the area of the state.[27]

Based on these criteria, the Pande Working Group identified industrially backward states and union territories which should be considered for special treatment to promote industrial development.[28]

The Pande Working Group expressed the opinion that each industrially backward state and union territory should identify three to six backward districts and that a total of about twenty to thirty districts should be selected for special incentives during the fourth plan period. The working group was cautious about the number of districts to be selected as backward districts out of fear that progress would be slow in these states which took up a larger number of areas under the industrial development area scheme.[29] But this warning was ignored in the process of selection.

The Wanchoo Working Group

The terms of reference of the Wanchoo Working Group were concerned with the fiscal and financial incentives for starting industries in backward areas.[30] It recommended the following fiscal incentives for attracting entrepreneurs to set up industries in the selected backward areas:

1. granting higher development rebates to industries located in backward areas;
2. granting exemption from income tax, including corporate tax, for five years after providing for development rebates;
3. exemption from the payment of import duties on plant and machinery and components imported by enterprises set up in backward areas;
4. exemption from excise duties for a period of five years;
5. exemption from sales tax, on both raw materials and finished products, to enterprises set up in specified backward areas for a period of five years from the date of their going into production; and
6. transport subsidies for the finished products for a period of five years.[31]

The Wanchoo Working Group made recommendations on disincentives to avoid concentration of industries in industrialized areas. It suggested that no licenses should be issued for establishment of new industrial enterprises in industrialized areas in certain cities, and that no licenses should be issued for substantial expansion of existing industrial enterprises in congested areas of those cities. The working group proposed even some extreme suggestion like denying power or charging punitive water and power tariffs for such expansion, hoping industries would move out of the congested areas.[32]

The Planning Commission's Guideline and the National Development Council's Decision

The recommendations of the two working groups were examined by the National Development Council in September 1969. Following its decision that the criteria for selection of industrially backward districts in states and union territories should be settled by the Planning Commission in consultation with the state governments, the Planning Commission finalized the criteria. The criteria presented to the states for adoption in December 1969 were:

1. per capita foodgrains/commercial crops production,
2. ratio to population of agricultural workers,
3. per capita industrial output (gross),
4. number of factory employees per 100,000 of population,
5. per capita consumption of electricity, and
6. length of surfaced roads in relation to population or railway mileage in relation to population.[33]

The six criteria laid down by the Planning Commission were by and large adopted by the states, but inadequacy of the criteria was felt in many quarters. The states liked to put more districts than those laid down by the criteria. It was against the instructions of the Planning Commission that only those districts with indices well below the state average should be selected and eligible for concessional finance. Most of the states selected all districts and areas with indices below state averages, and some states even selected districts with above state averages. While adopting the above criteria for selection of backward districts, some state governments went further and made modifications based on their judgment of local circumstances.[34]

State government proposals for identification of backward districts along with the statistical data were then considered. On the basis of the data as well as the above criteria, out of the total of 345 districts, 246 districts or 71 per cent of the total districts in the country were declared as industrially backward. Out of these, 125 districts were made eligible for central capital subsidies.

Another decision which was taken by the National Development Council in September 1969 was on a package of incentives to be offered for promotion of industries in the industrially backward districts. The incentives were:

1. concessional finance facilities from all India term lending institutions,
2. central investment subsidies,
3. central transport subsidies,
4. hire purchase of machinery, and
5. income tax relief.[35]

A brief explanation of the above incentives is given below.

1. *Concessional finance*

In the 246 industrially backward districts, for all new industrial enterprises and existing enterprises having expansion schemes, concessional finance was extended by all India term lending financial institutions, i.e., the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), and the Industrial Credit and Investment Corporation of India (ICICI). The concessions were by way of lower interest rates, increased periods of moratorium up to five years and longer amortization of fifteen to twenty years. The other related facilities included reduced commitment charges, lower underwriting commissions for shares and debentures and participation in risk capital. Concessional financing for industrially backward districts was available to small-scale enterprises mainly through the IDBI refinance facilities, while for the large and medium-scale enterprises the all India term lending institutions extended direct loans and underwriting facilities.

