CHAPTER : I

EFFICACY OF INDUSTRIAL DISPERSAL POLICY

INTRODUCTION :

Planned development mainly aims at balanced development of different parts of the country, extension of the benefits of economic progress to less developed regions and wide spread diffusion of industry. Planning is vitally important in order to establish a more efficient economic system in the country. Before Independence, India's economic development was considerably poor. Even during Moghul regime no planning was devised for a balanced and steady economic growth of the country. Whatever attempts for economic planning were made in this country they were only after the Great Depression and the reconstruction following the World Wars. The Five Year Plan (1951) was the first seriously organized attempt in India in the sphere of planning.

In fact, all economic policies under various Five Year Plans have a bearing on industrialization. Their effects may be direct or indirect, slight or significant, immediate or delayed. They may help or hinder. Economic policies influence the rate of individual investment, the pattern of industrialization, the choice of product and techniques and the quality of economic performances. It would be wrong, however, to assume that policies are omnipotent. The effect of a policy depends both on its nature and on the responses of economic agents. These responses, in turn, depend on the characteristics of the situation in which economic agents find themselves. Policies may be essential but they do not necessarily constitute the whole of a good strategy for industrialization. However, the main thrust here is to analyse, in the light of the objectives of the balanced regional development, the efficacy of Economic Planning in India.

POLICY MEASURES UNDER FIVE YEAR PLANS :

* POLICY OF INDUSTRIAL DISPERSAL :

The First Five Year Plan - 1951-56 had inkling that "if industrial development in the country is to proceed rapidly and in a balanced manner, greater attention will have to be paid to the development of those states and regions which have so far remained backward". It had also recognised that the industrial development has so far been concentrated in a few selected areas.

The excessive concentration of industries brings in its train certain economic and social disadvantages. Therefore, a wider diffusion of industry is desirable from the larger point of view. It emphasises the importance of Licensing Policy (i.e. Industries (Development and Regulation) Act 1951) to regulate industrial location. It also realises that in the initial stages of development private industry was induced to choose a new location where "external" economies, on account of the prior development of ancillary services and facilities like banking, transport and communications, were inadequate. In the first plan the industrial development was in the form of expansion of existing industrial units. The first plan also emphasised that it would be desirable to give increasing preference to backward areas in the matter of location of new industrial undertakings. At the end of the first plan i.e during 1956, the first industrial policy resolution of 1948 was replaced by the New Industrial Policy Resolution of 1956 cogently urged the need for reducing regional disparities in industrial development. It stated: "in order that industrialization may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced".

It was with the Second Five Year Plan that the basic strategy of the government of India was precisely articulated recognizing the importance of the need of dispersal of industrial development which would be conducive to development in several related fields. The two main features of the second plan are the promotion of basic industries and the promotion of labour intensive consumer industries. Specifically with regard to industrial dispersal the plan suggested a three pronged strategy:

1. The National Development Council may recommend programme for setting up decentralized production.
2. In location of new enterprises, whether public or private, considerations may be given to the need of developing a balanced economy in different parts of

the country. More precisely, the location of industry may not be determined almost entirely on the availability of raw materials or other natural resources. A wide diffusion of development nuclei is essential from this point of view.

3. Steps may be taken to promote greater mobility of labour between different parts of the country and also to organize schemes of migration and settlement from densely populated areas to relatively less populated areas.

In brief, the Second Plan approach was sought to be translated into policy, to some extent, in the Industrial Estate Programme and in the location decisions for specific public sector projects. By the end of the Second Plan, Industrial Estates were set up in all states and increasingly and preferably they were to be located in the smaller towns and rural areas.

It was in the Third Five Year Plan that a separate chapter has been devoted to the "Balanced Regional Development". The Third Plan indicates that large scale industries, specifically basic and heavy industries frequently serve as a spearhead of intensive and broad-based development. It also recognizes the fact that, not all regions can offer equally favourable conditions for the development of industries. Apart from the basic and capital goods industries and other large industries, there are other industries whose possibilities need to be fully explored. Such industries are labour intensive industries of modern type, agricultural processing industries, forest industries, assembly operations and recreational industries. It also emphasises that each region should endeavour to identify, plan for and promote industries which are specifically suited to its conditions and for which it can provide relatively greater facilities. The plan exhorts that, "progress in different regions must be watched carefully, and additional steps be taken to speed up development in particular areas which are found to be seriously lagging behind". Therefore, in order to boost-up industrial dispersal programme following instruments were added during the Third Plan:

1. Licensing Policy was introduced as perspective instrument for the location decision of the private sector during the Third Plan.

