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Industrial Development Policy at the State Level: A Case Study of Karnataka

Introduction

The population of Karnataka in 1981 was 37 million according to the official census. During the decade from 1971 to 1981, the population grew by 26.4 per cent which was the highest rate of decennial population growth in Karnataka since 1901 (Table 5-1). According to the 1981 census, the population density of Karnataka was 194 persons per square kilometer compared with 216 persons per square kilometer for India. Districts with a population density more than the state average were Bangalore, Belgaum, Dakshina Kannada, Hassan, Kolar, Mandya, and Mysore. About 71 per cent of the total state population lived in rural areas according to the 1981 census, but the share of urban population has been on the increase since the 1911 census when the percentage of urban population to total state population was 11.6 per cent. The literacy rate of the state was 38.5 per cent in 1981 against 36.2 per cent for the country as a whole.

Table 5-2 shows the change in the net national product at current prices, and Karnataka's net state domestic product and per capita income at current and constant prices for 1970/71 through 1986/87. The share of net state domestic product in the net national product shows a general downward trend since 1970/71 although there were some improvements in 1973/74 and 1979/80. It indicates the comparative downward shift of Karnataka's position in the national economy. At the same time, the Table 5-2 shows that economic growth during those sixteen years was not encouraging. The average annual growth rate of net state domestic product in the period from 1980/81 to 1986/87 dropped to 3.6 per cent from 3.9 per cent during the years from 1970/71 to 1979/80.

TABLE 5-1
DECENNIAL POPULATION GROWTH: 1901 TO 1981

Years	Population (1,000)	Decennial Percentage of Growth	Percentage of Urban Population
1901	13,055		12.6
1911	13,525	3.6	11.6
1921	13,378	−1.1	13.8
1931	14,633	9.4	15.3
1941	16,255	11.1	16.9
1951	19,402	19.4	23.0
1961	23,527	21.3	22.3
1971	29,299	24.5	24.3
1981	37,043	26.4	28.9

Sources: *Karnataka Year Book, 1987/88* (Bangalore, 1987), p. 9; and Madaiah and Ramapriya, p. 7.

Per capita income at current prices was 2,136 rupees in 1985/86 and was expected to increase to 2,449 rupees in 1986/87, while the per capita income at constant prices (1970/71) was 698 rupees in 1985/86. The average annual growth rate of per capita state income was a mere 1.4 per cent from 1970/71 to 1979/80, and this went down to 1.3 per cent between 1980/81 and 1986/87.

Tables 5-3 and 5-4 show the changing position of Karnataka's economy in the national economy in comparison with other major states. Figures in these tables are not consistent with the figures in other tables in this section due to the different method of numerical calculation and the base, but they are reasonably useful to show the trends explained above. According to Table 5-3, Karnataka recorded a 4.0 per cent annual growth rate for domestic product at constant prices during the decade of the 1970s, which was higher than the national average. But in the first half of the 1980s, the state suffered a slowdown in growth to 3.1 per cent per annum against the all India average of 5.0 per cent during the same period. The state's agricultural growth showed the same trend (Table 5-4). The agricultural growth rate of 2.3 per cent during the 1970s came down to 1.8 per cent in the first half of the 1980s. The industrial growth rate showed a worse picture. During the 1970s it grew at 7.7 per cent per annum which was the third fastest industrial growth rate in the 1970s after Punjab's 8.8 per cent and Haryana's 8.0 per cent. But during the first half of the 1980s, the rate came down to only 3.3 per cent per annum. This major slowdown in the first half of the 1980s was associated with stagnation in the agricultural sector.[1]

The growth of industries through the 1970s was attributable to the availability of cheap power. Most of the industries, both public and private, established during this period came to the state because of the availability of cheap power and consequently many of them were power-intensive.[2] Such a composition of industries was also one of the reasons for the stagnation in industry in the 1980s when the state's power supply positions deteriorated.

TABLE 5-2
NET STATE DOMESTIC PRODUCT AND PER CAPITA INCOME FOR KARNATAKA: 1970/71 TO 1986/87
(at Current Prices and 1970/71 Constant Prices)

Years	NNP at Current Prices (Rs. 1 Million)	Net State Domestic Product (Rs. 1 Million)				Average Annual Growth Rate (%)	Per Capita State Income (Rupees)			Average Annual Growth Rate (%)
		Current Prices	Share of NSDP in NNP	Constant Prices	Rate of Growth (%)		Current Prices	Constant Prices	Rate of Growth (%)	
1970/71	363,620	18,580	5.11	1,858			641	641		
1971/72	385,830	19,160	4.97	1,885	1.45		646	636	−0.78	
1972/73	423,820	10,120	2.39	1,770	−6.10		664	584	−8.18	
1973/74	522,410	28,150	5.39	2,041	15.31		907	658	12.67	
1974/75	611,940	31,780	5.19	2,033	−0.39		1,000	640	−2.74	
1975/76	645,310	30,920	4.79	2,165	6.49	3.86	951	666	4.06	1.44
1976/77	694,080	32,830	4.73	2,070	−4.39		986	621	−6.76	
1977/78	796,710	38,130	4.79	2,445	18.12		1,117	716	15.30	
1978/79	852,550	39,950	4.69	2,539	3.84		1,142	726	1.40	
1979/80	923,140	48,220	5.22	2,612	2.88		1,345	729	0.41	
1980/81	1,104,840	53,430	4.84	2,524	−3.37		1,454	687	−5.76	
1981/82	1,284,570	62,290	4.85	2,702	7.06		1,655	718	4.51	
1982/83	1,413,310	65,390	4.63	2,696	−0.24		1,699	700	−2.51	
1983/84	1,658,180	77,470	4.67	2,875	6.64	3.55	1,971	731	4.43	1.34
1984/85*	1,843,540	87,910	4.77	3,100	7.85		2,189	772	5.61	
1985/86†	2,064,910	87,530	4.24	2,859	−7.79		2,136	698	−9.59	
1986/87‡	2,287,080	102,420	4.48	3,112	8.85		2,449	744	6.59	

Sources: Government of Karnataka, Planning Department, *Economic Survey, 1986/87* (1987), Table 2.1, p. 16, and Appendix 2.1, p. 125; and Government of India, *Economic Survey, 1989/90* (1990), p. S-3.

Note: Figures are provisional.

* Partially revised estimates.

† Quick estimates.

‡ Anticipated estimates.

TABLE 5-3
GROWTH RATE IN STATE DOMESTIC PRODUCT
(at 1970/71 Prices)

(Per cent per annum)

States	Share in Value Added 1980/81	1970/71 to 1980/81	1980/81 to 1985/86
Maharashtra	13	5.4	3.1
Punjab	5	5.2	5.1
Haryana	3	4.9	5.1
Gujarat	7	4.7	1.1
Karnataka	6	4.0	3.1
Andhra Pradesh	8	3.3	4.1
Bihar	7	3.1	4.3
Uttar Pradesh	13	3.0	5.1
West Bengal	10	3.0	4.4
Orissa	3	2.8	1.2
Tamil Nadu	6	2.8	6.9
Rajasthan	4	2.6	7.8
Madhya Pradesh	6	1.9	6.0
Kerala	3	1.8	1.4
All India	100	3.7	5.0

Source: Isher Judge Ahluwalia and Krishna Srinivasan, "Income and Growth (I)," *Economic Times,* February 25,1988.
Note: Compound growth rates based on semilog trends.

TABLE 5-4
AGRICULTURAL AND INDUSTRIAL GROWTH RATES

(Per cent per annum)

States	Agricultural Growth Rates		Industrial Growth Rates	
	1970/71 to 1980/81	1980/81 to 1985/86	1970/71 to 1980/81	1980/81 to 1985/86
Punjab	3.8	5.7	8.8	3.7
Haryana	2.7	3.4	8.0	6.5
Karnataka	2.3	1.8	7.7	3.3
Uttar Pradesh	1.9	3.1	6.8	12.6
Maharashtra	6.0	0.1	6.4	3.8
Tamil Nadu	−0.2	2.1	6.3	3.3
Andhra Pradesh	1.5	0.5	6.0	7.0
Orissa	2.0	1.9	6.0	8.6
Gujarat	3.6	−2.9	5.8	2.0
Madhya Pradesh	−0.7	4.4	5.6	8.5
Rajasthan	1.1	9.4	4.9	7.8
Kerala	0.1	0.9	3.7	−0.3
Bihar	1.1	3.3	2.7	6.2
West Bengal	2.9	5.0	1.9	0.5

Source: Isher Judge Ahluwalia and Krishna Srinivasan, "Income and Growth (II)," *Economic Times,* February 26, 1988.