2. *Central investment subsidies*

Out of the 246 districts identified as industrially backward districts eligible for concessional finance, 102 districts were selected for the Central Investment Subsidy Scheme which was put into operation on October 1, 1971.[36] Under this scheme, an industrial enterprise whose project cost was less than 5 million rupees in a selected backward district was eligible for an outright subsidy grant equivalent to 10 per cent of the fixed capital investment both for initial investment and for expansion subject to a ceiling of 500,000 rupees. For this purpose, two districts from each state identified as industrially backward[37] and one district from each of the other states and union territories were selected. Apparently the government did not accept the recommendations of the Pande Working Group which suggested selecting only twenty to thirty districts in the industrially backward states and union territories for special incentives. Subsequently, the coverage was expanded in the middle of 1972. The number of districts was increased from two to six districts from each of the industrially backward states and from one to three districts from each of other states and union territories. This caused efforts to be spread too thinly over too large an area. There was criticism that it was not possible to promote any significant industrialization in districts which lacked urban and other infrastructure.[38]

The scheme was revised on March 1, 1973. The investment subsidy was increased from 10 per cent to 15 per cent of fixed capital investment for new projects or expansion program coming up on or after March 1, 1973 with the maximum amount of subsidy being raised from 500,000 rupees to 1.5 million rupees. The maximum amount of fixed capital investment eligible for subsidy was also increased from 5 million rupees to 10 million rupees, but projects with fixed capital investment of over 10 million rupees had to be considered for subsidy grants of up to 1.5 million rupees on a selective base.

3. *Central transport subsidies*

This scheme started in July 1971. Transport subsidies were granted up to 50 per cent of transport costs for raw materials/finished products between the selected railheads and the locations of the industrial enterprises in specified states/areas. In practice, this subsidy failed to have any impact.

4. *Hire purchase of machinery*

Small-scale industrial enterprises located in backward areas eligible for central investment subsidies were given facilities to procure machinery on hire purchase basis from the National Small Scale Industries Corporation. These enterprises were also given preferential treatment for the import of machinery, raw materials, and components.

5. *Income tax relief*

New industrial projects located in specified backward districts/areas were allowed a deduction of 20 per cent on profits for computation of assessable income. This took effect from April 1, 1974. This concession was available to enterprises which commenced operations on or after December 31, 1970 for a period of ten years.

6. *Other concessions*

Besides the concessions listed above, many state governments started to provide a number of other concessions and incentives for development of industries in their respective states. However, their range and coverage differed widely from state to state and within the state from area to area. Moreover, while listing these facilities and incentives for each state, there were overlappings, omissions, and repetitions observed. These incentives and facilities can be broadly classified under three groups, (1) financial, (2) fiscal, and (3) others which included store purchase facilities, price preferences, quality control, marketing assistance, raw material depots, and service centers.

Financial concessions and incentives to private enterprises to locate in backward areas had some effect in places which had access to such factors as markets, a skilled labor force, materials, and infrastructure. For those backward areas with preferable conditions, there was often a rush to establish new firms while quite a few other backward areas were ignored due to the lack of basic industrial facilities.

The Fourth and Fifth Five Year Plans

The Fourth Five Year Plan should have started in 1966, but was abandoned. After three years, in 1969 a new five-year plan for 1969–74 started. It would be worthwhile to briefly note some of the interesting points of the discarded draft of the first Fourth Five Year Plan (1966–71) (referred to hereafter as the Fourth Five Year Plan—I)[39] in order to understand the change in policy.

One of the interesting points in the first plan is that it mentioned very little about the development of backward regions and the dispersal of industries. Only one paragraph was spared for these objectives in the chapter for industries and minerals which stated that the industrial program for the plan had to keep in view the objectives of developing backward regions and the dispersal of industries with due regard for technical and economic considerations. The specific measures required to promote these objectives were to be considered.[40]

Another interesting point about the Fourth Five Year Plan—I was the idea for "nuclei of regional growth." This was referred to in the chapter on village and small industries. A phased strategy concerning village and small-scale industries was confirmed for regional development. A similar idea had been set forth in the third plan. After citing "common production programmes," which has been explained above, the Fourth Five Year Plan—I stated that another important step for accelerating the program of rural industrialization and the development of agro-industries was to identify the "growth centres" in small towns and rural areas where basic facilities were available and to provide, in an integrated manner, the necessary assistance for credit, technical advice, and service facilities. These growth centers were expected to serve as models or nuclei for more widespread development.[41]

Against this, the Fourth Five Year Plan (1969–74) (to be referred to as the

Fourth Five Year Plan—II)[42] came forward with a more comprehensive strategy on regional development backed by the policy arrangement based on the reports of the working groups. The Fourth Five Year Plan—II was released in July 197C, one year after the commencement of the plan.