2. In addition to this, the Third Plan also put forward the concept of large projects as nuclei for regional growth.

3. The Industrial Policy Resolution of 1956 visualises that facilities such as power, water supply and transport should be made available in areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment so that suitable industries could be established there. In order to give effect to this suggestion, the Third Plan included a proposal for setting up 'industrial development areas' in backward regions. In selected areas of such regions basic facilities like power, water and communications were to be provided and factory sites to be developed and offered for sale or on long lease to prospective entrepreneurs.

4. To improve the human quality index of the backward areas and to impart technical and engineering education to the local mass of the lagging regions, the following factors were incorporated in the Third Plan strategy.

   (a) Preferential treatment for backward areas in location of facilities for training of engineers, craftsmen, etc.

   (b) Technical training programmes in areas of high density to assist in the development of these areas as well as to facilitate labour mobility and

   (c) The development of competent administrative and technical personnel and the growth of small medium entrepreneurs.

5. It also lays emphasis on the need to disperse small industries. The first step in this direction should be to identify the areas in which various basic facilities such as electricity, larger supply of agricultural raw materials and improved means of transport will made available as a result of development envisaged in other sectors during the course of the Third Plan and to prepare programmes for assisting the growth of industries in such areas. An another essential step will be to provide various kinds of assistance such as training facilities, credit technical advice, tools and machines, etc. in an integrated manner to those who set up industries in the rural areas and small towns.

FINANCIAL STRATAGEM UNDER INDUSTRIAL DISPERSAL POLICY DURING AND AFTER FOURTH FIVE YEAR PLAN :

The approach to industrial dispersal adopted in the first three plans, had some effect but the results achieved were not considerably satisfactory. Therefore, it was suggested by the planners that efforts on much larger scale are necessary to bring about greater dispersal of industrial activity Therefore to boost up the programme of dispersal of industry and also to develop areas which are industrially lagging behind. These concessions were offered under various schemes as detailed below:

1. Capital Investment Subsidy.
2. Concessional Finance Scheme and
3. Transport Subsidy Scheme.

For the first time in the twenty years of planning, under the Fourth Plan regional studies were given prime consideration. Under the aegis of the government of India and the National Financial Institutions surveys of the backward states were carried out for the purpose of identifying specific prospects for investment.

Hence, during the Fourth Plan, it was realized that appropriate machinery should be created by which industries suited to the needs and potentialities of backward areas may be identified through techno-eco surveys and feasibility studies.

Further, in the Fifth Plan it was felt that an essential prerequisite for the accelerated development was the evolution of appropriate location-specific strategies based on careful identification of the causes of backwardness as well as that of the potentials available for the development. For evolving an appropriate policy frame and formulating operational programmes for backward areas, the Fifth Plan divided the backward areas in two broad categories:

(a) The areas which have 'unfavourable physio-geographic conditions' such as tribal, hilly, dry, etc and

(b) Economically backward areas which have adverse landman ratios, lack of infrastructure or inadequate development of resource potentials.

The Fifth Plan also witnessed a revival of the earlier policy of the development of infrastructure in the selected growth centres located in the backward areas. It was also proposed to undertake integrated planning to develop selected backward areas. Further, emphasis was laid on the provision of package of financial, marketing and other services to potential entrepreneurs for setting up new units in the backward areas.

INDUSTRIAL DISPERSAL: SMALL SCALE PROJECTS

During the Sixth Five Year Plan, the concept of practice of the dispersal of industry programmes was altered from large scale projects to small scale projects. At the onset of the Sixth Plan it was realised that the capital intensive industry would not by itself be the sort of growth catalyst that backward areas need. Further, it was also accepted that the problems of backwardness cannot always be tackled only at rural, block or district level. In short, local level development was emphasised in the draft of the Sixth Plan Document because there are clear limits to the role of Central assistance in the promotion of backward areas. State governments have a crucial role to play in evening out inter-state disparities, identifying local development potential and providing administrative and financial support required for local programmes. Special steps were suggested to enforce discretionary allocation gradually to local planning and implementation group to enable them to bring in local planning greater and greater magnitude gradually.

