Indira Gandhi
National Open University
School of Social Sciences

EEC-12
Indian Economic Development since Independence

Block

5

INDUSTRY IN INDIA

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BLOCK 5 INDUSTRY IN INDIA

Introduction

In this block we consider an important sector of the Indian economy, that is, the industrial sector. Here we discuss the policies as well as problems surrounding this sector.

This block consists of three units. Unit 16 describes the components of industrial sector in India. It also brings out two major problems of the sector such as unequal distribution of industries across states and industrial sickness. Unit 17 provides a brief review of the role of the state in industrial development. It assesses the development strategy and policy regimes governing this sector. The final unit, i.e., Unit 18 brings out the role of small-scale industries. It highlights the public policy towards this sector and problems confronting it.

UNIT16 INDUSTRIALISATION: CONCEPTS AND PROBLEMS

Structure

16.0 OBJECTIVES

After going through this unit you should be in a position to:

- Explain the concept of industrialisation;
- Analyse various activities included in industry;
- Analyse the problems created by heavy industry strategy of industrialisation;
- Define industrial sickness; and
- Explain factors responsible for industrial sickness.

16.1 INTRODUCTION

The attainment of Independence by India on August 15, 1947 made a tremendous difference to her industrial landscape. Indigenous enterprise was no longer required to function as the follower of foreign interests. At the time of Independence industrial production in India had declined but population was increasing. After Independence, the core strategy adopted was rapid industrialisation through investment on heavy, basic and machine-building industries. Investment in the heavy industries helps in building up a larger volume of capital stock. Also they lay the foundation for a strong and self-reliant economy, mainly through rapid expansion of all the sectors of the economy and by eliminating the dependence on imports of essential machinery and equipment.

In the beginning, as investment in the heavy sector was very high, gestation period was too long and profitability was low, the Government felt that heavy industries should be, by and large, in the public sector. The private sector was also expected to function in harmony with the overall aims and policies of economic planning. The development strategy took India to the position of the tenth most industrialised country of the world. The industrial policy pursued in India would be discussed in the next unit. Here we confine ourselves to analysis of various segments of industrial sector and some of the major problems before the sector.

16.2 CONCEPT OF INDUSTRIALISATION

The United Nations Economic and Social Council (UNESCO) in 1963 defined industrialisation in this way: "Industrialisation is a system of economic development in which the major part of the national resources are used to develop a technically up-to-date, diversified national economy capable of assuring a high rate of growth for the economy as a whole and of overcoming economic and social backwardness."

This definition of industrialisation emphasises the following factors:

1) Industrialisation involves a process in change of the technique of production from the outdated to a modern one.
2) Industrialisation is undertaken with a view to accelerating economic development so that the level of living of the people can be improved.
3) Industrialisation can establish a multi-sectoral base by modernisation and also develop a diversified national industry. This does not imply that the development of heavy or capital goods sector is a pre-condition of industrialisation. This may happen, but is not necessary. An economy can be industrialised in several other sectors and the surplus generated can be exported to acquire capital goods.

In a nutshell, this definition does not prescribe a rigid sequence to be followed in the industrialisation strategy of an economy.

As against this approach, in Marxist economic literature, the term 'industrialisation' is used in two different senses. In the narrow sense, it refers to the establishment and development of heavy and basic industries or production of the means of production. But in a broader sense, it signifies the completion of industrial revolution by adopting industrial (mechanised) methods of production for all sectors of the economy. In fact, these two meanings of industrialisation indicate the initial and the final stages of industrialisation.

In the initial stage, the process of industrialisation involves the setting up of heavy industry and as the process gathers momentum, and the economy is able to build an industrial base, the process of transferring the entire economy to industrial methods of production. The Marxist definition of industrialisation, therefore, prescribes a sequence of industrialisation by first developing the heavy industry or the production of the means of production and after creating an industrial base, to transform the entire economy in the second stage to industrial methods of production. In fact, the Marxist model of industrialisation had its origin in the character of development of the Soviet Union. The soviets in the initial phase undertook the development of heavy industry. The Soviet Union did have the potential to develop both light and heavy industry, since it had a large population, adequate primary resources in the form of availability of primary factors of production such as land, mines, transport and communications and large home market. Despite that the Soviet Union opted and decided to transform the entire economy to the industrial methods of production at a later stage.

The conditions in India at the time of Independence were more or less, similar to those prevailing in the Soviet Union. It could develop both light and heavy industry. But the Indian planners opted for the development of heavy industry in the first stage. It may be clarified that heavy industry includes all industries producing capital goods, which enlarge the productive capacity of the economy. In this sense, it also includes railways and infrastructure in the form of hydro and thermal electric power projects. This policy of developing heavy industry was incorporated in the Industrial Policy of 1956.

Professor P.C. Mahalanobis, who was the architect of the Second Plan, clearly favoured the development of heavy industry as the basic strategy of Indian economic development. He was supported by Jawaharlal Nehru, the first Prime Minister of India who considered the development of heavy industry to be synonymous with industrialisation. Nehru categorically stated: " If we are to industralise, it is of primary importance that we must have the heavy industries which build machines". In another reference, he mentioned: "There are some who argue that we must not go in for heavy industry but for lighter ones. Of course, we have to have light industries also but it is not possible to industralise the nation rapidly without concentrating on the basic industries which produce machines which are utilised in industrial development."

Nehru's philosophy of industrialisation was incorporated in the Second Five Year Plan, which clearly stated:

"In the long run, the rate of industrialisation and the growth of the national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals and heavy industries generally – which increase the capacity for capital formation. One important aim is to make India independent as quickly as possible of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible speed."

Since private sector was not willing to invest in heavy industry, which had a long gestation period and a relatively low rate of return, the task of development of heavy industry was assigned to the public sector. It was, therefore, argued that public sector would be the engine of growth. However, private sector was expected to supplement the efforts of the public sector.

Check Your Progress 1

1) Discuss the meaning of industrialisation. Does the process of industrialisation require a rigid sequence of industries to be developed at various stages?

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16.3 COMPONENTS OF INDUSTRIAL SECTOR IN INDIA

In Block 1 we learnt that economic activities could be broadly divided into three categories, often termed as three main sectors of the economy, viz., primary, secondary and tertiary. In this sort of division, industrial activities are included in the secondary sector. You might have noticed earlier, in Block 1, that secondary sector includes two major groups: industry and construction. Thus construction activities, although constitute part of secondary sector, are not considered as part of industrial sector. The secondary sector has a share of about 27 per cent in GDP of India for the year 1999-2000 (at 1993-94 prices).

16.3.1 Types of Industrial Activities

The industrial sector includes three main activities: i) Manufacturing, ii) Electricity, Gas and Water supply, often referred to as Electricity, and iii) Mining and Quarrying, often referred to as Mining. Manufacturing activities has the largest share in the industrial sector, about 80 per cent.

Manufacturing activities are divided into two major sub-divisions: i) the Factory Sector, and ii) Non-Factory Sector. The factory sector is also called 'registered sector' or 'organized sector'. You may note that all industrial establishments, which employ 10 or more workers working with the aid of power (20 or more workers if working without the aid of power), are required to be registered under the Indian Factories Act, 1948. Hence, these industrial units are termed registered sector. The remaining industrial units, those employing less than 10 workers working with the aid of power (less than 20 workers if working without the aid of power) are included in the non-factory sector. This sub-sector is also termed as unregistered sector or unorganized sector. Generally it includes household enterprises and small-scale non-household enterprises. For the year 1999-2000 the share of various segments in industrial sector are given in Table 16.1.