The plan had various interesting points reflecting the crucial political and social conditions at that time. As the delay of the commencement of the plan implies, the government led by Indira Gandhi had a difficult struggle for its political survival during and after the split in the ruling Congress Party in 1969. The economy was in extremely bad shape. During the three years of annual plans (1966/67, 1967/68, and 1968/69) after the lapse in five-year plans in 1966, the economy did not show any sign of improvement. The annual growth rate of net national product at 1960/61 prices was only 0.9 per cent in 1966/67 after a negative growth rate of −5.6 per cent in 1965/66. In 1966/67 bad weather affected agricultural production which had a growth rate −0.9 per cent, although this was better than the −17.1 per cent of the previous year. In 1967/68 there was a recovery in foodgrain production, but industrial production deteriorated. In 1968/69 there was again a decrease in foodgrain production by 1.1 per cent. Meanwhile during the whole three-year period there was continuous upward pressure on prices.[43]

On the political front, after the Congress Party's crucial victory in the 1967 general elections, a political crisis started to surface. Then in 1969, after hard negotiation and struggle, Prime Minister Indira Gandhi finally split the ruling party at the end of the year for her own political survival. To face the political crisis, the Gandhi government was forced to remake its economic policy to consolidate its position. Many of the policy measures adopted by the government in the subsequent years were based on this survival strategy. In the struggle for power to control the party, Indira Gandhi chose to appeal directly to the poor masses and get their support by advancing progressive steps for their benefit.

Against this background, it was natural that the steps taken by the government were of a progressive character. Some of the remarkable steps were the nationalization of fourteen commercial banks in July 1969, and the enactment of the MRTPA in June 1970. At the same time, the government made a substantial change in industrial policy by modifying the licensing policy in numerous ways which were discussed in the previous chapter. From the strategic point of view, the Fourth Five Year Plan—I became insufficient for Gandhi's purpose, and it lacked a policy appeal. The intention of the government was fully reflected in the Fourth Five Year Plan—II.

The Fourth Five Year Plan—II stated that the most notable lesson of the time was that the current tempo of economic activity was insufficient to provide productive employment to all, extend the base of social services, and bring about significant improvement in the living standard of the people.[44] Based on this analysis, the fourth plan—II was inclined strongly toward dealing with unemployment problems and other social issues.

On industry, the fourth plan—II took into account three major considerations in determining the approach for accelerating development. The first consideration was on the need to achieve speedy self-reliance. The second was on dispersed industrial development in order to expand non-farm employment throughout the country. The third was on the avoidance of technological unemployment among workers in traditional industries under the impact of capital-intensive modern technology.[45] In order to achieve these aims, the plan emphasized the necessity to provide a combination of incentives and disincentives, measures of protection, and concessions.[46]

As explained earlier, it was during the Fourth Five Year Plan—II that a conscious policy for the dispersal of industries was worked out for the first time and put in effect. In order to resist the natural tendency of new enterprises and investment to concentrate in already developed areas endowed with economic and social infrastructure, the policy had to arm itself with a lot of incentives, assistance, and facilities which continued to expand as time went on.

It was also during this time that a new line of ancillary enterprise development was evolved. Large enterprises both in the public and private sectors were to be encouraged to procure their requirements of parts and components to the maximum possible extent from small-scale ancillary enterprises. The industrial licensing mechanism was increasingly used to foster the growth of ancillary enterprises.