TABLE 5-5
SECTOR PERCENTAGE IN NET DOMESTIC PRODUCT FOR KARNATAKA: 1960/61 TO 1985/86
(at Current Prices)

(%)

Years	Primary Sector	Secondary Sector	Tertiary Sector	Total
1960/61	61.2	15.2	23.6	100.0
1970/71	54.7	23.1	22.2	100.0
1980/81	42.9	29.7	27.3	100.0
1981/82	42.5	29.3	28.2	100.0
1982/83	38.6	30.6	30.8	100.0
1983/84	42.3	28.0	29.7	100.0
1984/85	42.3	27.2	30.5	100.0
1985/86	36.3	28.4	35.3	100.0

Sources: Government of Karnataka, Planning Department, *Economic Survey, 1986/87* (1987), Table 2.2, p. 17. Figures for 1960/61 and 1970/71 are drawn from Madaiah and Ramapriya, Table 5, p. 29.

The sector breakdown of state income for Karnataka by primary, secondary, and tertiary sectors for the years from 1960/61 to 1985/86 is produced in Table 5-5. The primary sector (comprised of agriculture, forestry, fishing, and mining) provided the major share of state income. The table shows the gradual shift in sector shares. The biggest change can be observed in the tertiary sector where the share in net state domestic income increased from 23.6 per cent in 1960/61 to 35.3 per cent in 1985/86. On the other hand, the share for the primary sector declined, although the big fluctuation from 1984/85 to 1985/86 has to be discounted as this was partly caused by the adverse effect of bad weather in 1985 and 1986. The share for the secondary sector does not show any distinguishable change during the first half of the 1980s, although it increased from 15 per cent in 1960/61 to nearly 30 per cent over the twenty years.

Industrial development during the 1960s was at the preparatory stage; it was during the 1970s that development efforts were pushed and the effects of investment began to appear. Nevertheless industrial growth during the 1970s was not sufficient to provide an alternate source of employment for the growing labor force generated by the growing population. Many of the newly established industries during the period were capital-intensive and could not absorb the labor force in urban let alone rural areas. As a consequence, most of the additional labor had to remain in the primary sector or in the tertiary sector, especially in the unorganized urban informal sectors.

Table 5-6 shows district income and the share and ranking in Karnataka state income; it also shows the per capita district income and the ranking in the state per capita income for the years of 1970/71, 1980/81, and 1984/85. Bangalore, Belgaum, Dakshina Kannada, Dharwad, and Mysore were the top five districts with the biggest incomes in those three years. They are also industrially advanced

TABLE 5-6
INCOME AND PER CAPITA INCOME BY DISTRICTS IN KARNATAKA (at Current Prices)

Districts	1970/71					1980/81					1984/85*				
	Income (Rs. 1 Million)	Share in State Income		Per Capita Income		Income (Rs. 1 Million)	Share in State Income		Per Capita Income		Income (Rs. 1 Million)	Share in State Income		Per Capita Income	
		%	Rank	Rupees	Rank		%	Rank	Rupees	Rank		%	Rank	Rupees	Rank
Bangalore	2,448	13.2	1	735	5	9,988	18.7	1	2,040	2	16,285	18.5	1	3,045	3
Belgaum	1,320	7.1	4	551	15	3,894	7.3	3	1,319	13	6,432	7.3	4	1,995	11
Bellary	864	4.6	11	778	4	2,152	4.0	12	1,460	9	3,560	4.0	11	2,211	7
Bidar	385	2.1	19	473	17	1,231	2.3	19	1,250	14	1,904	2.2	19	1,770	15
Bijapur	887	4.8	10	451	19	2,284	4.3	10	960	18	4,031	4.6	7	1,552	18
Chikmagalur	728	3.9	14	1,002	2	1,665	3.1	15	1,842	3	3,038	3.5	14	3,075	2
Chitradurga	905	4.9	9	655	8	2,629	4.9	7	1,494	7	4,204	4.8	6	2,186	10
Dakshina Kannada	1,326	7.1	2	691	7	4,193	7.8	2	1,783	4	6,730	7.7	2	2,619	4
Dharwad	1,325	7.1	3	572	13	3,625	6.8	5	1,244	15	5,948	6.8	5	1,868	12
Gulbarga	1,031	5.5	6	599	12	2,498	4.7	8	1,214	16	3,803	4.3	10	1,691	17
Hassan	694	3.7	16	637	10	1,819	3.4	14	1,357	11	3,206	3.6	13	2,188	9
Kodagu	751	4.0	12	2,008	1	1,256	2.3	18	2,755	1	2,878	3.3	15	5,780	1
Kolar	710	3.8	15	474	16	1,499	2.8	16	795	19	2,850	3.2	16	1,383	19
Mandya	637	3.4	17	557	14	2,125	4.0	13	1,514	6	2,757	3.1	17	1,797	14
Mysore	1,275	6.9	5	620	11	3,767	7.0	4	1,466	8	6,445	7.3	3	2,296	5
Raichur	1,004	5.4	7	717	6	2,396	4.5	9	1,358	10	3,395	3.9	12	1,761	16
Shimoga	1,003	5.4	8	780	3	2,760	5.2	6	1,654	5	3,928	4.5	8	2,193	8
Tumkur	739	4.0	13	459	18	2,278	4.3	11	1,163	17	3,922	4.5	9	1,832	13
Uttara Kannada	549	3.0	18	654	9	1,406	2.6	17	1,324	12	2,589	2.9	18	2,231	6
State	18,581	100.0		641		53,465	100.0		1,453		87,905	100.0		2,189	

Source: Government of Karnataka, Planning Department, *Economic Survey, 1986/87* (1987), Appendix 2.2, p. 126.
*Provisional.

TABLE 5-7
COMPOSITION OF DISTRICT INCOME CLASSIFIED BY PRIMARY, SECONDARY, AND TERTIARY SECTORS: 1983/84

(%)

Districts	Primary Sector	Secondary Sector	Tertiary Sector
Bangalore	10.6	49.3	40.1
Belgaum	47.8	24.8	27.4
Bellary	52.0	19.3	28.7
Bidar	51.9	17.9	30.3
Bijapur	49.8	22.3	27.9
Chikmagalur	66.5	11.8	21.7
Chitradurga	51.3	23.9	24.8
Dakshina Kannada	35.5	33.8	30.6
Dharwad	39.8	25.6	34.6
Gulbarga	44.8	24.4	30.8
Hassan	59.7	16.0	24.4
Kodagu	72.6	11.5	15.8
Kolar	46.8	19.7	33.6
Mandya	64.7	12.9	22.4
Mysore	40.2	31.9	27.8
Raichur	57.7	18.3	24.0
Shimoga	53.1	20.8	26.1
Tumkur	49.2	23.9	26.9
Uttara Kannada	47.8	22.6	29.6
State average	42.1	27.9	30.0

Source: Madaiah and Ramapriya, Table 8, p. 33.

districts. On the other hand, Bidar, Kolar, Mandya, and Uttara Kannada were in the lowest district income group. Some changes in ranking can be observed. Chitradurga, Mysore, and Tumkur moved up during the fifteen years while Gulbarga and Raichur dropped down.

Empirical data on sector economic development by districts extending over one or two decades or more is not available which makes it difficult to carry out a detailed study on the structural changes in the district economies. What can be said at this stage is that while the transformation of the agricultural sector at the district level has caused the biggest change in the district economy, the effects on the economy have not differed much among the districts. This is due to the nature of the agricultural activities and also to the yearly fluctuation caused by the weather conditions which affect wider areas. Therefore it is the secondary and tertiary sectors which mainly explain the change in district income. Thus within the high district income group, Bangalore, Mysore, and Dakshina Kannada were the districts which made remarkable economic progress during those years especially in industry. In the low district income group, the industrial investment in the districts like Uttara Kannada and Kolar was very slow during those years. In some low income districts like Tumkur, industrial investment was stimulated in the 1980s with the help of the government's industrial incentive policy which raised their ranking in the district income order.