Table 16.1: Percentage Distribution of Industrial Activities(for 1999-2000 at 1993-94 prices)

Sl. No.	Sub-Sector	Percentage Share
1.	Manufacturing (= a+b) a. Registered b. Unregistered	63.57 42.01 21.56
2.	Electricity	9.29
3.	Mining	8.55
4.	Construction	18.96
5.	Industrial Sector (= 1+2+3)	81.04
6.	Secondary Sector (=1+2+3+4)	100.00

The Central Statistical Organisation (CSO) collects data on all industrial units on a regular basis. Information on various production aspects of the factory sector is collected every year on a yearly basis in the form of Annual Survey of Industries. On the other hand, data on non-factory sector are collected every five-year.

The CSO has divided industrial establishments into 20 major industry groups. Such grouping is called the two-digit classification. For each group there is further sub-classification at 3-digit level. For example, in the 2-digit group paper and paper products we have further sub-groups of newsprint, printing and different paper products at the 3-digit level. We present these industry groups (at 2-digit level) in Table 16.2 along with their share in registered manufacturing.

Table 16.2: Share of Industry Groups in Registered Manufacturing Output

Industry code	Industry name	Percentage share (1997-98)
20-21	Food Products	9.32
22	Beverages and Tobacco	3.09
23	Cotton Textiles	4.27
24	Wool, Silk and Fibre Textiles	3.79
25	Jute and other Vegetable Fibre Textiles	0.95
26	Textile Products	2.52
27	Wood and Wood Products	0.29
28	Paper and Paper Products	2.82
29	Leather and Leather Products	0.91
30	Chemical and Chemical Products	18.57
31	Rubber and Rubber Products	6.19
32	Non-Metallic Mineral Products	4.47
33	Basic Metals and Alloys	15.95
34	Metal Products, except Machinery & Equipment	2.49
35-36	Machinery & Equipment other than Transport Equipment	14.52
37	Transport Equipment and Parts	7.98
38	Other Manufacturing Industries	1.88
Total		100.00

16.3.2 Use-based Classification

Industrial activities mentioned in the previous sub-section do not have the same impact on economic development. For example, iron and steel is used as a basic intermediate input in manufacture of other products while bread is a food product used for consumption. Variation in the contribution of iron and steel, and food products set altogether different growth path for the economy. Thus it is important to group industrial activities according to the nature of products they produce.

Manufacturing activities are divided in to four major groups on the basis their end-use. Such use-based classification helps in identifying the structural changes taking place in the economy. These four use-based categories are i) Basic goods, ii) Intermediate goods, iii) Capital goods, and iv) Consumer goods. Consumer goods are divided again into two sub-categories: i) Consumer Durables, and ii) Consumer Non-durables.

Basic goods include salt, fertilizer, heavy chemicals, cement, basic metals, electricity and mining. Intermediate goods include textile spinning, wood, newsprint, leather, rubber products, petroleum products, and certain categories of chemicals and non-metallic mineral products. On the other hand, capital goods include all types of machineries, machine tools and transport equipment, except consumer durables. In the category of consumer goods, consumer durables include furniture and fixtures, office and household equipment, electrical and telecommunication equipment, vehicles, etc. On the other hand, consumer non-durables include food products, textile, footwear, paper products, drugs & pharmaceuticals, etc.

Check Your Progress 1

1) Distinguish between the following concepts:

i) Secondary sector and Industrial sector
ii) Manufacturing sector and Industrial sector
iii) Consumer durables and Consumer non-durables

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16.4 REGIONAL CONCENTRATION OF INDUSTRIES

In Block 1 we discussed the problem of regional imbalance as one of the current issues in India. We learnt that some of the states have remained backward in terms of economic variables while others have fared better. Such disparity has widened over time, which implies that poor states have become poorer while rich states have become richer. Such a feature is prominent when viewed in terms of industrial development.

As the process of industrialisation progressed in the country, it was noted that it led to regional concentration of industries. Four states, viz., Maharashtra, Tamil Nadu, Gujarat and Andhra Pradesh have been the principal beneficiaries of industrialisation. From Table 16.3 you can observe that these four states accounted for 53 per cent of the total number of factories and provided 48.5 per cent of total factory employment during 1997-98. In terms of industrial output and value added, the share of these states was 51 per cent and 47 per cent respectively. This conveys disparities across states because these four states account for only 28.7 per cent of total population in India.

Table 16.3: Regional Location of Industries 1997-98

States	No. of factories	Fixed Capital	Person Employed	Output	Value Added	Population
Maharashtra	15.15	18.1	14.76	21	21.67	9.33
Tamilnadu	14.57	8.26	12.85	10.01	8.66	6.60
Gujarat	9.88	15.24	8.80	12.87	9.23	4.88
Andhra Pradesh	13.84	7.52	12.09	6.88	7.43	7.86
Total of above 4 states	53.44	49.11	48.5	50.75	46.98	28.7
Rest of India	46.56	50.89	51.5	49.25	53.02	71.3
All India	100	100	100	100	100	100

Note: Computed from Annual Survey of Industries 1997-98

Maharashtra has gained the most since the share of this state in total factory industrial output was 21 per cent and in value added was 22 per cent although it accounts for 9 percent population in the country. At the other extreme is Bihar, which has a very large population but ranks low in terms of number of factories. In terms of number of factories and industrial output produced, Uttar Pradesh ranks quite high. However, it has a very high percentage of population also. Thus it cannot be considered as an industrially developed state.

The regional imbalance in the growth of factories, value of industrial output and value added indicate that the country did not succeed to develop a balanced regional pattern of industrialisation. Secondly, poor states have low level of industrial development.

16.5 INDUSTRIAL SICKNESS

Indian industries, large, medium and small scale, are afflicted with the problem of industrial sickness. It would be of interest to study this problem.

16.5.1 Definition of Sickness

Industrial sickness is said to prevail when an industrial unit suffers losses year after year and in the process the accumulated losses lead to an erosion of its net worth. According to the Sick Industrial Companies (Special Provisions) Act (1985), a sick company means a medium or large (i.e., non-SSI) industrial company which at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in the financial year and the financial year immediately preceding such financial year. This definition does not cover government companies, shipping companies and small-scale industrial units/ancillary units.

However, before being declared a sick company, a unit does become 'weak'. It is necessary to initiate action at the stage when a unit is considered to be 'weak' so that it does not slide into the category of a sick unit. Any industrial unit is termed as weak if at the end of any accounting year, it has accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediate preceding five accounting years.

The term 'net worth' implies the sum total of 'paid-up capital' and 'free reserves'. Free reserves mean all reserves credited out of the profits and share premium accounts.

Since industrial sickness is widespread among small scale industries (SSIs), the definition of a sick SSI-Unit adopted in 1989 states: "A small industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years".

16.5.2 Incidence of Industrial Sickness in India

Industrial sickness has been growing in India during the last decade. It has not only penetrated some of the traditional industries like cotton textiles, jute, sugar and paper but has also affected some important industries, established more specially after Independence like engineering, chemicals, iron and steel, cement, etc.