Usually in the earlier phase of development a question has to be answered as to whether it is better to concentrate on more favorably situated areas and thus securing quicker and larger returns from investment, or to aim for more equal development of the country through greater attention to less advanced areas. In India this was not discussed adequately. There was no effort shown to search for methods other than the dispersal of modern industries to stimulate the economy in rural areas. On this Harris is right in criticizing the policy when he says that it is not always necessary to have industry to stimulate local incomes, and where maximum output is a high priority, the loss of output in decentralization through higher costs ultimately is a loss to backward districts; it denies the stream of resources with which to improve local conditions. Harris further argues that there are greater dangers coming simply from the loss of potential output and jobs, and he comes to the conclusion that the poorer a country the more urgent the need for concentration and centralization of resources to overcome poverty.[47] But political pressure and strategic necessity did not allow the government to consider such reasoning. The policy pursued during the fourth plan shows that the government was in no position to choose the economically preferable way but had to choose the way that offered the appeal of more equal development and which emphasized the social and regional aspects.

The government took serious note of underdevelopment and regional imbalances, because imbalances provided many opportunities for social frustration and discontent in backward areas. So the government was determined to take steps in an effort to reduce regional disparities. The position adopted in the Fourth Five Year Plan—II was that, though the development of backward areas in the different states was essentially the responsibility of state governments, the central government also needed to take measures to deal with particular problems in certain backward areas.[48] This was an apparent move to strengthen the central government's intervention into state government affairs. This phenomenon which was characteristic of Indira Gandhi's government during this period could be observed not only in economic affairs but also in political and administrative affairs.

The policy was further intensified in the Fifth Five Year Plan (1974 – 79) which proclaimed that the removal of poverty and the achievement of self-reliance were the two major objectives to be accomplished.[49] Among these two objectives, the removal of poverty was given the highest priority. It should be remembered that it was during the Fifth Five Year Plan that the highly social- and welfare-oriented National Programme for Minimum Needs was put into effect. In this context, the government went further in the fifth plan from where it had been in the fourth plan—II. Even at the stage of preparing the plan, it was strongly expressed that what was important was not only a high growth rate but also a particular composition of growth, and it was essential to attach high priority to the development of backward regions and classes.[50] The unemployment problem became one of the focal points of discussion related to the task of removing poverty. The question of how to create additional employment drew attention to spheres such as the village and small industries, road transport, retail trade, service occupations, and so on. These sectors were regarded as important for ensuring employment.[51]

The fifth plan displayed a new approach toward regional and backward area development. The plan stated that the problem of backward areas, being essentially a problem of area development, called for an area approach.[52] The plan analyzed the reason for the failure in the previous plans and concluded that the main constraints to industrial development of backward regions were because the strategy for the development of these areas had not been completely mapped out in terms of the inherent problems which were accountable for industrial backwardness, and the organizational arrangements necessary to spearhead and support the industrial development program in backward areas both at the center and in the states were inadequate.[53]

The area approach implied a departure from the previous idea that the development of backward areas could be realized through the improvement of infrastructure facilities, government assistance, and establishment of big projects in the backward areas. Though it was stated that the scheme for concessional finance and subsidies and other efforts initiated in the fourth plan should be continued, the fifth plan proposed that for rapid industrial growth in the backward areas, an integrated area approach was necessary. In the integrated area approach, emphasis was put on the development of village and small-scale industries. Backward areas were identified for the purpose of formulating an integrated development program of which the National Programme for Minimum Needs was the main component. The plan also stressed the importance of developing backward areas. One chapter was devoted to backward areas (Chapter 14) which proposed a comprehensive area development which was not solely confined to industrial development. Actually, the chapter for backward areas had hardly anything to do with the industrialization of backward areas.

The core idea of developing backward areas was to create job opportunities, but the crucial question of how to create new job opportunities which could yield sufficient income was not directly answered in the plan. The plan only proposes the following strategy for handicrafts and village and small-scale industries:

1. develop and promote entrepreneurship and provide a "package of consultancy services" so as to generate maximum opportunities for employment, particularly self-employment,
2. facilitate fuller utilization of the skills and equipment of the persons already engaged in different small industries,
3. progressively improve the production techniques of these industries so as to bring them to a viable level, and
4. promote the industries in selected "growth centres" in semi-urban and rural areas including backward areas.[54]

Measures proposed for achieving the objectives consisted of protection, encouragement, and reservation for the small-scale sector, adequate availability of credit and raw materials, provision for "seed" capital and "margin" money, technical assistance, special promotional steps for traditional and small industries like handlooms, handicrafts, and sericulture, etc. The production of specific items were reserved for the small-scale sector. Expansion of capacity in some large industries which carried on oilseeds crushing, manufactured leather good, match, and so on was restricted by industrial licenses. Other measures such as imposition of differential excise duties, rebate grants on sales of the products of a few small industries, and reservation of a number of items to be purchased by the Directorate General of Supplies and Disposals (DGS & D) exclusively for the small sector were also adopted in order to protect, support, and promote small-scale industries during the plan period.[55] Development of 124 industries was already reserved for the small-scale sector.[56] Subsequently the number of items reserved for the small-scale sector was expanded to 180. The list of reserved industries for the small-scale sector was further widened to 500 in the Statement on Industrial Policy issued in December 1977 which will be discussed in the following section.