The National Committee (NCDBA) has dealt, at some length, with the policies and institutions required for promoting small industry in backward areas. These areas suffer from a lack of entrepreneurship and in the early stages of development of small industry may be the major activity at least for local entrepreneurs. Hence, promotion of small industries in these areas is of paramount importance.

In addition, as development of backward areas has to be expedited, a special allocation of Rs five lakhs per year for each block in the project area is required to be released as a special additive for the plan period. At the time of formulation of the 1978-83 plan, it was felt that the working of various policies and programmes for accumulating the development of these areas need to be reviewed and a suitable strategy for the development of backward areas be formulated. The Planning Commission, therefore, decided to set-up a National Committee on the Development of Backward Areas vide resolution of even number dated the 30th November 1978 whose term was further extended upto 30th November 1981.

One of the major terms of reference of the committee as stated in the resolution was to review the working of existing schemes for stimulating industrial development in backward areas such as concessional finance, investment subsidy, transport subsidy, sales-tax concessions etc

In the Report on Industrial Dispersal, the committee recognizes that there are economies of agglomeration and that the new centres which have to be developed away from existing centres must be of sufficient size. Hence the committee combines the dispersal approach with a growth centre approach. The salient features of the specific recommendations of the committee for operationalising the strategy are enumerated briefly hereunder.

1 Population and the distance may be used as the cutoff criteria for the selection of centres for the development of medium and large industry.

2. In the Sixth Plan, 100 such centres should be selected for development out of all eligible towns

3. Each growth centre should be managed by an Industrial Development Authority for which IDBI, HUDCO would provide the necessary infrastructural support as well as mobile funds.

4. State governments should undertake to provide the requisite infrastructural facilities at the selected locations and to orient their own promotional efforts

in the same direction. Urban development programmes may be used in these centres on a priority bases.

5. The schemes of central capital subsidy, concessional finance and income-tax concessions may continue for the Sixth Plan period for all small industries located outside the cut-off areas specified under recommendation, whether they are located in a growth centre or not.

The Committee further suggested that the nucleus plant approach outlined in the Industrial Policy Resolution of July 1980 can be used in the industrially backward areas as identified in the recommendations regarding the Central subsidy and concessional finance scheme.

It also suggested modifications in existing incentives scheme. In this connection, it suggested that the industrial dispersal would be more effective if the Central Subsidy was given only to areas which were not near existing industrial centres.

Inspite of all these, it was felt that resource redistribution and special schemes were not the ultimate solution to this problem. What was required was that along with a systematic attempt at identification of barriers there should be devising measures to overcome them through collective efforts. In short, in the Sixth Five Year Plan, following aspects were emphasized in order to stimulate growth in backward areas:

1. Rural Development
2. Employment generation
3. Integrated area development and
4. Appropriate technology.

From 1st April 1983, backward districts were classified in to three categories, viz, A, B and C, according to the degree of industrial backwardness, each receiving varying levels of subsidies. Category A districts included 134 districts of which 91 No-Industry Districts had no medium or large-scale industrial units. Category B included 54 districts. In this category districts which industrial projects were entitled to Central

Investment Subsidy in the light of the scheme of incentives of the government of India. Category C included 113 districts, in which the industrial projects which had been earlier entitled only to concessional finance from financial institutions, were considered eligible also for Central Investment Subsidy.

A special scheme for developing infrastructure in No-Industry Districts was also introduced.

The government of India decided to set up two growth centres in each 'No Industry District' and for the purpose of identifying them, the criteria of 'growth centre', as elaborated in the NCDBA report on Industrial Dispersal, was adhered to.