Growing sickness in the industrial sector results in locking up a substantial amount of bank credit loaned to industry. It, therefore, signifies wastage of resources.

Table16.4: Industrial Sickness in India at the end of March, 1994

	No. of Sick Units	Total Bank Credit Locked-up (Rs. Crore)	Per cent of Total
1. Non-SSI Sick Units	1909	8151	59.5
2. Non-SSI Weak Units	591	1864	13.6
3. SSI Sick Units	2,56,452	3680	26.9
Total	2,58,952	13,695	100.0

Source: RBI, Report on Currency and finance (1994-95).

As on 31st march, 1994, in the large and medium industries sector (referred to as Non-SSI sector), there were 1,909 sick units in which total bank credit of the order of Rs.8151 crore was locked up. Along with them, there were 591 Non-SSI weak units, which had a total locked-up bank credit of the order of Rs.1,864 crore. Taking both of these together, in the large and medium sector a total of Rs.10,015 crore of bank credit was locked-up in 2,500 Non-SSI sick and weak units, accounting for nearly 73 per cent of the total bank credit. Besides these, there were 2,56,452 SSI sick units in the small-scale industries sector and a total of Rs.3680 crore were locked up in them. This implies that nearly 27 per cent of bank credit was locked up in SSI sick units.

Table 16.5: Industry-wise Classification of Sick and Weak Units in Large and Medium Industries

(as on 31st march, 1994)

	No. of Sick and Weak Units	Per cent of Total	Outstanding Bank Credit	Per Cent of Total
Textiles	466	18.7	2018	20.1
Engineering	297	11.9	1303	13.0
Chemicals	207	8.3	866	8.6
Iron and Steel	142	5.7	749	7.5
Electrical	87	3.5	768	7.7
Paper	134	5.4	405	4.0
Cement	67	2.7	336	3.4
Sugar	32	1.3	100	1.0
Jute	44	1.8	187	1.9
Rubber	52	1.7	129	1.3
Miscellaneous	975	39.0	3154	31.5
Total	**2500**	**100.0**	**10,015**	**100.0**

Source: RBI, Report on Currency and Finance (1994-95)

Data given in Table 16.5 reveal that five industries, viz., textiles, engineering, chemicals, iron and steel, and electrical accounted for a total of 1,199 weak and sick units in the large and medium industries and they accounted for a total of Rs.5704 crore of locked-up bank credit (about 57 per cent of total). This indicates a high degree of concentration of sickness in these five industries. There is no doubt that sickness was prevalent in paper, cement, sugar, jute, rubber, etc. but the magnitude in these industries was rather very small.

State-wise Analysis of Industrial Sickness

Data given in Table 16.6 provides information regarding the number of non-SSI (sick and weak units) and SSI sick units and the corresponding outstanding bank credit across states. The number of units can be a misleading indicator because the units involved may be of different sizes. The more important indicator is outstanding bank credit. Taking this as the basis, the data reveal that seven industrially advanced states (Maharashtra, West Bengal, Uttar Pradesh, Andhra Pradesh, Gujarat, Tamil Nadu and Kerala), account for Rs.7376 crore (74 per cent of total) of outstanding bank credit in Non-SSI sick and weak units. In the SSI sick units, these 7 states account for Rs.2593 crore of outstanding bank credit (70.5 per cent of total). Taking all units together, a total of Rs.9,969 crore (72.7 per cent of total) outstanding bank credit was locked up in these states. This indicates a sufficiently high degree of concentration of industrial sickness. Maharashtra was at the top with locked-up bank credit of Rs.2677 crore (19.5 per cent), followed by West Bengal Rs.1761 crore (13 per cent), Uttar Pradesh Rs.1256 crore (9.2 per cent).

Table 16.6: Statewide Analysis of Industrial Sickness in India

(on 31st March, 1994)

	Number of Units		Outstanding Bank Credit (Rs.crore)			
	Non-SSI (Sick and Weak)	SSI Sick	Non-SSI (Sick and Weak)	SSI Sick	Total	% of Total
1. Maharashtra	436	21,350	1909	768	2677	19.5
2. West Bengal	292	56,083	1401	360	1761	12.9
3. Uttar Pradesh	201	33,915	948	335	1275	9.3
4. Andhra Pradesh	263	13,842	993	263	1256	9.2
5. Gujarat	222	7,812	862	235	1097	8.1
6. Tamil Nadu	207	8,125	644	428	1072	7.8
7. Karnataka	151	15,145	627	204	831	6.1
Sub-Total (1 to 7)	1772 (70.9)	1,56,272 (60.9)	7376 (73.6)	2593 (70.5)	9969 (72.7)	72.7
8. Kerala	85	10,792	519	169	688	5.0
9. Haryana	88	1,669	366	80	446	3.3
10. Bihar	71	17,063	322	114	436	3.2
11. Madhya Pradesh	117	9,795	283	144	427	3.1
12. Orissa	61	17,235	281	75	356	2.6
13. Rajasthan	82	14,665	225	75	300	2.2
14. Punjab	51	2,434	122	65	187	1.4
15. Assam	35	14,210	145	40	185	1.4
16. Others	138	12,317	376	325	701	5.1
Total (1 to 16)	2,500 (100.0)	2,56,452 (100.0)	10,015 (100.0)	3,680 (100.0)	13,695 (100.0)	100.0

Source: Compiled from RBI, Report on Currency and Finance (1994-95).

Table 16.7: Growth of Industrial Sickness in India

	Outstanding Bank Credit (Rs. Crore)		Average Annual Growth Rate
	Dec.1980	March 1994	
Non-SSI Units (Large and Medium)	1520	10,015	15.6
SSI Sick Units	306	3,680	24.9
Total	1826	13,695	16.8

Growth of Industrial Sickness

Table 16.7 provides information about the growth of industrial sickness during

1981-94. The data reveal that in the large and medium Non-SSI units, total outstanding bank credit increased from Rs.1520 crore in December, 1980 to Rs.10,015 crore in March, 1994. The annual average rate of growth works out to be 15.6 per cent. As against it, outstanding bank credit in SSI sector increased from Rs.306 crore in December 1980 to Rs.3680 crore in March 1994, indicating an annual average growth rate of 24.9 per cent. This implies that incidence of industrial sickness has been growing at a faster rate in the SSI units as compared with Non-SSI units. Taking both the sectors together, outstanding bank credit increased from Rs.1826 crore to Rs.13,695 crore, indicating an annual average growth rate of 16.8 per cent.

17.5.3 Factors Responsible for Sickness in Large Units

Two sets of factors are responsible for industrial sickness: external and internal.

Among the external factors can be listed (i) government policies pertaining to production, distribution and prices, (ii) change in investment pattern as a consequence of new priorities in the plans, (iii) shortage of power, transport, raw materials, and (iv) deteriorating industrial relations.

Government policies have contributed to industrial sickness in various ways. For instance, the controlled cloth scheme did not allow even the cost of cotton to be recovered and thus became a principal cause of sickness in the textile industry. Similarly, imposition of rigid control on the price of coal before nationalisation led to sickness in coal industry. But soon after nationalisation, the price of coal was increased two and a half times in a period of 3 years. Such irrational policies cause industrial sickness.