Table 5-7 shows the composition of district income for 1983/84. Fifteen out of Karnataka's nineteen districts had income from the primary sector that was above the state average. Only in Bangalore, Mysore, and Dakshina Kannada was the contribution of the secondary sector above the state average; Bangalore's was the highest. The lowest was for Kodagu and Chikmagalur which are predominantly plantation districts.[3]

The highest per capita income district was Kodagu followed by Chikmagalur and Dakshina Kannada. Main industry in Kodagu and Chikmagalur is the plantation industry where the minimum wage regulation for plantation laborers has been maintained. The domination of plantations in the economy has kept the per capita income of those two districts among the highest in the state. Another two districts which have high per capita income and have improved their ranking among the districts are Bangalore and Dakshina Kannada where industrialization has accelerated in last two decades.

Karnataka's Industrial Development Policy

Karnataka's industrial history is noteworthy in that the princely state of Mysore, which was the state's former name, began promoting industry as early as the late 1880s. Industrialization in the state started in 1884 when the Mysore Spinning Manufacturing Mill was set up as the first textile mill.[4] Another mill, the Bangalore Woollen and Cotton Mill, was started in 1887, but the two companies soon faced difficulties and asked the state government for help. Assistance was provided in various forms, and the government bought shares in both mills.[5]

Electric power for Bangalore[6] and Mysore came from the Shivasamudram hydroelectric power station[7] which was commissioned in 1902, and this motivated industrialists to set up industries in the two cities. At the end of 1912, Sir M. Visveswaraya became the *dewan* (prime minister) of Mysore. During his tenure from 1912 to 1918, a number of projects and industrial ventures were undertaken.[8] These include the commissioning of the Krishna Rajendra Sagara Dam in 1913, the foundation of the Iron and Steel Works of Bhadravathi in 1918 as the first public sector plant in India and which commenced operations in 1923, the establishment of a sandalwood oil factory at Mysore in 1916, and a soap factory at Bangalore in 1918.[9] In 1913, the Department of Industries and Commerce was established. In the same year the Bank of Mysore was established. In 1916, the Mysore Chamber of Commerce was organized. According to Madaiah and Ramapriya, Visveswaraya's strategy for the state's industrialization had three dimensions: (a) encouragement and help to private enterprise, (b) direct government enterprise, and (c) equity participation and managerial directorship.[10] Thus the state of Mysore was a pioneer in industrial development policy. The three dimensions listed by Madaiah and Ramapriya are also the basic elements in the industrial development policy of the governments of India and have likewise been carried over to the state of Karnataka.

The 1940s and 1950s marked an upswing in industrial activity. The first aircraft factory was set up in Bangalore in 1940. A notable feature of this period was that most of the industrial enterprises were concentrated initially in Bangalore and then Mysore and their environs where a supply of electricity was assured. From the 1940s to the 1950s, big public sector enterprises such as Indian Telephone Industries (established in 1948 as the first public sector enterprise after independence), Hindustan Machine Tools (in 1955), Bharat Electronics (in 1956) were set up in and around Bangalore.[11] Other public sector enterprises followed in the 1960s. The above mentioned aircraft factory which was started by the Walchand group of industries was nationalized in 1964 becoming a public sector enterprise known as Hindustan Aeronautics. Those public sector enterprises, most of which were technology- and capital-intensive large-scale enterprises with little connection initially to local industries and local supply and demand, became one of the characteristics of the industrial sector in Karnataka and in Bangalore where most of the public sector enterprises in the state became concentrated (see Appendix A).

At the state level, the First Five Year Plan (1951–56) was initiated by the old Mysore state before the reorganization of the states was commenced in 1951.[12] The first plan was formulated to a large extent on the basis of certain postwar development programs mostly for the intensification of a number of developmental programs already existed at the time.

With the start of the Second Five Year Plan (1956–61) in April 1956, the state government started making efforts to orient industrial development. But the second plan became stalled due to the distorting factors caused by the state reorganization in November 1956. This reorganization increased the area of the state by 105,484 square kilometers to a total of 191,757 square kilometers and increased the natural resources and manpower, but it also aggravated the problems of development by bringing up the locational difficulties and regionally differentiated conditions. Therefore the plan was burdened with unavoidable difficulties, and a real picture of the overall needs of the new state was not available in time.

Thus it was not until the Third Five Year Plan (1961–66) that a comprehensive program for state economic development emerged. But the performance of the plan was not free from difficulties. Due to uncontrollable factors like the economic constraints caused by the wars with China and Pakistan and scarcity conditions produced by severe drought in 1966–67, the third plan was hampered, and the succeeding five-year plan failed to materialize in time. The government had to resort to annual plans from 1966/67 to 1968/69.

When the state drew up plans for industrial development, the public sector enterprises was basically outside of the state government's jurisdiction and there was room for the state government to maneuver to attract large-scale private enterprise though the private sector was strictly under central government guidance and control. Division of work was determined by the central government's industrial policy statements and the legislative steps which have been discussed in earlier chapters. Under these conditions what the state government could do was to arrange infrastructural conditions and offer other incentives to attract big industries to the state and extend financial and material assistance to small-scale and cottage industries in the state.

Two fundamental aims to promote industries under state government direction were conceived at the time. One was the promotion of private industries and small-scale and cottage industries and the other was the mitigation of regional imbalances which became imminent with the formation of the state following reorganization.

To carry out the two aims, many government institutions were established during the Second and the Third Five Year Plan periods. In 1956 the Mysore State Silk Handloom Weavers' Central Cooperative Society was formed along with the Mysore State Cotton and Woolen Handloom Weavers' Cooperative Society. In 1959 the Mysore Small Scale Industries and Handicrafts Board was set up to promote and protect village and cottage industries. A total of 123 handicraft co-operative societies were organized of which 64 were financially assisted in the form of loans and grants. In 1959 in order to provide term loans to medium and small-scale industries, the Mysore State Financial Corporation was set up; it was later renamed the Karnataka State Financial Corporation. In 1960 the Mysore Small Industries Limited, later known as the Karnataka State Small Industries Development Corporation (KSSIDC), was set up to promote small industries by arranging factory "sheds" or building structures and plots, procuring and supplying raw materials, marketing their products, and revitalizing sick enterprises in association with the Industrial Reconstruction Finance of India.

During the 1960s, an outline for a network to provide loan assistance from government institutions was formulated. In 1963 the Mysore State Industrial Cooperative Bank was set up, and all the development loans in the budget to the Industries and Commerce Department for grants of financial assistance to industrial co-operative societies and loans for small-scale industries were channeled through it. Each district was provided with one District Industrial Cooperative Bank. With the establishment of the Mysore State Industrial Investment and Development Corporation, later renamed the Karnataka State Industrial Investment and Development Corporation, in 1964 with an authorized capital of 50 million rupees, the state's equity participation in industrial enterprises began to intensify. Appendix B provides a list of state government enterprises and gives an idea of the areas and types of activities undertaken by the state government in the sphere of industrial development. It should be noted here that many of the state organizations, particularly development agencies and financial agencies, were established under instructions from the central government.[13]

TABLE 5-8
THE NUMBER OF REGISTERED FACTORIES AND EMPLOYEES: 1956 TO 1985/86

Years	Registered Factories		Employees	
	Number of Units	Increase (%)	In 1,000 Persons	Increase (%)
1956	1,635		172.0	
1966	2,756		235.6	
1971	3,814		275.9	
1972	3,897	2.2	310.1	12.4
1973	4,070	4.4	314.1	1.3
1974	4,545	11.7	330.1	5.1
1975	4,881	7.4	339.8	2.9
1976	5,441	11.5	489.3	44.0
1976/77	7,538	38.5	510.1	4.3
1977/78	8,448	12.1	516.3	1.2
1978/79	9,942	17.7	520.0	0.7
1979/80	10,142	2.0	531.0	2.1
1980/81	10,911	7.6	550.0	3.6
1981/82	10,379	−4.9	608.1	10.6
1982/83	10,710	3.2	695.1	14.3
1983/84	11,073	3.4	719.2	3.5
1984/85	11,348	2.5	739.6	2.8
1985/86	11,998	5.7	776.6	5.0

Sources: Government of Karnataka, Planning Department, *Economic Survey, 1986/87* (1987), Appendix 8.1, p. 147. Figures for 1956 and 1966 are from Government of Mysore, Bureau of Economics and Statistics, *Economic Development of Mysore, 1956–69* (Bangalore, 1970), p. 124.