The items of need-based infrastructure which would qualify for central assistance were, approach roads, industrial water supply, other social infrastructure like housing, schools, hospitals, dispensaries, etc, affluent discharge system, consumer utilities and facilities like power sub-stations, drainage, culverts industrial housing, technical training facilities and such other facilities as are normally provided in growth centres by the state government. Effective from 19th January 1985, the union government decided to make the following agreement regarding sharing finance between central/state governments and IDBI in-so-far as development of infrastructure in the growth centre in a No-Industry District is concerned :

(i) The cost of infrastructural development scheme for each No-Industry District could be normally up to Rs 6 crores. The amount of the expenditure could be split into three equal shares : (1) Rs 2 crores as subsidy by the central government, (2) Rs 2 crores to be contributed by the state government and (3) the remaining Rs 2 crores as 'Area Specific Infrastructure Development Loans' from IDBI on concessional terms.

(ii) Within the maximum limit of Rs 6 crores for each No-Industry District minimum one growth centre per No-Industry District had to be established. However, in case the State government desired to establish more than one growth centre per No-Industry District, it could be allowed only within the total limit of Rs 6 crores for expenditure.

(iii) The cost of acquisition of land including that of land development was not to exceed 1/10th of the cost of scheme. The cost of land exceeding Rs 60 lakhs or 1/10th of the total cost of the project, whichever is lower, was to be an additional liability of the state government. The area of Industrial Estates should be limited minimum to 200 acres and maximum to 800 acres The cost of land acquisition was to be included in the amount of Rs 6 crores allocated to each No-Industry District. The contribution of state government towards acquisition of land or transfer of and was to be taken into account towards the state government's contribution of Rs 2 crores per No Industry District (1).

With changing economic & industrial scene in India and abroad after 1985 a new phase of industrialization commenced, a phase which was marked by greater emphasis on technical progress and productive efficiency. The major thrust in the New Programme of accelerated industrialization would be towards mass consumption goods and export oriented industries. The pattern of growth envisaged for the Seventh Five Year Plan was expected to contribute towards the reduction of inter-regional disparities in levels of development. The Seventh Plan also envisaged the contribution of investment subsidy, transport subsidy, concessional finance and other promotional measures to industrial units set-up in backward districts. It recognised the importance of growth centres and nucleus plants. It provided that " in order to make the maximum use of the existing infrastructure, emphasis would be laid on the growth centre concept for promotion of industries in these less developed areas. The location of nucleus plants and promotion of ancillarisation would be encouraged around the growth centres so selected or identified " (2).

The Union government further in 1987 liberalised licensing procedures for companies coming within the ambit of the MRTP Act and FERA in order to accelerate industrial development in backward areas. Now the delicensing for MRTP and FERA companies has been extended to 28 industries coming under Appendix - I of the Industries (Development and Regulation) Act, 1951 and 24 non-Appendix-I industries, subject to the condition that these are located in backward areas. In case of non-Appendix-I industries delicensing facility would only be extended to units set up in Category 'A' of backward districts and not to those set up in Category 'B' and 'C' backward districts.

New Growth Centre Scheme :

For promoting industrialization in backward areas, the government of India announced in June, 1988 a scheme to develop growth centres in all States/Union Territories. These growth centres would be endowed with adequate infrastructural facilities like power, water, communications, banking etc. so that they would act as magnets attracting industries to these areas. It was decided to develop about 70 growth centres during the Eighth Plan.

It was pointed out in the Eighth Plan document that a policy for locating industries near small districts towns, not yet industrialized so far, might prove more effective and would also help the general economic climate for growth in each district.

Against the idyllic dreams envisaged by our planners, our real experience since the Independence shows that these promises and commitments of the policies had been either too misguided or too inadequate and unrealistic to be fulfilled in India's political framework. A realistic appraisal of whether India's policies and promises have fallen short of the promises and commitments is necessary to determine the optimal policy mix for its economy and to judge, in perspective thereof, the present and prospective governmental actions and programmes towards development of industrially lagging states/regions. To this task we shall now turn.

EFFICACY OF MEASURES TAKEN UNDER VARIOUS FIVE-YEAR PLANS FOR DISPERSAL OF INDUSTRY :

A need to tackle the problem of regional disparity in industrial development has been recognised in all the plan documents and corresponding Industrial Policy Resolutions and their Amendments.