Another factor, which is responsible for industrial sickness, is the absence of a clear policy regarding wages and incomes. The government has been accepting very high wages and other perks for Reserve Bank of India, State Bank of India, nationalised commercial banks, LIC and similar high profit making enterprises. This induces workers in other undertakings/industries to demand higher wages. The government should accept the principle of equal pay for employees with equal or nearly equal qualifications across the board. If this is not done, the industrial atmosphere will be plagued by strikes.

Among the internal factors, the following are important: (i) mismanagement by owners, (ii) diversion of funds, (iii) wrong dividend policy, (iv) excessive overhead expenses, (v) lack of provision for depreciation of machinery and other equipment and (vi) over-estimation of demand.

16.5.4 Factors Responsible for Sickness in Small Scale Units

On the basis of various studies, the following factors are identified:

i) Non-observance of basic principles of business management – Many small entrepreneurs start with small amount of initial capital and do not make efforts to build internal financial strength during good business years. They borrow for a short-term but invest in medium-term projects and create resource crunch. Their slender capacity to face difficult times results in sickness of such units.

ii) Lack of management expertise – it has been observed that young entrepreneurs start with romantic ideas. They increase their overhead expenses by establishing deluxe offices. They borrow at high rates of interest. They do not try to be particularly careful about keeping costs low. They also sell on credit to various customers and this results in many defaults. Thus, inexperienced management having inadequate knowledge of the market becomes the cause of sickness.

iii) Under utilisation of capacity may be due to shortage of working capital, or lack of demand or non-availability of raw materials. All these factors contribute to sickness.

iv) Non-payment by the principals - Many small units supply goods to large units and the principals who buy them do not pay small entrepreneurs for several months. This causes a shortage of cash flow and small enterprises go sick.

The government has been taking steps to prevent sickness at various levels. Sick Industrial Companies Act (SICA) was passed in 1985. The Reserve Bank of India established a special cell to monitor the performance of sick units. The government has also passed a law forcing the principals to pay the small-scale units within a time frame, failing which they have to pay a penalty. Despite various measures taken by the government, it has not been possible to control industrial sickness. The government should, therefore, re-examine the measures undertaken so far.

Check Your Progress 3

1) Define a sick and a weak unit as per Sick Industrial Companies Act (1985).

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2) List five principal causes of industrial sickness in large and medium units.

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3) List three major causes of industrial sickness in small-scale units.

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16.6 LET US SUM UP

Industrialisation involves a process of change in technique of production from an outdated to a modern and up-to-date technique. Marxist economic literature prescribes two stages of industrialisation. The first stage involves the establishment of heavy and basic industries. The second stage involves the transformation of the entire economy to industrial methods of production. The Marxists suggested the Soviet model of industrialisation as the only correct method for non-industrialised developing countries. Non-Marxist economists do not prescribe any sequence.

Two major problems before industrialization in India are regional concentration of industrial units in certain states and sickness of firms. Certain states particularly Maharashtra, Gujarat, Andhra Pradesh and Tamil Nadu are industrially developed than other states.

Industrial sickness is said to prevail when a unit suffers losses year after year and in the process the accumulated losses lead to erosion of its net worth. If the erosion of net worth is upto 50 per cent, the unit is considered as 'weak unit', but if the erosion of net worth is 100 per cent or more, the unit is considered to be 'sick'.

Industrial sickness prevails in large and medium industries as well as in small-scale industries. High degree of concentration of industrial sickness is witnessed in five industries, viz., textiles, engineering, chemicals, iron and steel and electrical. On the other hand, high degree of concentration of industrial sickness is seen in seven states, viz., Maharashtra, West Bengal, Uttar Pradesh, Andhra Pradesh, Gujarat, Tamil Nadu and Kerala.

Industrial sickness measured in terms of outstanding bank credit has grown by 16.8 per cent per annum during 1981-94 for the industrial sector as a whole. In Non-SSI units, this growth rate was 15.6 per cent, while in SSI units, it was 24.9 per cent. Factors responsible for sickness of industrial units can be both external and internal to the firm. Government has initiated a number of measures to ameliorate the problem of industrial sickness. However, such efforts have not been effective in all cases.

16.7 KEY WORDS

Capital Intensive Industries: are those industries, which employ more capital per unit of labour.

Economic Infrastructure: refers to projects devoted to the production of electric energy, irrigation, transport and communications.

Heavy Industry: includes iron and steel, heavy machinery, engineering industries, electricity, coal, heavy chemicals which belong to the capital goods sector.

Industrial Sickness: is said to prevail when an industrial unit suffers losses year after year and in the process, the accumulated losses lead to erosion of its net-worth.

Industrialization: is a system of economic development in which major part of the national resources are used to develop a technically up-to-date diversified national economy capable of assuring a high rate of growth for the economy as a whole and of overcoming economic and social backwardness.

Net Worth: implies the sum total of the paid-up-capital and free reserves. The free reserves mean all reserves credited out of the profits and share premium account.

Poverty Ratio: indicates the proportion or percentage of population below the poverty line.

Regional Imbalance: refers to unequal or disproportionate development of various regions within a country.

Social Infrastructure: refers to infrastructure in the form of health and educational facilities such as schools, colleges, universities, polytechnics, primary health centres, dispensaries and hospitals.

16.8 SOME USEFUL BOOKS

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16.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Study Section 16.2 and attempt yourself.

Check Your Progress 2

1) Five major industries included in heavy industry are:

   a) coal
   b) iron and steel
   c) heavy machinery
   d) engineering industries
   e) chemicals

2) The major problems created by the heavy industry strategy of industrialisation are:

   a) inadequate development of agriculture
   b) capital intensive strategy did not enlarge employment
   c) high cost inefficient economy via public sector expansion

d) regional imbalance

Check Your Progress 3

1) Study Section 16.5.1 and attempt your answer.

2) Five main causes of industrial sickness in large and medium units are:

a) Government policy pertaining to production distribution and prices.
b) Shortage of power, transport, raw materials, etc.
c) Mismanagement by owners
d) Diversion of funds to other use
e) Lack of modernisation

3) Three major causes of industrial sickness in a small scale units are:

a) non-observance of basic principles of business management
b) under-utilisation of capacity
c) non-payment by the principals

UNIT 17 ROLE OF STATE IN INDUSTRIAL DEVELOPMENT

Structure

17.0 OBJECTIVES

On going through this unit, you will be able to:

- Explain the type of industrial structure we inherited on the eve of Independence;
- Identify the strategy adopted to industrialise the economy;
- Explain the various Industrial Policy Resolutions and their priorities;
- Explain the licensing policy adopted on the process of industrialising the economy;
- Analyse the process of liberlisation adopted; and
- Review the policy changes particularly with respect to foreign investment and foreign technology.

(Some sections of this unit have been taken from the earlier course EEC-02: Indian Economic Development Since Independence Block 7, Unit 14).

17.1 INTRODUCTION

We have already seen in Block 1 that even prior to the First World War India had well developed cotton and jute textile industries. Further, a number of industries, notably, steel, sugar, cement, matches, vanaspati, soap and several branches of engineering were set up during the inter-war period. But this variety can, by no means, be described as adequate. In fact, the relative insignificance of the large industrial sector at the time of Independence is tellingly brought out by the fact that, in 1948-49, factory establishments accounted for only 6.5 per cent of the total working population of the country. The principal deficiency of the industrial structure was its lopsided character, based as it was mainly on the consumer goods. In terms of ownership, barring a few notable exceptions, industry was all in the private sector, largely controlled by foreign capital, the indigenous control of cotton textiles and a few others notwithstanding. Also, whatever growth had taken place cannot be said to have been inspired by a proper consideration of such factors as efficiency in the long run, but rather due to advantageous location; the size of the market; availability of raw materials, adequacy of which was, perhaps, an outcome partly of sheltered markets and exigencies of war.