It was during the Fourth and the Fifth Five Year Plan periods that the basic machinery and structure to execute the program for village and small-scale industries were consolidated. The main purpose was to develop backward areas, to disperse industries out of areas of concentration, to provide and spread job opportunities. Though the idea to promote those industries for the purposes mentioned above was evolved in the previous plans, it was during the Fifth Five Year Plan that the idea developed into a concrete policy structure and system by arranging the machinery and agencies for the purpose.

An important point about the program which needs to be kept in mind was that nearly the entire policy toward village and small-scale industries was conditioned by the political ideology or slogan at the time, viz., "removal of poverty." Village and small-scale industries were made to serve the purpose, mainly because of the comparatively decentralized character of the sector. This was not the case for large and medium-scale industries. The government's commitment to the removal of poverty placed the direct responsibility to provide job opportunities, raising income levels, and developing backward areas on the village and small-scale industries, and the facilities were arranged for the purpose.

The Fifth Five Year Plan came to an abrupt end with the fall of the Gandhi government in March 1977. The Janata government which succeeded the Gandhi government issued its Statement on Industrial Policy in December 1977 which showed an even stronger preference for cottage and small-scale industries. While the Fourth and the Fifth Five Year Plans and the policy of the Gandhi government took a realistic approach toward industrial development with the relaxation of restriction on the activities of large and medium-scale industries and the introduction of a number of promotional steps which were discussed in the previous chapter, the industrial policy of the Janata government lacks a realistic balance. In the new government's policy, the focus shifted wholly to village and small-scale industries. It claimed that to assist village and small-scale industries meant to attain "social justice."

A strong argument can be made that in the 1970s, especially in the latter half of the 1970s under the Gandhi and Janata governments, the policy toward small-scale industries and regional development was firmly consolidated and, within the system, started to grow its own mechanism which for the most part was formulated separately from the policies for other industrial areas. In the following section, I am going to look into the Statement on Industrial Policy of 1977, which has a unique position in the history of industrial policy in India.

The Statement on Industrial Policy of 1977

The importance of the Statement on Industrial Policy (the SIP of 1977),[57] issued by the Janata Party government in December 1977, was its attitude toward cottage and small-scale industries. These industries occupied the greater part of the policy.

The SIP of 1977 was not actually implemented because of the short life of the Janata government. But this does not mean that the SIP of 1977 became an accumulation of forgotten policy documents. Because it tried to rearrange the whole industrial structure for the benefit of cottage and small-scale industries and was so overwhelmingly in favor of promoting and facilitating those industries, it became difficult for the succeeding Congress government to reverse any part of it without fearing negative reactions within those industries. At the same time it was in the interest of the new Congress government to maintain the overprotective promotional policy toward cottage and small-scale industries in the name of the social good or common interest. Due to the rapidly changing general economic situation, the new Gandhi government was forced to adopt an economic liberalization policy which could be unpopular as it was fundamentally pro-big industries, pro-urban, and pro-rich. The Congress government found it quite appropriate to keep the essence of the SIP of 1977 which gave the government the aura of being pro-poor, pro-backward area, and pro-underpriviledged. But before looking into the problems of the 1980s, the SIP of 1977 will be reviewed first.