Note: Factories are registered under Sections 2m(i) and 2m(ii) of the Factories Act, 1948.

During the annual plan of 1966/67, the state government set up a statutory board called the Mysore Industrial Areas Development Board with powers to acquire land and provide infrastructure facilities such as roads and electricity for establishing industries. The government also formulated an intensive development strategy for less advanced areas, and declared eleven special development areas as "growth areas" for the exclusive promotion of industries.[14] In 1968 the state government announced a number of incentives for new industries. These were (a) contribution to the cost of preparing feasibility studies for industrial projects, (b) electricity tax concessions for certain new industries for a suitable period, (c) sales tax concession for new industries, (d) relief from the octroi, and (e) reservation of government purchases for products of new industries. Such concessions have been maintained with modifications to the present.

The industrial growth in Karnataka during the decade from 1956 to 1966 can be measured by the increase in the number of factory enterprises[15] and factory employment (Table 5-8). The number of factories grew by 69 per cent from 1,635 in 1956 to 2,756 in 1966 and the total employment increased by 37 per cent from 172,000 to 235,561. Out of 2,756 factories in 1966, industries based on agricultural products (including textile enterprises) numbered 1,430 which was 52 per cent of the total. The majority of these factories were small rice mills. Another 785 enterprises (28 per cent of the total) were classified as "printing, metal, and engineering works."[16] The composition of industries in the factories sector showed a change in later period. But the fact that the rate of increase in factory employment during the decade was smaller than the number of factories could not be reversed in later period, posing a problem for the government's industrial development policy.[17]

The capacity for small-scale and household enterprises to create jobs was overestimated by the government. At the same time the limitations for the large-scale factories sector to absorb workers caused the government to increase protective and promotional policies for small-scale and household industries. Since the 1970s the critical economic and political situation also compelled state governments to take progressive measures to appease the unemployed and underemployed people. Various policies to promote small-scale and household industries were undertaken in order to ease political and economic constraints on the states.

The regional distribution of factories provides another measure of development. In Karnataka, industrial enterprises in Bangalore, Dharwad, Dakshina Kannada, and Belgaum districts accounted for 63 per cent of the total factories and 62 per cent of total factory employment in 1966. These figures point to a concentration of industries in a few advanced areas. Bangalore district alone accounted for about 32 per cent of the factories in the state followed by Dakshina Kannada with 12 per cent.[18] The tendency for industries to concentrate in advanced areas posed a problem for industrial development in the state as most of the industrial projects preferred to locate in advanced areas with developed infrastructural facilities and external economies and thereby avoid the higher costs they might have to bear if they set up in less advanced areas.

Shift in Policy Orientation

There was a rush to establish new industrial enterprises in Karnataka during the 1970s and the beginning of the 1980s. During this period, a lot of large industries, both public and private, came to Karnataka to set up enterprises. Many enterprises run by Karnataka state were also established during this period (see Appendix B). One of the characteristics of these new industries was their connection with the new technology areas such as electronics and computers. In 1977 the state government started the Karnataka State Electronics Development Corporation Limited (KEONICS), which has helped to organize and promote the electronics industry in Karnataka, especially in and around Bangalore.

With the help of central and state government promotional steps, Karnataka made good progress in industrial development in the 1970s. At the same time, the decade from 1970 to 1980 marked a crucial period in the development of the state's economy. Table 5-9 shows the trend in income from the manufac-

TABLE 5-9

TREND IN INCOME FROM THE MANUFACTURING SECTOR: 1970/71 TO 1984/85
(at 1970/71 Constant Prices)

Years	Income from the Manufacturing Sector		State Income (Rs. 1 Million)	Share of Income from the Manufacturing Sector in State Income (%)
	Value (Rs. 1 Million)	Growth over Previous Year (%)		
1970/71	2,859		18,581	15.4
1971/72	3,012	5.4	18,852	16.0
1972/73	3,076	2.1	17,697	17.4
1973/74	3,186	3.6	20,411	15.6
1974/75	3,236	1.6	20,330	15.9
1975/76	3,537	9.3	21,648	16.3
1976/77	4,176	18.1	20,701	20.2
1977/78	4,683	12.1	24,445	19.2
1978/79	5,309	13.4	25,386	20.9
1979/80	5,574	5.0	26,123	21.3
1980/81	5,340	−4.2	25,240	21.2
1981/82	5,445	2.0	27,021	20.2
1982/83	5,749	5.6	26,960	21.3
1983/84	6,037	5.0	28,746	21.0
1984/85	6,260	3.7	31,002	20.2

Sources: Government of Karnataka, Planning Department, *Economic Survey, 1985/86* (1986), Appendix 8.1, p. 84, and *Economic Survey, 1986/87* (1987), Appendix 2.1, p. 125.
Note: Figures for 1983/84 are partially revised and for 1984/85 are quick estimates.

turing sector. Its performance in income generation in the state economy was remarkable especially during the years between 1970/71 and 1978/79. The sector's contribution to the state income also increased, reaching 20 per cent of state income in 1976/77. The number of registered factories in the state reached 10,000 by 1979/80 (Table 5-8).

But the picture was not as bright as the figures indicated. While the number and employment of registered factories in the state increased, the lower growth of employment to the number of factories registered was observed in the 1970s (Table 5-8), and the performance of the manufacturing sector in the first half of the 1980s was disappointing. The share of income from the manufacturing sector in state income was stagnant. One explanation could be that the stagnant economic conditions prevailing in the country at the time began to affect Karnataka which had been enjoying the effects of the central government's earlier heavy investment.

The state's industrial development policy started to change due to both political and economic problems. The shift in emphasis was clear. The state government began to stress "balanced industrial development," placing priority on promoting small-scale industrial enterprises and the development of backward areas. The policy change coincided with the political changes at the center and

TABLE 5-10
REGISTERED FACTORIES BY DISTRICTS: 1979/80 TO 1983/84

Districts	1979/80		1981/82		Year-to-Year Change (%)	1982/83		Year-to-Year Change (%)	1983/84		Year-to-Year Change (%)	Change over 1979/80 (%)
	No. of Units	Percentage of Total	No. of Units	Percentage of Total		No. of Units	Percentage of Total		No. of Units	Percentage of Total		
Bangalore	4,460	44.9	3,942	38.0	−11.6	4,222	39.4	7.1	4,290	38.7	1.6	−3.8
Belgaum	1,210	12.2	1,300	12.5	7.4	1,254	11.7	−3.5	1,284	11.6	2.4	6.1
Bellary	258	2.6	274	2.6	6.2	272	2.5	−0.7	294	2.7	8.1	14.0
Bidar	52	0.5	122	1.2	134.6	126	1.2	3.3	130	1.2	3.2	150.0
Bijapur	432	4.3	451	4.3	4.4	466	4.4	3.3	478	4.3	2.6	10.6
Chikmagalur	86	0.9	135	1.3	57.0	120	1.1	−11.1	131	1.2	9.2	52.3
Chitradurga	226	2.3	335	3.2	48.2	369	3.4	10.1	377	3.4	2.2	66.8
Dakshina Kannada	737	7.4	677	6.5	−8.1	648	6.1	−4.3	678	6.1	4.6	−8.0
Dharwad	588	5.9	711	6.9	20.9	735	6.9	3.4	766	6.9	4.2	30.3
Gulbarga	215	2.2	314	3.0	46.0	324	3.0	3.2	334	3.0	3.1	55.3
Hassan	125	1.3	119	1.1	−4.8	136	1.3	14.3	144	1.3	5.9	15.2
Kodagu	58	0.6	70	0.7	20.7	75	0.7	7.1	78	0.7	4.0	34.5
Kolar	105	1.1	118	1.1	12.4	122	1.1	3.4	139	1.3	13.9	32.4
Mandya	104	1.0	156	1.5	50.0	159	1.5	1.9	163	1.5	2.5	56.7
Mysore	481	4.8	635	6.1	32.0	652	6.1	2.7	698	6.3	7.1	45.1
Raichur	334	3.4	361	3.5	8.1	376	3.5	4.2	394	3.6	4.8	18.0
Shimoga	278	2.8	412	4.0	48.2	379	3.5	−8.0	409	3.7	7.9	47.1
Tumkur	60	0.6	128	1.2	113.3	152	1.4	18.8	157	1.4	3.3	161.7
Uttara Kannada	133	1.3	119	1.1	−10.5	123	1.1	3.4	129	1.2	4.9	−3.0
State	9,942	100.0	10,379	100.0	4.4	10,710	100.0	3.2	11,073	100.0	3.4	11.4