We have already noted in the same block that prior to Independence the colonial government in India was not interested in developing agriculture or industry as its interests did not coincide with those of the Indian people. But, after Independence the new government got the chance to break the vicious circle of poverty, and to create conditions of industrialisation and economic growth. The question was : how to break the colonial legacy of under-development of the ideas of national planning along with the rise and fruition of the national movement. In this unit, we go into some detail as to how these ideas were implemented in terms of industrial policy, regulation and controls, etc.

17.2 EARLY CONFLICTING IDEAS

In the 1950s, there was an intense debate in the country regarding the strategy of economic development, in general and on how to break the vicious circle of poverty, in particular. Several viewpoints existed at that time.

17.2.1 Two Extreme Views

One extreme view was that of the free enterprise school, according to which all economic activities should be left to private initiative and market forces. This point of view was held by a minority of industrialists and economists.

Many people, on the contrary, believed that the main reason for India's under-development prior to Independence was that the Government of the time did not promote industrialisation and that the indigenous enterprises were left to the market forces and, therefore, could not grow. Hence, it was necessary for the Government to play an active role in economic activities so as to create conditions suitable for industrial expansion. Government intervention, they argued, was necessary for at least two reasons : (1) for creating infrastructural facilities such as roads, power, communication, etc., and (2) for creating a machine manufacturing sector to remove the lopsidedness of the industrial sector.

The reliance on the market forces was considered undesirable for other reasons too. It was argued that a process of industrialisation that would emerge in response to the market forces, would take unduly long to develop the country, as it happened in England and Western Europe. Neither the Indian industrialists nor the common people in India could wait that long leaving the process of development to the natural forces of the market for, say, a century or more. The Soviet and Japanese experience of economic development came handy to bring home that it was possible to compress the century - long process of development into a single generation of, say, 30 to 40 years, provided the state regulated and planned economic activities in an appropriate manner. All these reasons rendered the free enterprise school a minority.

Another extreme view was to bring about a radical change in property relations, that is, to transfer all properties, rural and urban, in agriculture and industry, to the state and society and to organise production, in a pattern similar to that in a socialist country. This view was also rejected because there was not enough support for such a change.

17.2.2 The Mainstream Views

Leaving aside the extreme views, there were three viewpoints that seriously contended for supremacy. The Gandhian view favoured small scale industries and self-reliance. Nationalist industrialists preferred rapid industrialisation through large scale industries, appropriately protected from foreign competition. Nehru and like-minded social democrats preferred rapid industrialisation through capital goods industries under public sector, with supporting provisions for the small scale and cottage sector.

The divergence of viewpoints on small scale and large scale industries centred on the choice between employment and rapid growth. The Gandhians argued that small scale industries would provide more employment for labour than large scale industries. The social democrats criticised this strategy on the ground that it would keep the growth rate lower. Ultimately, the decision was taken for the industrialisation based on capital goods and leaving large enough playroom for the small scale and the cottage sectors. It was emphasised that without an adequate development of capital goods (the machine manufacturing) sector, no strategy of development was expected to go far, whether it was based on small scale or large scale industries.

Academic input to the argument was provided by P.C. Mahalanobis who showed that the overall growth rate of the economy was directly related to the proportion of the investment in the capital goods sector - the higher the ratio, the higher would be the growth rate of output and income.

Once the pattern of production was decided in favour of large scale capital goods industries, the next question was; who should do it? Whether the capital goods sector was to be developed by the Government, or by the private entrepreneurs? This question was decided taking the availability of finance into consideration. At that time, the private sector did not have the requisite technical know-how nor the financial resources to undertake the big enterprises required to manufacture metals and machines.

It was, therefore, felt that if the objective is to achieve rapid development, it was necessary that all industries of basic and strategic importance, or in the nature of public utility services, shall be in the public sector. Other industries, which are essential and require investments on a scale, which only the state, in the given circumstances, could provide, have also to be in the public sector. The development of other industries be left to the initiative and enterprise of the private sector.

The Government was, therefore, to assume the responsibility for the development of the industries over a wide area. The Government, in turn, decided to promote and regulate industrial development within a planning framework. The general approach of the Indian planning strategy has been discussed in some other unit. Here we only note that, India adopted the concept of central planning for a mixed economy, where public and private sectors would play complementary roles in the common task of development. The strategy of industrialisation evolved, was to be operationalised as discussed in the following sections.

Check Your Progress 1

1) Mark 'T' for True and 'F' for False.

i) The pre-Independence industrial structure in India is mainly characterised by the growth of capital goods industries. ( )

ii) The colonial government, in India, was not interested in developing agriculture or industry. ( )

iii) The social democrats were in favour of the growth of small scale industries and self-reliance. ( )

iv) According to Mahalanobis, "Growth rate of the economy was directly related to the proportion of the investment in the capital goods sector." ( )

2) Why was Government intervention necessary to promote industrialisation? Answer in two sentences.

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3) Explain the differences between Nehruvian and Gandhian approaches to development in three sentences.

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17.3 PREMISES OF INDUSTRIAL POLICY

Investments in public sector enterprises were to be subjected to direct planning in both choice and implementation and the private sector industrial investments were to be directed by the state, by physical controls operated primarily through an exhaustive licensing system combined with a detailed setting of "targets" by the Planning Commission in the course of the formulation of the successive Five Year Plans. The system was to operate in a manner calculated to, and determine, (i) the pattern of investment down to the product level, and (ii) the choice of technology, extending to scale, expansion, location, direct import-content, and the terms of foreign collaboration in finance and know-how.

17.3.1 Import Substitution and Controls

As regards import substitution, there were two underlying factors that contributed towards this orientation of industrial policy. The first related to export pessimism, while the second and most important was on the need for protection of infant industries in the economy.

The principal argument in favour of import-substitution oriented strategy of development for India was however, the protection of infant industries in the course of development. Under this strategy, the domestic infant industries were to be protected from the competition of imports by setting up a trade regime with very high tariff rates or quota restrictions.

This strategy further stated that, in course of time, as the infant industry developed, the protection from foreign competition would be withdrawn and the industries would then compete on international markets and contribute to export earnings, which could be used for further development. This argument, it may be noted, provided a rationale for accepting a degree of short run costs in return for benefits of establishing a dynamic industrial sector, which would meet the demands of the large domestic market in the long run. It was indeed a step towards self-reliance. The important questions, however, was the issue of how far and how efficiently to push import substitution.

Reliance on physical controls was not only limited to industrial licensing and import licensing. Pricing and distribution of several manufactures and semi-manufactures were also regulated through controls. Among the motivating factors behind the direct regulation of distribution and prices were the following :

i) The desire to ensure adequate allocation to priority sectors at reasonable prices:
ii) equity consideration; and
iii) to prevent inflationary effects arising out of the chain effects of price rise in basic goods with significant forward linkages.