The SIP of 1977 did not reject the IPR of 1956. It accepted the validity of the IPR of 1956 in regard to the desirable pattern of industrial development, but showed dissatisfaction with the results of actual policies. Low growth of per capita national income during the previous decade, increasing unemployment, widening rural-urban disparities, a stagnant rate of real investment, low growth of industrial output, widespread industrial "sickness" or indebtedness,[58] distortion in the pattern of industrial costs and prices, and the very slow pace of dispersal of industrial activity away from the larger urban concentrations were listed up as the distortions of the past.[59]

Among the things lacking in the SIP of 1977 were logical explanations for the reason and cause of distortions and the steps to be taken to reverse the trend. The SIP of 1977 neither suggested how distortions should be removed, nor proposes any comprehensive program covering industry as a whole. Instead it highlighted the importance of close interaction between the agricultural and industrial sectors and concluded that by reinforcing the interaction of these two sectors, employment could be found for the large rural population which could not be absorbed into the agricultural sector alone.[60]

It was apparent that the government's main concern was directed at the agricultural sector and rural unemployment. But the SIP of 1977 failed to find a way that industry could contribute to the agricultural and rural sectors. Because of its major deficiencies, the SIP of 1977 can at best be understood as a policy approach toward small-scale and cottage industries with the main concern being on agricultural development. It cannot be taken as a comprehensive industrial policy statement, and for this reason the SIP of 1977 could not be the Janata government's policy alternative to the previous government's policies.

The SIP of 1977 stated that the emphasis of industrial policy in the past had been mainly on large industries to the neglect of cottage and small industries and that this approach had to be changed toward the promotion of cottage and small industries in rural areas and small towns. The SIP first dealt with policy for small-scale industries, then dealt to a lesser degree with other matters such as large-scale industries, the public sector, and foreign investment.

The SIP of 1977 declared that whatever could be produced by small and cottage industries was to be produced only by these industries, and the list of industries to be exclusively reserved for the small-scale sector was expanded to more than 500 compared to about 180 previously.[61] Though the policy expressed some concern about overprotection for this sector, its main argument was for the continuous expansion of the list of reserved industries for the small-scale sector by identifying new products and new processes capable of being manufactured on a small scale. There was a fatal lack of understanding about the interrelated functioning between various industries. An industry cannot grow in isolation. It needs stimulations from other sectors to be more productive and profitable. Upgrading technology levels, adjusting itself to market trends, and trying new mode of production are imperative factors which can yield good result. Past experience in India had already proved that mere isolation and protection could not produce the desired effects. The idea of reserving more industries exclusively for the small-scale sector which had not always been capable of coping with rapidly changing industrial circumstances, could frequently cause more losses than gains.

The SIP of 1977 created a new sector called the "tiny sector" which was to get special attention. This sector was placed within the small-scale sector; it covered enterprises with investment in machinery and equipment up to 100,000 rupees and which were situated in villages and in towns with a population of less than 50,000 according to the 1971 census. A "margin money" assistance scheme was provided for enterprises in the tiny sector along with other cottage and household industries. For cottage and household industries, the policy suggested introducing special legislation for protecting their interests.

The policy proposed to set up a single agency in each district to deal with all requirements of small and village industries. The agency was named the District Industries Centre (DIC). The DIC was one of the things which originated with the Janata Party government and was carried over into the 1980s by the Congress government. The DIC was expected to provide, under a single roof, all the services and support required by small and village entrepreneurs, including economic investigation of the district's raw materials and other resources, supply of machinery and equipment, provision of raw materials, arrangements for credit facilities, marketing assistance, quality control support, and the like.[62]

Special financial and marketing assistance measures were proposed to promote cottage and small-scale industries. The Industries Development Bank of India was expected to set up a separate wing to deal exclusively with the credit requirements of the small-scale and cottage sectors. For marketing the goods of these sectors, the government promised support measures such as purchase preferences and reservation for exclusive purchase by government departments and public sector enterprises. The government also promised assistance with product standardization, quality control, and marketing surveys.[63]

After elaborating extensively on the small-scale and cottage sectors, the SIP of 1977 took up large-scale industries. This section exhibited not only the low priority put on large-scale industries, but also the government's strong bias toward small-scale and village industries and for agriculture. The opening sentence of this section clearly showed this with its comment that "in addition to small and village industries, there is also a clear role for large-scale industries in India."[64] The role of large-scale industry described in the policy was "related to the programme for meeting the basic minimum needs of the population through wider dispersal of small-scale and village industries and strengthening of the agricultural sector."[65] The SIP of 1977 defined the areas for large-scale industries as follows:

1. basic industries, such as steel, nonferrous metals, cement, oil refineries, which were essential for providing infrastructure as well as for development of small and village industries;
2. capital goods industries for meeting the machinery requirement of basic industries as well as small-scale industries;
3. high technology industries, such as fertilizers, pesticides, and petrochemicals, which required large-scale production and which were related to the development of agricultural and small-scale industries; and
4. other industries, such as machine tools, organic and inorganic chemicals, which were outside the list of reserved items for the small-scale sector and which were considered essential for the development of the economy.[66]

The policy supported restrictive measures toward large industrial groups. It stated that the expansion of existing enterprises and establishment of new enterprises would continue to be subject to the provisions of the MRTPA and also that the expansion of existing enterprises into new lines and establishment of new enterprises would require specific approval of the government. These showed the continuation of the past policies. There was a new suggestion in the policy which proposed restrictions on borrowing from public institutions and banks by large industrial groups. The policy suggested that large groups should rely on their own internally generated resources for financing new or expanded project and that the debt equity ratio should be fixed except for industries like fertilizers, paper, cement, shipping, and petrochemicals, which were relatively more capital-intensive.[67]

The location of industries was another important concern of the government. The SIP of 1977 declared the government's commitment to balanced regional development so that disparities in levels of development between different regions would be progressively reduced. It proposes that "no more licenses should be issued to new industrial units within certain limits of large metropolitan cities."[68]

On foreign investment and foreign companies the policy stated that the provisions of the Foreign Exchange Regulation Act (FERA) would be strictly enforced and companies with direct nonresident investment not exceeding 40 per cent would be treated on par with Indian companies. At the same time the policy accepted that there could be exceptions in highly export-oriented and/or sophisticated technology areas, and in 100 per cent export-oriented industries.[69] Reflecting the easing foreign exchange position, the part on import-export policy in the SIP of 1977 showed some relaxation such as selective removal of import quotas, quantitative restrictions, and compulsory obligations.[70]

The SIP of 1977 included pragmatic policies such as relaxing restrictions on imports and exports, dealing with "sick" or deficit industrial enterprises by paying attention to cost factors, and though it was discreet, the policy did not put extra regulative measures on large industrial enterprises and large industrial groups. On the other hand there were a serious inconsistencies between policies for different sectors and even within sectors. Contradictions existed between the proclaimed policy and the measures suggested. These inconsistencies and contradictions existed primarily because of the strong bias toward agriculture and rural, cottage, and small-scale industries. It was quite natural that the SIP of 1977 invited a lot of criticism because of its tilt toward cottage and small-scale industries and consequent subordination of other industrial sectors which were otherwise expected to lead industry as a whole. One of the crucial questions raised but not answered was whether the new policy would be able to help rural, cottage, and small-scale industries become efficient and profitable so that they could create more job opportunities and stimulate the local economy as was projected in the policy. Another crucial question was that in the absence of a market network and a system ensuring the free flow of technology, how would the change lead to an efficient industrial sector.

Notes

1 Government of India, Ministry of Industry, Statement on Industrial Policy, December 1977 (hereafter SIP of 1977).
2 Government of India, Statement on Industrial Policy, July 1980 (hereafter SIP of 1980).
3 Government of India, Planning Commission, *First Five Year Plan: A Draft Outline* (1951) (hereafter *First Five Year Plan*).
4 Ibid., p.113.
5 Government of India, Planning Commission, *Report of the Village and Small Scale Industries (Second Five Year Plan) Committee,* D.G. Karve, the Chairman (October 1955) (hereafter *Report of the Karve Committee*), p.6.
6 *First Five Year Plan,* pp.119–20.
7 *Report of the Karve Committee,* p.7.
8 *First Five Year Plan,* p.162.
9 *Report of the Karve Committee,* p.8.
10 Ibid., pp.5–6.