Source: Data supplied by the Chief Inspector of Factories and Boilers, Government of Karnataka, in 1988.
Note: Figures are provisional.

the state. At the center, as noted earlier, the Indira Gandhi government began making a conscious effort to reorganize its political support base by appealing specially to weaker sections of the society. The central government issued a number of policies for the purpose of "poverty alleviation," and uplifting and supporting the poor. The central government's policy was reflected in the policy of the state government, specifically under the state chief-ministership of Devraj Urs (1972 to 1977) who cooperated closely with Prime Minister Indira Gandhi at the national and regional level. Devraj Urs government took a number of steps such as land reforms, debt relief for the poor, housing scheme for the public, and the like.[19]

The state government started a number of financial and technical programs adopting a policy aimed at: (a) stimulating the growth of private enterprise by building up a supportive institutional network and by developing infrastructural facilities ; and (b) expanding and dispersing industrial enterprises to less industrialized areas.

The direct assistance of state government to industry consisted of planning support for the industrial sector and for infrastructure facilities such as power, transport, communications, and technical education, and for the establishment of institutions to support industries and incentives to industries. The state government announced a number of concessions in order to give the necessary impetus and attract industries. The measures adopted by the government were: (a) assistance with feasibility studies; (b) cash refunds of the sales tax;[20] (c) exemption from payment of the electricity tax for five years for new enterprises; (d) exemption from the conversion fine; and (e) allowing installment payments for land purchases. Other additional concessions were extended to new industries in backward areas. They included refund of the sales tax and easier terms of payment for land cost. The government also extended concessions to small-scale industries in backward areas in the form of subsidized interest rates on loans financed by the Karnataka State Financial Corporation.

After issuing its industrial policy statement in 1977, the central government announced a scheme for offering investment subsidies to all industrial investments in notified backward areas. Following this, the Karnataka state government also announced various incentives to backward areas which were not covered by the central government's subsidy scheme. The objective of offering investment subsidies to new industrial investment was to encourage enterprises, hopefully large and medium-scale enterprises, to set up in comparatively backward areas in the state.

These efforts by the government bore fruit to some extent as can be seen in Table 5-10. It shows the numbers of registered factories by districts in 1979/80, 1981/82, 1982/83, and 1983/84. The numbers of registered factories in Tumkur, Bidar, Chitradurga, Mandya, Gulbarga, and Chikmagalur increased greatly over the four years. The results for Tumkur and Bidar in particular indicate the positive effects of the government's promotional policy.

Bidar district was a typical case showing the nature and effects of the promotional policy. The district was one of the most backward districts in Karnataka in terms of both per capita district income and industrial structure. It lies in a dry area and agricultural productivity is low. The district was industrially backward supporting only some small-scale industries, agro-based industries, and cottage industries. It was after the district was declared a "no industry district" by the central government and especially after the state government intensified its dispersal policy, that industrial change in the district started. The district's proximity to Hyderabad and its location on the Hyderabad-Bombay National Highway provided favorable conditions for industrialization. A similar situation existed for Tumkur district which is close to Bangalore and is located on the Bangalore-Bombay National Highway.

Meanwhile the number of registered factories in Bangalore and Dakshina Kannada declined. This could partly have been the result of government policy which restricted the establishment of new enterprises, except in certain industries, in those cities, but the infrastructural disincentives such as shortages in the supply of electricity could have been a more crucial reason.

However, the policy changes after 1977 did not successfully achieve the objectives envisaged, although a certain amount of industrial activity was taking place in some backward areas at this time as can be seen from Table 5-10. While a number of small-scale industries were started up in almost all districts of the state, industrial investment in medium-scale and large industries remained in the few major urban centers of Bangalore, Belgaum, Chitradurga, Dakshina Kannada, and Mysore.

The reason for the failure of the incentive scheme to attract large industrial investment to the backward areas can be attributed in most of the cases to the lack of infrastructure facilities in these areas. Although the government through the Karnataka Industrial Areas Development Board (KIADB) and the Karnataka State Industrial Investment and Development Corporation provided industrial plots and buildings in many parts of the state to attract large and medium-scale industries, other facilities including supporting industries, road and communication networks, and proximity to markets were not sufficient. Later I will take up the case of Bidar where the development of infrastructure worked to attract bigger investment.

There were many difficulties in pursuing the policy, both financial and infrastructural. Even on the side of small-scale industries, the paucity of funds, insufficient supply of raw materials, the lack of skilled workers and efficient management, and the absence of proper marketing facilities were matters of concern. Shortages and irregular supplies of electricity and other supplies were also disadvantageous to promoting small-scale industries which were unable to manage those problems by themselves. State government tried to cope with these problems by intensifying incentive programs for small-scale industries. But the state also faced financial limitations.

TABLE 5-11
CHANGES IN THE SMALL-SCALE SECTOR: 1983 TO 1987

Districts	As of March 31, 1983						As of December 31, 1987								
	No. of Enterprises		Investment		Employment		No. of Enterprises			Investment			Employment		
	No. of Units	District Share (%)	Value (Rs. 1,000)	District Share (%)	No. of Employ-ment	District Share (%)	No. of Units	District Share (%)	Increase over 1983 (%)	Value (Rs. 1,000)	District Share (%)	Increase over 1983 (%)	No. of Employ-ment	District Share (%)	Increase over 1983 (%)
Bangalore	11,075	32.4	1,363,393	39.0	136,590	35.2	18,198	22.1	64.3	2,053,263	28.3	50.6	174,309	27.4	27.6
Belgaum	1,744	5.1	169,212	4.8	14,243	3.7	7,150	8.7	310.0	489,922	6.8	189.5	35,484	5.6	149.1
Bidar	563	1.6	31,685	0.9	5,090	1.3	1,781	2.2	216.3	130,385	1.8	311.5	11,746	1.8	130.8
Bellary	1,322	3.9	59,483	1.7	6,355	1.6	3,500	4.2	164.8	132,726	1.8	123.1	18,306	2.9	188.1
Bijapur	1,076	3.2	45,503	1.3	11,887	3.1	2,910	3.5	170.4	168,661	2.3	270.7	20,802	3.3	75.0
Chitradurga	1,480	4.3	89,922	2.6	9,827	2.5	3,172	3.8	114.3	234,747	3.2	161.1	18,798	3.0	91.3
Chikmagalur	511	1.5	29,900	0.9	3,586	0.9	1,504	1.8	194.3	80,014	1.1	167.6	8,560	1.3	138.7
Dharwad	2,417	7.1	189,147	5.4	21,829	5.6	7,332	8.9	203.4	538,686	7.4	184.8	44,476	7.0	103.7
Dakshina Kannada	2,300	6.7	398,115	11.4	63,064	16.2	5,618	6.8	144.3	931,288	12.9	133.9	89,987	13.7	37.9
Gulbarga	793	2.3	57,832	1.7	7,130	1.8	2,512	3.0	216.8	142,870	2.0	147.0	14,935	2.3	109.5
Hassan	727	2.1	51,420	1.5	5,133	1.3	1,855	2.2	155.2	132,823	1.8	158.3	10,831	1.7	111.0
Kolar	1,490	4.4	95,175	2.7	10,722	2.8	3,214	3.9	115.7	241,002	3.3	153.2	21,766	3.4	103.0
Kodagu	418	1.2	90,331	2.6	10,436	2.7	955	1.2	128.5	119,320	1.6	32.1	12,963	2.0	24.2
Mysore	2,702	7.9	243,596	7.0	20,053	5.2	7,935	9.6	193.7	498,134	6.9	104.5	49,041	7.7	144.6
Mandya	871	2.5	56,464	1.6	5,474	1.4	1,952	2.4	124.1	123,038	1.7	117.9	11,700	1.8	113.7
Raichur	810	2.4	171,747	4.9	19,065	4.9	2,563	3.1	216,4	330,115	4.6	92.2	27,893	4.4	46.3
Tumkur	1,352	4.0	116,573	3.3	16,637	4.3	4,467	5.4	230.4	418,270	5.8	258.8	32,785	5.1	97.1
Shimoga	1,762	5.2	187,693	5.4	12,479	3.2	4,223	5.1	139.7	389,436	5.4	107.5	22,203	3.5	77.9
Uttara Kannada	745	2.2	47,473	1.4	8,514	2.2	1,639	2.0	120.0	91,915	1.3	93.6	13,588	2.1	59.6
Total	34,158	100.0	3,494,664	100.0	388,114	100.0	82,480	100.0	141.5	7,246,615	100.0	107.4	637,173	100.0	64.2