17.3.2 Foreign Capital

Industrial strategy had also a policy statement on foreign investments and import of technology. Government's attitude towards foreign capital was governed by the policy statement made by Prime Minister Nehru in Parliament in 1949. The government recognised the need to secure the participation of foreign capital and enterprise, particularly, in respect of industrial techniques and know-how, so as to foster the pace of industrialisation of the Indian economy. The statement made it amply clear that as a rule the major interest in ownership and effective control should be in Indian hands. The policy was to encourage out- right purchase of technology through one-time payment for technical know-how with fees or royalty payments rather than induction of technology channelled through foreign investments.

17.4 THE INDUSTRIAL POLICY RESOLUTIONS (IPR)

The overall objectives of industrial policy in India have been articulated in the Industrial Policy Resolutions of 1948, 1956 and 1973, and the Industrial Policy Statements of 1975, 1980, 1985-86 and 1991.

17.4.1 Objectives of Industrial Policy

These objectives can be broadly listed as follows:

i) the development and regulation of industrial investments and production according to the plan priorities and targets;
ii) the prevention of concentration of ownership of industries;
iii) the protection and encouragement to ' small and cottage' industries;
iv) limiting and controlling foreign investment in domestic industry;
v) balanced economic development of different regions in the country so as to reduce disparities in the levels of development;
vi) pursuing self-reliance through import-substitution oriented policies of industrial

development; and

vii) carving out a central role for the public sector in the process of development.

Thus, in order to achieve the set planned targets, the industrial investment was sought to be regulated and monopolistic tendencies were sought to be curbed to encourage indigenous artisans and local expertise, small and cottage industries were protected. Foreign investment was controlled and was put to limit so that indigenous industries can flourish. Similarly in order to reduce the levels of uneven development, another objective was to pursue the policy of balanced regional development. To attain self-reliance, the import-substitution policy was resorted to and state led development through the instrument of public sector was given the commanding role.

17.4.2 Categorisation of Industries

The main thrust of the 1948 Industrial Policy was to lay the foundation of a mixed economy in which both private and public enterprises would march hand in hand to accelerate the pace of industrial development. The industries were divided into four categories:

i) industries, which were exclusive monopoly of the state such as : arms and ammunition, railways, atomic energy and transport.

ii) industries like coal, steel, iron , aircraft manufacture, ship-building, manufacture of telephone, telegraph & wireless apparatus, where new investment will be undertaken by the state only.

iii) industries of such basic importance that the central government would feel it necessary to plan and regulate them, such as salt, automobiles, machine tools, chemicals, non-ferrous metals, cement, sugar, paper etc.

iv) the reminder of these industries were left open to private sector.

In order to pursue the goal of mixed economy, the first attempt was in the form of Industries (Development & Regulation) Act, 1951. According to this act, (i) all existing undertaking in the scheduled industries had to be registered with the government; and (ii) neither 'new' industrial undertakings could be established, nor any 'substantial extension' could be affected to existing plants, without the prior procurement of a license from the central government.

After the adoption of 1948 Industrial Policy Resolution, significant developments took place in India. Planning had proceeded on an organised basis and the First Five Year Plan started in 1951. Parliament accepted the 'socialist pattern of society' as the basic thrust of social and economic policy in 1954. These important developments necessitated a fresh statement of industrial policy. A second Industrial Policy Resolution (IPR) was, therefore, adopted in April, 1956.

17.4.3 The IPR, 1956

The IPR, 1956, classified industries into three categories, specifying the part, which the state would play in each of them. The first category consisted of industries, the future development of which, was to be the exclusive responsibility of the state. In the second category, there were industries which were to be progressively state-owned and in which, therefore, the state was generally to take the initiative in establishing new undertakings, but in which private enterprise was also expected to supplement the efforts of the state. The third category comprised all the remaining industries, further development of which, in general, was to be left to the initiative and enterprise of the private sector.

These categories were not intended to be rigid or watertight. In the industries listed in first category, for instance, the expansion of existing privately owned units was not precluded, and the state was free to secure the cooperation of private enterprise in the establishment of new units national interest so require. But, this was subject to the provision that, while securing such cooperation, it would ensure, through majority participation in the capital of the undertaking, or otherwise, the requisite power of the state to guide the policy and control the operations of the undertaking. Second category related to what might be called the mixed sector, a sector in which the state would enter progressively and enlarge its operations, but private enterprises would, at the same time, have the opportunity to develop either on its own, or with state participation. In the rest of the field, development would ordinarily be undertaken through the initiative and enterprise of the private sector, but it would be open to the state to start any industry even in this field.

17.4.4 The Licensing System

The division of enterprises between the public and the private sectors was to be maintained through a licensing system. Any new enterprise wishing to start production of new article, or to expand capacity, was required to apply to the Government for a license. The application was to be scrutinised from the techno-economic angle by the Directorate General of Technical Development (DGTD), which would assess whether the existing capacity in that industry was adequate or not, whether it would require imports of machines, raw material or technical know-how, and whether it was in accordance with the plan priorities or not. After a rigorous scrutiny the industrial licence was to be cleared by an (inter-ministerial) licensing committee, which was set up in 1952 to operate within the framework of 1951 Industries Act.

Apart from the Industrial Licensing Committee, there were other numerous physical controls to be cleared by the prospective investor. The capital goods license had to be procured from the Capital Goods Licensing Committee, which cleared allocations of import licenses for the purpose. Furthermore, if there was foreign collaboration involved, the (inter-ministerial) Foreign Agreements Committee got into the picture and its consent to the terms of collaboration had to be secured as well.

The IPR also indicated the Government's approach to the problem of small scale industries. These industries offered some distinct advantages, particularly, providing immediate employment; they also offered a method of ensuring a more equitable distribution of the national income; and they facilitated effective and broad based mobilisation of resources of capital and skill, which might have otherwise remained unutilised. The role of the Government in this respect was to encourage small industries to modernise their methods of production and improve their organisational set-up.

17.5 INDUSTRIAL POLICY RESOLUTION, 1956 – AN ASSESEMENT

Bhagwati and Desai (1970), were the first to examine the process of industrialisation in the light of the Industrial Policy Resolution, 1956. They brought together the scattered pieces of information available in various committee reports of the Government of India and based themselves largely on the Hazari Committee (1967) Reports on Industrial Planning and Licensing Policy, Monopolies Enquiry Commission Report (1964), Ninth Report of the Estimates Committee (1967-68) on Industrial Licensing, Mathur Study Team on DGTD (1965), and two Swaminathan Committee Reports (1964 and 1966). The agenda was to examine (i) the economic efficiency of the licensing systems from the viewpoint of industrial planning; (ii) the analytical methods used in target setting for both private and public sectors through the five year plans and (iii) pricing and distribution controls.

17.5.1 Criteria of Assessment

The economic efficiency of the licencing systems for industrial planning was examined through:

i) the economic criteria used in the actual choice of plants;
ii) the information collected by DGTD used for reaching judgements on these questions;
iii) the procedure used by the Licensing Committee in the choice of applications for fulfilling targets;
iv) the time taken to clear applications; and
v) the role of the licensing and regulation system in checking the concentration of industrial ownership and in promoting a competitive system.