During the First Plan period there was complete absence of a direct approach and the emphasis was chiefly on importance of Licensing Policy (i.e. Industries Development and Regulation Act 1951). Mainly because, during the First Plan industrial development was in the form of expansion of existing industrial units. Moreover, the share of industry in overall investment was very limited. The First Plan did not talk explicitly about the problem of regional inequalities or of backward area development except in the context of industrial location. It appears, however that the planners, at that time, placed some emphasis on the need to work out regional plans. Thus the plan states as follows:

"Except in the smaller states, it is often desirable to prepare development programmes in terms of regions determined by physical, economic and administrative considerations. The need and priorities of different regions as well as their potential for short term and long term development should be taken into account in drawing up and continually review their development programmes (3).

It is unfortunate that this very laudable suggestion of a regionalization of state and central plans has not been achieved even forty years after it was first suggested.

The efficacy of Industrial Dispersal strategy had undoubtedly been impaired by the inefficiency which was resulted from the Indian framework of Licensing Policy. Because there was complete absence of specific provisions in the Industrial Development and Regulation Act that sought to give an incentive to industries set up in backward areas. It is also worth adding that, while taking a final view on industrial licensing application, various other factors viz, priorities in the national interest, the nature of projected demand, and scope for further licensing effect on balance of payments, etc. also need to be kept in mind despite its desirability of locating industries in industrially backward areas. Therefore, it is a passive instrument and cannot by itself promote industrial development in industrially backward areas. It can, at the most, impose certain restraints on the pace of expansion in developed areas and thereby make it somewhat easier to attract entrepreneurs to industrially backward areas. The failure of the licensing policy can be traced according to Bhagwati and Desai, to political pressure. They state: "there was a scramble for most industrial licenses, thus, creating a great political pressure for dividing up each target among as many states as possible with the licensing committee, aided in turn by clues to optimal size location, and phasing of expansion of plants by its techno-eco counsel"(4). It is evident that due to inherent loopholes in the licensing policy, big business houses could capture licenses in large number and in that concentrate industries in developed states like Maharashtra, Gujarat, Tamil Nadu and West Bengal.

The concept of large projects as the nuclei for regional growth put forward during the Third Plan proved vague. Because it was realised and hence recognised during the Sixth Plan that the experince with large industrial projects in backward areas showed that their spread effects were low and surrounding areas continued to remain poor and underdeveloped. The classic case is the Jamshedpur Complex in Bihar which could not lead to much complementary growth in the rural areas away form the huge urban complex. Since independence many large industrial projects have been set up in backward areas. In most of these projects neither the direct involvement in the construction of these projects nor the secondary and tertiary growth opportunities could be availed of to any extent by the people of the surrounding areas. But even for the dispersal of small-scale industry, which is a real growth catalyst, disguised guide line was given under various Five Year Plans.

The problem of small scale industry policy is that it has not benefited the really small units. Due to the cumbersome procedures and non-existence of the promotional and service network in smaller towns and villages, the concessions and assistance have reached only the not so-small sector. It is realised that the existing administrative and service agencies are not sophisticated enough to meet diverse needs of decentralized sector, which has substantial growth and employment potential.

The idea of location of new enterprises was based on uneconomic and adhoc assumptions. The location was considered neither on cost aspect nor on any survey conducted to identify backward areas to set up suitable industry. Further, there was a complete absence of appropriate machinery which would undertake various technoeconomic survey to identify backward areas. No doubt, this defect was noticed by the government during Fourth and Fifth Five Year Plans. Hence during this period it was rectified by conducting collaborative surveys of industrially backward areas for the purpose of identifying specific projects for investment.

Menon (1979) in his study, shows that it is the more developed states that have been more successful in getting a larger proportion of the districts declared as backward by the Planning Commission. K R G Nair (1979) also concludes that the Planning Commission generally declares such districts as backward which have indicies above the state average. Further, the districts of the developed states classified thus are much better off than even the most developed districts of the backward states.

So far, following are the concessions, subsidies and incentives offered by the Union Government under subsequent Five Year Plans to disperse industry:

(a) Investment Subsidy

(b) Concessional Finance Scheme and

(c) Transport Subsidy Scheme.

Almost all of these schemes are related entirely to capital investment in the project and have no relavence to employment potential As compared to the incentives offered in other countries, this is a major lacuna in our planning strategy. The detailed analysis on the concessional Finance Scheme is given in the Chapter II.