Source: Data was provided to the author in 1989 by the Department of Industries and Commerce, Government of Karnataka.

The state's policy for industrial development took new form with the announcement of its Industrial Policy Resolution in July 1983. That year the Janata Party took over the state government from the Congress Party, and the Industrial Policy Resolution was the new government's policy statement. The main elements were:

1. a shift in the role of the state from that of an entrepreneur to that of a provider of infrastructure, finance, and incentives;
2. dispersal of industries to places other than Bangalore;
3. encouragement of village and small-scale industries;
4. development of industrial estates;
5. promotion of industries such as sericulture, *khadi,*[21] handicrafts, handloom weaving, leather and agro-based industries;
6. giving priority to the development of an electronics industry; and
7. improving the availability of raw materials and training for village artisans.

The Janata government's strategy had two elements. First, it tried to step up investment in sectors which would be able to build up the infrastructure in the long run. For example, loans for power projects were stepped up from 1,120 million rupees in 1983/84 to 2,479 million rupees in the revised estimates for 1986/87. Secondly, a series of measures aimed at increasing private investment in the state were taken. These were aimed mainly at small-scale industries. Subsidies and development loans were stepped up and programs such as the "1,000 small scale enterprises a month" scheme were introduced. At the same time organizational arrangements were made to execute the policy more efficiently. District Industries Centres (DIC) were strengthened by unifying various functions in each district and transforming the DICs into the sole agency under whose roof industrial developmental programs were carried out in the district (for organizational chart, see Appendix C).

The impact of the policy to promote small-scale industries can be seen in Table 5-11 which shows the changes in the number of small-scale enterprises, investment, and employment by district between the end of March 1983 and the end of December 1987. Belgaum, Bidar, Dharwad, Gulbarga, Raichur, and Tumkur increased the number of small-scale enterprises within their jurisdictions by more than 200 per cent during the period. Belgaum, Bidar, Bellary, Chikmagalur, Dharwad, Gulbarga, and Tumkur increased the number of enterprises, investment, and employment for above the state average. Bangalore showed a low rate of increase indicating the conscious effort of the government to check industrial concentration. Bangalore's share in the total number of enterprises, investment, and employment also declined during the period. Kodagu and Uttara Kannada also show poor results for industrial development. Their poor performance was caused by their unimpressive location.

Searching for a New Strategy

In June 1988, the state government announced the second phase of its incentive package to spur industrial growth.[22] The main features of the new package were:

1. Interest free development loans and interest free working capital loans were abolished.
2. The state was divided into three development zones instead of the previous four: Zone I (Developed), Zone II (Developing) and Zone III (Backward). Concessions and incentives were not to be given to the industrial enterprises in Zone I.[23]
3. Packages of incentives and concessions for the industrial enterprises in Zone II were:
   (a) sales tax exemptions for tiny and small industries for a period of five to seven years,
   (b) sales tax deferments for medium-scale and large industries up to a period of five and seven years, and
   (c) an investment subsidy of 15 per cent of the value of fixed assets to a maximum of 1.5 million rupees.

   Industrial enterprises in Zone III got:
   (a) sales tax exemptions for tiny and small industries for a period of five to seven years,
   (b) sales tax deferments for medium-scale and large industries up to a period of five to seven years, and
   (c) an investment subsidy of 20 per cent of the value of fixed assets to a maximum of 2 million rupees.
4. To get these incentives and concessions, at least 80 per cent of the employment had to be provided to local people.
5. Electronics, telecommunications, food processing[24] and biotechnology industries got special incentives at the rate applicable for Zone III irrespective of the location of these industries. However, these industries were permitted to set up only in the notified functional industrial areas/estates.
6. The incentives and concessions listed above were to be available to enterprises where the state government's share in equity was above 51 per cent (as against 25 per cent previously).
7. The overall investment limit in fixed assets for industries eligible for the incentives was reduced from 500 million rupees to 200 million rupees.

The new set of incentives and concessions for industries announced by the state government implied a significant change in the state's industrial policy. The set of measures offered for the period of 1983 to 1987 by the state government largely relied on the central government's policy for the backward areas and its financial incentives. But during this period, there was a shift recognized in the central government's strategy of moving away from the policy emphasizing backward areas to a policy emphasizing the faster growing sectors. This shift was reflected in the state government's new strategy.

Karnataka state's financial difficulties also made it difficult to continue the previous policy. The shift in policy orientation coincided with severe financial constraints on the state government. Agriculture had not only stagnated but also faced a serious problem of sharp fluctuations. On the industrial front, the power situation was beginning to worsen. Deterioration in economic growth which was discussed in the previous section caused a severe shortage of resources which compelled the state government to curtail investment in power projects resulting electricity shortages. Other infrastructural back-up arrangement and financial assistance suffered from state government's resource constraints. These negative conditions curtailed the effects of the government's policy to expand the industrial base. The shortages of electricity supply in the state was so severe that a number of industries were forced to work at the rate below their installed capacity. A continuous supply of power alone could have attracted further investment and served the purpose of the plan to promote industry.

The new strategy of the state government responded to the change. The three zones identified was more realistic and the number of industrially advanced *taluks* (administrative blocs in districts) not eligible for concessions were raised to seventeen with the list including most of the major industrial towns in the state.

Attempts were made to reduce the financial burden of the package of incentives and concessions. The investment limit for incentives was lowered, but the number of industries not eligible for incentives was raised from sixteen to twenty-nine (Appendix D). Interest free development loans and working capital loans were discontinued, and several other concessions were withdrawn.

The state government announced another new package of incentives and concessions for industries with the emphasis on tiny and the small-scale industries. Special concessions were offered to entrepreneurs belonging to the Scheduled Castes and Scheduled Tribes (SC/ST) and to women entrepreneurs involved in electronics, telecommunications, information, food processing and biotechnology industries. One condition was added that wherever central investment subsidies were available, state subsidies would not be granted except to make up any difference between the central subsidy and state subsidy rate. Tiny and small-scale industries would be exempted from the stamp duty and be given concessional registration charges for loans and credit approved by the state government and/or by recognized financial institutions and lease deeds executed by new industrial enterprises for plots and buildings taken on a lease-cum-sale basis from the KSSIDC, KIADB, KEONICS, or from any other governmental agencies. An investment subsidy of 5 per cent to a maximum of 100,000 rupees would be granted for new tiny and small-scale enterprises set up by the SC/ST and physically handicapped entrepreneurs in zones II and III. Tiny and small-scale enterprises set up exclusively by women and employing a work force of more than 51 per cent women would be eligible for a sales tax exemption and provided with an additional 5 per cent investment subsidy subject to a maximum of 100,000 rupees.