The analysis showed that the emerging picture was indeed quite unsatisfactory. Through the entire period spanning the three plans, target setting had a weak economic basis, but was overly detailed and comprehensive. Licensing was taken too seriously at least as far as restraining capacity was concerned. The licensing procedures were found wanting in ensuring or encourgaging fulfilment of targets. The follow-through was weak, the criteria of efficient choice among applicants were not properly defined. The licensing procedures were designed so as to rule out the consideration of such choices. Objectives such as balanced regional growth and prevention of concentration in ownership, although reiterated, no procedures were devised to achieve them at minimum economic cost. Indeed, in some cases, the procedures even encouraged the frustration of these very objective. Large industrial house were at substantial advantage in securing license for establishing new industries of expanding the existing capacities by peddling influence. The enormous growth of the large business groups considerably obstructed the growth of the smaller and medium enterpreneurs, thanks to the pre-emptive capacity of the large business groups.

17.5.2 Assessment of Controls

Among the major statutory provisions under which the Government operated were: (i) the Essential Commodities Act, and ii) the Industries (Development and Regulation) Act. In addition, the operation of 'informal' price control was also not uncommon. The entire period upto 1970 witnessed the operation of prices and distribution controls over several manufactures : iron, steel, non-ferrous metals, coal, fertilisers, carbons, cotton textiles, paper, sugar, motor car, scooters, commercial vehicles, ethyl alcohol, molasses, cement, drugs and medicines, kerosene and other petroleum products, bicycles, tyres and tubes, natural rubber, vanaspati, soap and matches. Not all these items were controlled at all times, nor were they all subjected to both prices and distribution controls; many were subjected merely to price control.

On a detailed review these controls were found ill-advised and Desai argued that these controls were a part of the general economic philosophy of direct intervention without careful examination of direct efficiency and of efficiency vis-a-vis alternative ways of achieving the given objectives.

The policy framework as it worked through the administrative mechanism had very disturbing economic consequences. Large industrial houses succeeded in securing a large number of licenses both for setting up new units as well as enhancing the existing capacities.

This not only created entry barriers in individual industries, which limited the possibility of domestic competition, but also limited the possibility of regional dispersal of industries. The administrative hurdles inherent in the system of physical controls seriously limited the much needed flexibility to the licensed project, and often loaded the project in a manner that it increased the project cost as well as costs of production. The absence of foreign competition and the indiscriminate and indefinite protection granted to Indian industry worked not only against exports but also encouraged inefficiency.

Moreover, the case for preferential treatment to small scale units, which was based on the assumption that these units use less capital and generate more employment per unit of capital was also found to be ill-conceived. Studies conducted during the late sixties tested the underlying intensity as well as between size and output-capital ratio. These studies did not find conclusive association between scale and capital or labour intensity. Further, the tendency of not allowing uneconomic, non-viable units to die easily, resulted in a situation where the government continued to be saddled with curing the incurable sick units. The entrepreneurs responsible for this got away without any financial risks. Lastly, the uncertainties rooted in industrial policies and procedure tended to discourage long-term planning by entrepreneurs.

17.6 TOWARDS LIBERALISATION

Industrial policy in the seventies and more specifically from the mid-seventies departed from the rigid system of licensing and control both with regard to domestic as well as foreign enterprises. According to Bhagwati and Desai the shift of Indian economic policy in general and industrial licensing in particular, dates back to around mid-sixties - 1 June, 1966, when Indian rupee was devalued. A change in industrial policy in some direction was, however, first noticed in 1970, when based on the recommendations of the Dutt Committee Report (1969) on industrial licensing, the Monopolies and Restrictive Trade Practices Act was passed in 1969 and enforced from 1st June 1970. It sought to check the expansion of large industrial houses with gross assets exceeding rupees 20 crore in interlinked undertaking or of dominant undertaking with assets of over rupees one crore.

17.6.1 Industrial Licensing Policy, 1970

Through the Industrial Licensing Policy of 1970, the scheduled industries of IPR, 1956 were rearranged into three categories to bring them in conformity with the industrial priorities and targets of that time. A similar exercise was done in the industrial policy statement of 1973. The statement brought basic changes by dividing the entire industrial sector into six categories: such as Core Sector, Public Sector, Small and Medium Sector, Foreign Sector and Joint Sector.

Core Sector: Those basic to national economic development, those having direct linkages with the core industries, those with substantial potential for exports.

Public Sector: Such industries from this sector as listed in Schedule A of 1956 Industrial Policy Resolution were reserved for the public sector.

Dual Coverage: In the rest of such core sector large industrial houses (with not less than Rs. 20 crore of assets each) could also apply for licensed capacity.

Small and Medium Sector: Reservations were made for the small and medium sector. The intention was to forestall and resist encroachment in this sector by the large industrial houses. Cooperatives in this sector were also to be encouraged, particularly in the mass consumption goods.

Foreign Companies: Foreign concerns, their subsidiaries and Indian branches of foreign companies, were made eligible to apply for licensed capacity.

Joint Sector: The central and state governments would themselves directly collaborate with the private sector in the promotion of an intermediate sector being called the joint sector.

The process of attracting resources from all sectors was further strengthened through Licensing Policy, 1975, where important relaxations were made. These relaxations were in the form of delicensing and unlimited expansion in 21 industries whose products were meant for exports. This permission was meant for both big industrial houses, including monopoly houses, and multi-nationals.

17.6.2 Industrial Policy, 1977

With the change in Government at the centre in 1977, the Industrial Policy of 1977 had a further review of the earlier industrial policies. It was felt that with the enforcement of earlier industrial policies, (i) unemployment had increased, (ii) rural - urban disparities had widened, (iii) industrial sickness had become a nation-wide malaise, and (iv) both real industrial growth and aggregate industrial investments were stagnating. To cover the gaps in both absolute and disguised unemployment and to correct the somewhat lopsided development of the economy, the Industrial Policy of 1977 assigned a prominent place to the revival and **growth of cottage and small scale industries**. The measures adopted for the promotion of small scale and cottage industries included (a) Reservation or demarcation for sphere of production (b) non-expansion of the capacity of large-scale industry and (c) imposition of curbs on large scale industry (d) setting up of 'District Industries Centre' (DIC) to provide services and support required by such industries. The number of items reserved for SSI were raised from 180 items to 807 items. Large scale industry was related to the programmes for meeting the basic minimum needs of the controlling pollution, and wider dispersal of small scale and village industries and strengthening of the agricultural sector was aimed at. Large and monopoly business houses were not to be allowed to enter or expand even directly into areas earmarked for cottage, small and medium sectors. Public sector was allowed to retain its stabilising as well as catalytic agent function for development of the entire industrial field. Reliance on foreign capital and energy was to be curtailed, though favours were shown to multinationals of certain countries as against the others.

The policy recognised the need for technological self-reliance and therefore continued inflow of technology in sophisticated and high priority areas where indigenous skills and technology were not adequately advanced.

The policy statement suggested a **selective approach towards sick units**. It mentioned: while the government cannot ignore the necessity of protecting the existing employment, the cost of maintaining such employment has to be taken into account. In many cases very large amount of funds have been pumped into the sick units, which have been taken over by the government. But they continue to make losses, which have to be financed by the public exchequer. This cannot continue indefinitely.

Since the Government at the centre lasted only a few years, not much headway could be made and the process of domestic liberalisation initiated in the mid-seventies was continued further with the change in the government at the centre in 1980.