The Programme Evaluation Organisation (PEO) was set up by the Planning Commmission to evaluate the incentive schemes offered under Concessional Finance and Central Investment Subsidy in selected industrially backward areas in 1975 i.e. after about five years of the implementation of the scheme. It submitted its report in 1981. It was felt by the PEO that different development strategies based on workable infrastructure and adequate resource endowment were absent for a proper package of incentives. Various surveys of industrially backward districts reveal that detailed planning was not gone through. It was also found that existing infrastructural facilities were not utilized properly.

The PEO also noted that there was no systematic identification of prospective entrepreneurs in the selected industrially backward districts. The Small Industry Service Institute (SISI) was not strengthened for better coverage of industrially backward districts. Moreover, the screening of prospective entrepreneurs and their training was not up to the mark. Moreover, the training programmes offered by private institutions were not evaluated and updated.

The PEO also mentioned that central investment subsidies were not distributed equally. The following were the major bottlenecks observed in implementing the schemes:

(a) non-formation of co-ordination committees in some districts;

(b) poor coordination among various agencies;

(c) meagre measure of self-dependency at the district level, and

(d) absence of monitoring regarding the effectiveness of different programmes

In addition to the Union government incentives, state governments plan provided a number of incentives, such as : **(a)** interest free sales tax loans offered by state governments of Andhra Pradesh, Gujarat, Maharashtra and Tamil Nadu, **(b)** exemption from Sales tax, and **(c)** a capital subsidy offered by the government of Karnataka. But the National Committee on the Development of Backward Area (1981) reports that the major part of union government incentives has been beneficiary mainly to those states and union territories which are not categorized as industrially backward regions by the Pande Committee. The Committee further reports that most of the districts which received the benefits are "in close proximity to relatively developed industrial centres (5). Further up to 1985-86, about Rs. 4000 crores have been disbursed as central subsidy to units located in backward areas. Since its inception, states like Tamil Nadu, Rajashtan, Andhra Pradesh, Madhya Pradesh and Gujarat have been more fortunate and active to avail of this subsidy. This accounts to about 46% of the total amount subsidy (6).

The regretting fact is that truely lagging regions of the Eastern part like Orissa, Bihar and West Bengal are yet to be initiated in attracting industries to their backward areas. This implies that so far only the areas neighbouring industrialized centres have received such assistance and that a new strategy needs to be evolved so that the assistance reaches really needy areas at remote centres.

The scheme of Growth Centre is the only instrument available since 1985 for facilitating industrial dispersal During that time under the wave of libralization licensing in most of the sectors has been gradually abolished. However, the pace of implementation of the new growth centre scheme has been very slow. The criteria of selection of Growth Centres would further dissuade the national goal of reducing regional disparities in the industrial development.

The planners, with a lackadaisical approach, failed to recognize and identify the factors responsible for cronic fiscal problems that some states experienced at the time the planning efforts were initiated Some of industrially developed areas like West Bengal have lagged behind the states like Maharastra, Tamil Nadu and Gujarat because of their inability to transform their capital stock into modern fields of industry such as chemical, petro-chemicals and the like. Particularly in the case of West Bengal, decline in demand for railway transport equipment has hurt its traditional engineering industries. This has led to a continuous erosion of financial resources compounding forces leading to decline in industrial growth.

Till the beginning of the Eighth Five Year Plan, the efforts to study the impediments to the development of industrially lagging areas did not yield concrete and sound results which would unable us to waterdown them.

FOOT NOTES :

1. The Director, The Department of Industrial Development, Ministry of Industry and Company Affairs, Government of India, New Delhi, Circular letter Number 14/1/1981 - DBA-I, dated 19-1-1985 addressed to Secretaries/Directors of Industries of States on the subject Central Assistance for Development of Infrasructural facilities in No-Industry District-procedure therefor.

2. Planning Commission, Government of India, Seventh Five Year Plan - 1985-90, New Delhi.

3. Planning Commission, Government of India, First Five Year Plan - 1951-56, New Delhi.

4. Bhagwati J. and Desai P. (1970) India-Planning for Industrialization, Oxford University Press, London.

5. Adiseshiah Malcoms (1985) Some thoughts on the Seventh Plan - 1985-90, Dialogue Publication, New Delhi.

6. Planning Commission (1988) Mid-term Appraisal of Seventh Five Year Plan (1985-90) Government of India, New Delhi.