11 Government of India, Planning Commission, *Second Five Year Plan* (1956) (hereafter *Second Five Year Plan*), p.432.
12 *Report of the Karve Committee,* p.3.
13 Ibid., p.19.
14 Solidified and clarified cane juice which contains molasses.
15 Granulated and crystallized sugar.
16 *Report of the Karve Committee,* p.83.
17 IPR of 1956.
18 The ancillarization drive promoted by the government in the 1970s is one examples.
19 Hanson, p.133.
20 *Second Five Year Plan,* p.450.
21 Bhagwati and Chakravarty, *Contributions to Indian Economic Analysis: A Survey,* p.37. K.N. Raj's article pioneered the discussion on the issue of choosing appropriate technology. See K.N. Raj, "Small-Scale Industries: Problems of Technological Change (Parts 1 & 2)," *Economic Weekly,* Vol.8, No.14 and No.15 (April 7 and 14, 1956), pp.420–21, 435–38.
22 Government of India, Planning Commission, *Third Five Year Plan* (1961).
23 Ibid., p.143.
24 Ibid., pp.149–50.
25 Ibid., pp.434–35.
26 Government of India, Planning Commission, *Report of the Working Group on Identification of Backward Areas,* B.D. Pande, the Chairman (February 1969); and Government of India, Ministry of Industrial Development, *Report of the Working Group on Fiscal and Financial Incentives for Starting Industries in Backward Areas,* N.N. Wanchoo, the Chairman (April 1969). They are reprinted in *Summary Extracts of the Concessional Finance and the Incentives in Industrially Backward Area,* by Government of India, Planning Commission (1981) (hereafter *Summary Extracts 1981*).
27 *Summary Extracts 1981,* p.58.
28 Ibid., p.59.
29 Ibid.
30 Ibid.
31 Ibid., p.60.
32 Ibid.
33 Ibid., p.6.
34 Ibid.
35 Ibid., pp.24–25.
36 Notification, August 1, 1971.
37 The states identified as industrially backward were Andhra Pradesh, Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Nagaland, Orissa, Rajasthan, and Uttar Pradesh.
38 M.D. Godbole, *Industrial Dispersal Policies* (Bombay: Himalaya Publishing House, 1978), p.211.
39 Government of India, Planning Commission, *Fourth Five Year Plan: A Draft Outline* (1966) (hereafter *Fourth Five Year Plan—I*).
40 Ibid., p.255.
41 Ibid., p.241.

42 Government of India, Planning Commission, *Fourth Five Year Plan, 1969–74* (1970) (hereafter *Fourth Five Year Plan—II*).
43 *Economic Surveys* of 1965/66, 1966/67, 1967/68, and 1968/69.
44 *Fourth Five Year Plan—II,* p.13.
45 Ibid., p.303.
46 Ibid., pp.287–88.
47 Nigel Harris, "The Economic Crisis and Planning: Cities and Regions," in *Society and Change: Essays in Honour of Sachin Chaudhuri,* ed. K.S. Krishnaswamy et al. (Bombay: Oxford University Press, 1977), pp.142–43.
48 Government of India, Planning Commission, *Approach to the Fifth Plan, 1974–79* (January 1973) (hereafter *Approach to 1974–79*), p.55.
49 Government of India, Planning Commission, *Fifth Five Year Plan, 1974–79* (1976) (hereafter *Fifth Five Year Plan*), p.5.
50 *Approach to 1974–79,* p. 2.
51 Ibid., p.6.
52 Ibid., p.56.
53 Government of India, Planning Commission, *Draft Fifth Five Year Plan,* Vol.1 (1974) (hereafter *Draft Fifth Plan*), p.134.
54 Ibid., p.164.
55 T. Chellaswami, "Policy Relating to Small-Scale Sector," in *India's Economic Policies, 1947–1977,* ed. J.N. Mongia (New Delhi: Allied Publishers, 1980), p.227.
56 *Draft Fifth Plan,* p.162.
57 SIP of 1977.
58 There is no single definition for "sickness" or "sick unit." The definition by the Reserve Bank of India is taken into the Sick Industries Act of 1985. The Reserve Bank of India defined a sick unit as one which fails to generate an internal surplus on a continuous basis and depends for its survival on a frequent infusion of external funds. Other financial institutions also put the emphasis on excess dependency on external funds to identify a sick unit.
59 SIP of 1977, p.1.
60 Ibid.
61 Ibid., p.2.
62 Ibid., p.3.
63 Ibid.
64 Ibid., p.4.
65 Ibid.
66 Ibid., pp.4–5.
67 Ibid., p.5.
68 Ibid., pp.8–9.
69 Ibid., pp.6–7.
70 Ibid., pp.7–8.