As a whole, however, the subsidy structure was retained and in fact enhanced. In Zone II the state subsidy amounted to 15 per cent of fixed assets up to a maximum of 1.5 million rupees, and in Zone III it was 20 per cent up to a maximum of 2 million rupees. Most of the fresh incentives were also financial. Proposals like sales tax exemptions and deferments were financial.

The new incentives and concessions program has been in effect for only a few years, and it is still too early to judge its impact. But it seems that some of the basic problems have still not been overcome thus binding the hands of the state government and encumbering efforts to attract private investment. Electric power supply remains a problem. Installed capacity was increased from 2,220 million watts in 1984/85 to 2,530 million watts in 1985/86, nevertheless electricity generation declined from 8,415 million units to 7,592 million units. The situation has been worsened by growing transmission and distribution losses. The adverse power situation has been the weakest component in the state government's economic strategy. Power-intensive industries like aluminum have seen a steady decline in production.[25]

Electric power has not been the only problem in the state's industrial policy. Another problem has been state's main concern with increasing the number of industrial enterprises rather than promoting real growth of industrial production. In 1983 the state government projected to set up a minimum of 1,000 small-scale enterprises a month. The government offered subsidies, development loans, and other concessions to new enterprises to meet the target of 1,000 new enterprises a month. But since adequate power and other infrastructural requirements could not be provided, a number of these enterprises have become sick.[26]

The scheme to set up 1,000 enterprises a month was not only continued in the 1988 policy but was enhanced. According to the words of the chief minister of Karnataka, since the scheme was extremely successful and achieved on average at least 800 enterprises a month, it was to be continued.[27] Actual number of newly registered small-scale enterprises was 11,179 in 1986/87 and 10,530 in 1987/88 (Table 5-12). The monthly average registration of small-scale industries works out to be 931.6 enterprises and 877.5 enterprises respectively. Actually the figure does not tell much; as the rate of registration of small-scale industries with the government is as low as 40 or 50 per cent, it might not be difficult to "set up" new enterprises by registration. Moreover, since the nature of the promotional policy was to start up new industrial enterprises in the state and did not extend to follow-up measures to keep them profitable, the figures for enterprises that closed down were not precisely reported.

Numerous successful cases, however, have been observed in backward areas where infrastructure conditions were favorable. At the time of my spot study in Bidar in 1989, there were eight large and medium-scale industries in the dis-

TABLE 5-12
DISTRICT-LEVEL SMALL-SCALE INDUSTRIES REGISTRATIONS: INVESTMENT AND EMPLOYMENT IN 1986/87 AND 1987/88

Districts	1986/87			1987/88		
	Number of Units	Investment (Rs. 1,000)	Employment	Number of Units	Investment (Rs. 1,000)	Employment
Bangalore-R	1,066	77,876	5,802	890	36,948	4,938
Bangalore-U	865	130,050	2,989	797	171,529	4,795
Belgaum	1,204	92,311	4,394	1,123	89,805	4,542
Bidar	266	14,870	1,413	260	36,074	1,334
Bijapur	386	18,443	2,315	414	15,767	1,613
Bellary	503	14,764	2,645	502	20,177	2,088
Chikmagalur	223	10,412	1,610	203	9,631	1,229
Chitradurga	412	42,485	2,707	404	50,804	1,981
Dakshina Kannada	829	139,883	6,472	743	156,668	4,791
Dharwad	1,274	94,772	5,381	835	59,866	4,533
Gulbarga	433	32,124	2,672	432	35,960	2,494
Hassan	251	17,428	851	257	19,363	1,032
Kodagu	100	14,677	1,022	110	5,034	362
Kolar	389	35,377	2,392	324	38,191	2,106
Mandya	254	15,442	1,353	209	16,031	1,024
Mysore	962	57,818	4,905	1,128	70,093	4,936
Raichur	436	33,751	1,957	459	39,580	2,014
Shimoga	513	35,728	2,261	510	43,100	1,844
Tumkur	602	54,675	2,883	729	92,405	3,890
Uttara Kannada	211	7,961	864	201	9,544	952
Total	11,179	940,847	56,888	10,530	1,016,570	52,498

Source: Figures were collected by the author from the Department of Industries and Commerce, Government of Karnataka, July 22, 1988.
Note: Bangalore district was divided into Rural and Urban in October 1986.

trict. Three of them are collaborating with foreign firms and are owned by nonresident Indians. The government has introduced various measures to promote investment by nonresidents in order to attract foreign currency. None of the eight industries are operated by Bidar entrepreneur. Four of the eight owners, including two nonresident Indians, are based in Hyderabad. The products of the eight industrial enterprises explains their motivation for coming to Bidar. These are plastic multilayer coextruded films, black and white T.V. picture tubes, high vacuum metallic coating on paper board and films, pay phones, bulk drugs, rigid P.V.C. profiles for door and windows, and civil works. Most of the industries are technology- and capital-intensive. They do not have to rely on local material supplies except some infrastructure and a certain number of semi-skilled and unskilled workers who are abundantly available locally. The products are exclusively for outer market, being transported by railway and the national highways. The motivation for starting industries in Bidar was mainly the incentive facilities provided by the government and the district's advantageous location.[28] The opposite situation can be observed in Uttara Kannada district which has also been backward. The district could not utilize the promotional measures provided by the government as it does not enjoy the advantage of location to attract investors. The transportation system along the coastal line has been affected by the lack of investment and the natural conditions as well as by the distance from big industrial centers. Promotional steps provided by the government have not been able to attract investment to the district. Thus as Godbole concluded, it is the infrastructure facilities and the availability of external economies which attract industries to the already developed areas, and these requirements are lacking in almost all the backward districts.[29]

What this all shows is that the state's policy would surely produce results if infrastructure was ensured. Given the power shortages and other infrastructural deficiencies, whatever the government's incentives and concessions, the prospects of the state attracting new investments is diminished.

The inability to break away completely from the old pattern of incentives can be explained at least partly by the fact that other states have not as yet done so. Also political pressure has played a big role. Apparently the new package yielded to political demands by stipulating that 80 per cent of employment would go to local people. The main justification for measures to promote the dispersal of industries, from the central and state government viewpoint, is the need to raise income and consumption levels, increase savings, and provide employment in rural areas. But the employment policy announced in 1988 has been criticized as "a retrograde step."[30] The work done by Godbole has already proved that the incentives have been inadequate in creating employment opportunities.[31] Given the situation, one has to question the appropriateness of introducing a discriminating employment policy. This could cause potential investors from other states to avoid setting up industries in the state.

Investment subsidies also could be counterproductive. At the end of the 1970s, the Karnataka state government first announced that it would provide capital subsidies from its own funds at the rate of 10 per cent of fixed capital investment for enterprises setting up in some selected districts. This was in addition to the central capital subsidies already available in some districts and areas of the state. This was the kind of action which has been criticized as "one-upmanship"[32] because it resulted in some other industrially-developed states announcing similar capital subsidy schemes. Many expressed a fear that if this trend was not checked, the gap between the developed and developing states would increase and unfortunately this fear has come true.

There is also the question that incentives by state governments could discriminate between different industries. As was observed in the backward districts in Karnataka, only certain kinds of industries which are less related to the local economy have been set up, but they are willing to come to the backward districts to take advantage of the incentives, at least at the early stage of development. So the question remains as to whether, either from the viewpoint of the national economy or from the viewpoint of specific objectives of regional development, such industries should be encouraged at all to locate in areas where they do not enjoy any rational economic advantages.[33]

Karnataka continued and expanded its state subsidies, but these have raised so much criticism that they may have to be done away with. The initial objective of these subsidies was to encourage entrepreneurs to invest in backward areas. But over the years they have been converted into a system of incentives to attract investors from one state to another. As a result of the competition between state governments, subsidies have been raised to levels well above necessary. The resulting wastage of resources, in my view, has been particularly evident in Karnataka. The state's finances have come under increasing pressure over the last several years.

Till the 1980s, Karnataka's power supply was so abundant that the government could easily attract industries from outside the state. But the power situation is now difficult, and there is little point in offering subsidies when adequate power cannot be guaranteed. Power interruptions and voltage fluctuations are the major problems for most of the enterprises, especially the smaller enterprises which cannot afford to equip themselves with their own generation plants. The power supply situation and the prospects are not encouraging at all as the state government's investment in power has not been growing. Nevertheless the state cannot cut down on subsidies for fear of losing new industries, even though this would be a reasonable answer to the state's financial problems. As the problem of unproductive subsidies is not restricted to Karnataka, some norms need to be established to ensure that states industrial strategies do not result in a wastage of scarce resources.

In this chapter I reviewed the industrial development policy of Karnataka. Some features of the state's industrial development policy are original but basically the policy has followed a similar process as those of other states. As the overall policy structure of the state has been constructed within the policy framework of the central government, most of the policies taken in the state to promote industries has been formulated under the directions and instructions of the central government. The state was not at all free from the framework of protective and restrictive industrial policy pursued by the central government. Moreover, under the central policy structure, the state could develop its own protective and promotional policies especially for industrial development in the backward areas and in promoting small-scale industries. There is a political reason for the state government to concentrate its energy in these areas as it can claim to be benefiting the many poor and less privileged in the society. The central government's development policy is inevitably bound to some extent by the policy of state government as it entrusts the states to take responsibility for certain areas concerning the development of industry.

Notes

1 Isher Judge Ahluwalia and Krishna Srinivasan, "Income and Growth (Parts 1 & 2)," *Economic Times,* February 25 and 26, 1988.
2 M. Madaiah and R. Ramapriya, *Karnataka Economy: Growth, Issues and Lines of Development* (Bombay: Himalaya Publishing House, 1989), pp.66–67.
3 Ibid., pp.32–34.
4 There are records that sugar was being manufactured in the state even as early as 1800. Government of Mysore, Bureau of Economics and Statistics, *Economic Development of Mysore, 1956–69* (Bangalore, 1970) (hereafter *Economic Development of Mysore*), pp.114–15.
5 Madaiah and Ramapriya, p.65.
6 The supply of electricity in 1905 made Bangalore the first Indian city to be electrified.
7 It was build to supply electricity to the Kolar Gold Fields.
8 There were two *dewans* who also contributed to industrialization in Mysore. They were K. Seshadri Iyer whose term as *dewan* was from 1883 to 1901 and Sir Mirza Ismail from 1925 to 1941.
9 There were also a metal factory and the Central Industrial Workshop at Bangalore at this time.
10 Madaiah and Ramapriya, p.65.
11 *Economic Development of Mysore,* p.25.
12 The state of Mysore, formed under the State Reorganisation Act, 1956, comprised (a) old Mysore state, (b) Belgaum district and Bijapur, Dharwad, and Uttara Kannada districts from the former Bombay Residency, (c) Gulbarga, Raichur, and Bidar districts from the former state of Hyderabad, (d) Dakshina Kannada district (except Kasargod *taluk* and Aminidivi Island) and Kollegal *taluk* of Coimbatore district from former Madras state, and (e) the state of Coorg (Kodagu). The state of Mysore was renamed "Karnataka" on November 1, 1973.
13 See Shiva S. Ramu, "State Enterprises in Karnataka," in "Selected Papers in Karnataka's Development," Mimeograph of the 66th All India Economic Conference, December 28–30, 1983 and the 22nd Indian Economic Conference, January 2–4, 1984 (Bangalore: Indian Statistical Institute, 1984).
14 These were: 1. Mysore-Belgola, 2. Mysore-Nanjangud, 3. Harihar-Davangere, 4. Hubli-Darwad, 5. Shimoga-Bhadravathi, 6. Bellary-Hospet, 7. Dandeli, 8. Belgaum, 9. Gulbarga, 10. the area around Bangalore, and 11. the area around Mangalore.
15 Factory means the enterprises registered under the Factories Act, 1948.
16 *Economic Development of Mysore,* pp.123–24.
17 There is a data problem in the study on the small-scale sector. Many studies suffer from inadequate statistical data on the number of enterprises, and the amount of investment, output and employment in the small-scale and household sectors. Though handicapped by data limitations, there are many studies which prove that the labor absorption capacity of the small-scale and household industrial sectors has not necessarily been greater than that of the large-scale sector or as great as the policymakers want to claim. Data on the small-scale sector can be extracted and processed from

official statistical documents where the major difficulties are the different definitions and different categories of industrial sectors. These documents include the *Annual Survey of Industries,* the census by the Development Commissioner, Small Scale Industries, the surveys by the National Sample Survey Organisation, the State Industries Development Organisation survey, the Reserve Bank of India survey on bank-assisted small enterprises, and so on. Studies on various aspects of the small-scale sector, including comparative studies with other industrial sectors, have been done based on the data supplied by the documents mentioned above. See for example, J.C. Sandesara, "Small Scale Industrialization: The Indian Experience," *Economic and Political Weekly,* Vol.23, No.13 (March 26, 1988), pp.640–53; R. Nagaraj, "Trends in Factory Size in Indian Industry, 1950 to 1980: Some Tentative Inferences," *Economic and Political Weekly,* Vol.20, No.8 (February 23, 1985), pp.M26–M32; and K.B. Suri, ed., *Small Scale Enterprises in Industrial Development: The Indian Experience* (New Delhi: Sage Publications, 1988), which was followed by Nasir Tyabji's critical review, "Proving Small Industry's Inefficiency," *Economic and Political Weekly,* Vol.23, No.34 (August 20, 1988), pp.1744–48. Also see R. Nagaraj, "Some Aspects of Small Scale Industries in India: Findings Based on Two All-India Sample Surveys (Parts 1 & 2)," *Economic and Political Weekly,* Vol.20, No.41 and No.42 (October 12 and 19, 1985); and S.P. Kashyap, "Growth of Small-size Enterprises in India: Its Nature and Content," *World Development,* Vol.16, No.6 (June 1988).

18 *Economic Development of Mysore,* pp.125–26.

19 Kyōko Inoue, "1970-nendai no Karunataka seiji" [State politics in Karnataka in the 1970s], in *Minami Ajia gendaishi to kokumin tōgō* [National integration issues in contemporary South Asia], ed. Hiroshi Satō (Tokyo: Institute of Developing Economies, 1987).

20 A cash refund of the sales tax paid by a new industrial enterprise or raw materials purchased by it for the first five years from the date of commencement of production.

21 Handwoven coarse cloths.

22 Government of Karnataka, New Packages of Incentives and Concessions for Industrial Investments in Karnataka, June 3, 1988.

23 On December 9, 1988, the government modified the zonal categories. Later, five districts (Bidar, Belgaum, Bijapur, Chikmagalur, and Uttara Kannada) were declared industrially backward and categorized in Zone III; enterprises set up in those districts were eligible for concessions.

24 There is a reason for promoting the food processing industry as it is a major industrial sector where local entrepreneurs, many of whom are local agriculturists, have been active and are willing to participate. The government wants to encourage them to invest in industry.

25 Narendra Pani, "Stagnation in Industry—Growth in Welfare," *Economic Times,* January 10, 1988.

26 Narendra Pani, "Changes Not Adequate," *Economic Times,* June 6, 1988.

27 *Economic Times,* September 26, 1988.

28 Hosur district in Tamil Nadu is an example of a district enjoying a location advantage. Hosur has been declared as backward district by the Tamil Nadu state government and has been given state incentives and concessions meant for the state's backward districts. Although the district is remote from industrial centers in Tamil

Nadu, it is close to Bangalore. Within a few years after the Tamil Nadu state government began its incentive policy, quite a few industrial enterprises, both large-scale and small-scale, started to set up in the district. Most of the enterprises are connected with industrial enterprises in Bangalore for the supply of the materials and products. For example, TVS-Suzuki Limited which manufactures motorcycles relies on about fifty industrial enterprises in Bangalore for the supply of parts and other items. From author's interviews in March 1988.

29 Godbole, p.213.

30 *Deccan Herald,* June 6, 1988.

31 Godbole, pp.151–52.

32 *Deccan Herald,* June 6, 1988.

33 Yoginder K. Alagh, *Regional Aspects of Indian Industrialization: Structure and Policies* (Bombay: University of Bombay, 1972).