17.6.3 Industrial Policy, 1980

Industrial policy statement of July 1980, which is based on the Industrial Policy Resolution of 1956. This policy statement spelled out that in order to eliminate the artificial distinction of conflicting interest between small and large scale industry, the concept of economic federalism would be promoted through the setting up of a few nucleus plants in identified industrially backward districts. It was decided that these nucleus plants would concentrate on assembling the products of ancillary units falling within its orbit. The nucleus plants would also work for upgrading the technology of small units. The government would promote the development of a system of linkages between nucleus large plants and the satellite ancillaries.

To boost the development of small scale industries, the investment limit in the case of small scale and tiny units were enhanced. A scheme for building buffer stocks of essential raw materials for the small scale industries was introduced for operation through the Small Industries Development Corporation (SIDC) in the states and National Small Industries Corporation (NSIC) at the Centre.

In order to ensure fullest utilisation of existing industrial capacities, particularly in the core industries and in industries with a long export potential, the facility of automatic expansion of capacity was envisaged. Requests for setting up 100% export oriented units and for expansion of existing units for purposes of export would also be considered sympathetically.

17.6.4 Liberalisation Measures, 1985

The report of the committee to examine principles of a possible shift **from physical to financial controls in early 1985** played an important part in intensifying the pace of reform. A number of policy initiatives were taken in this direction which include :

i) delicensing a number of industries ;
ii) broad-banding of certain industries with a view to providing flexibility to manufacturing in order to produce a range of products;
iii) expanding the role of large houses by broadening the list of industries open to them ;
iv) raising the asset threshold to Rs. 100 crore for MRTP houses, thereby enabling a large number of companies to operate without the restrictions of the MRTP Act;
v) raising investment limits for the small scale sector and providing fiscal incentive for the promotion of the small scale sector;
vi) No license required for increasing capacity upto 49 per cent over licensed capacity for purposes of modernisation/renovation/replacement;
vii) announcing national policies relating to specific industries such as textiles, sugar, electronics and computers;
viii) making it easier to import foreign technology for purpose of modernization and up gradation of quality; and
ix) encouraging existing industrial undertakings in certain industries to achieve minimum economic levels of operations.

On June 3, 1988 further liberalisation in industrial licensing was announced, under which non-MRTP and non-FERA companies will not be required to obtain licenses. The government established 100 growth centres throughout the country for the development of backward areas. The incentives in terms of income tax relief were given to industries in backward areas.

Check Your Progress 2

1) Fill in the blanks.

   i) The main thrust of the 1948 Industrial Policy Resolution was to lay the foundation of a ....economy. (socialist, mixed)

ii) Industrial Policy Resolution, 1977 strengthened the role of ……………. (small scale sector, large houses).

iii) Industrial Policy Resolution .... has given some weightage to small scale industries. (1948, 1956)

2) Name the various types of controls that Government exercised over the manufacturers. Answer in one sentence.

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3) What policy initiatives were taken during 1985 towards liberalisation ? Give any three.

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17.7 NEW INDUSTRIAL POLICY, 1991

The new economic policy announced by the Government in July 1991 set the pace of deregulation of the economy in a substantial manner. The major objectives of the new economic policy were :(i) to build on the gains already made, (ii) correct the distortions or weaknesses that may have crept in, (iii) maintain a sustained growth in productivity and gainful employment, and (iv) attain international competitiveness. The pursuit of these objectives was tempered by the need to preserve the environment and ensure the efficient use of available resources.

In pursuit of the above objectives, government decided to take a series of initiatives in respect of the policies relating to the following areas:

i) Industrial Licensing
ii) Foreign Investment
iii) Foreign Technology Agreements
iv) Public Sector Policy
v) MRTP Act

17.7.1 Industrial Licensing Policy

Industrial licensing was abolished for all industries, except 18 specified industries, irrespective of levels of investment. These specified industries, related to those such as security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. The exemption from licensing were viewed as helpful to many dynamic small and medium entrepreneurs who have been unnecessarily hampered by the licensing system. On August. 14, 1993, the cabinet committee on Economic affairs decided to remove three more items from the list of 18 industries reserved for compulsory licensing. These three items are motor cars, white goods (such as, refrigerators, washing machines, air conditioners) and raw hides and skins and patent leather. In 1997-98 the number of industries subject to compulsory industrial licensing got reduced from 14 to 9. Further, licensing procedure for sugar were liberalised bringing down the total number to eight. These industries are coal, petroleum, alcoholic drinks, tobacco, defence, explosives, hazardous chemicals, and drugs and pharmaceuticals.

In locations other than cities of more than 1 million population, there will be no requirement of obtaining industrial approvals from the Central Government except for industries subject to compulsory licensing. In respect of cities with population greater than 1 million, industries other than those of a non-polluting nature such as electronics, computer software and printing will be located outside 25 kms. of the periphery, except in prior designated industrial areas. The system of phased manufacturing programmes run on an administrative case by case basis will not be applicable to new projects. Existing projects with such programmes will continue to be governed by them. Existing units will be provided a new broad-banding facility to enable them to produce any article without additional investment. The exemption from licensing will apply to all substantial expansions of existing units. The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

17.7.2 Foreign Investment

Regarding foreign investment, the main points were: (i) Approval will be given for direct foreign investment upto 51 percent foreign equity in high priority industries; (ii) To provide access to international markets, majority foreign equity holding upto 51 per cent equity will be allowed for trading companies primarily engaged in export activities; (iii) A special empowered board will be constituted to negotiate with a number of large international firms and approve direct foreign investment in select areas.

17.7.3 Foreign Technology Agreements

Regarding foreign technology agreement, it was decided that automatic permission will be given for foreign technology agreements in high priority industries upto a lump sum payment of Rs.1 crore . In respect of industries other than those covered under earlier point, automatic permission will be given subject to the same guidelines as above if no free foreign exchange is required for any payment. All other proposals will need specific approval under the general procedures in force. Similarly, no permission will be necessary for hiring of foreign technicians, foreign testing of indigenously developed technologies.

17.7.4 Public Sector Policy

You can recall that the industrial policy resolution of 1956 gave the **public sector** a strategic role in the economy. Massive investments have been made over the past four decades to build a public sector, which has a commanding role in the economy. After the initial exuberance of the public sector entering new areas of industrial technical competence, a number of problems have begun to manifest themselves in many of the public enterprises, such as insufficient growth in productivity, poor project management, over-staffing, lack of continuous technological up-gradation, and inadequate attention to R&D and human resource development. The result is that many of the public enterprises have become a burden rather than being an asset to the government. The original concept of the public sector has also undergone considerable dilution. Keeping these in view the government adopted a new approach to public enterprises. The priority areas for growth of public enterprises in future will be the following:

- Essential infrastructure goods and services
- Exploration and exploitation of oil and mineral resources
- Technology development and building of manufacturing capabilities in areas which are crucial in the long term development of the economy and where private sector investment is inadequate

- Manufacture of products where strategic considerations predominate such as defence equipment

At the same time the public sector will not be barred from entering areas not specifically reserved for it. In addition, the government will review the existing portfolio of public investment with greater realism. This review will be in respect of industries based on low technology, small scale and non-strategic areas, inefficient and unproductive areas, areas with low or nil social considerations or public purpose, and areas where the private sector has developed sufficient expertise and resources. Sick units, which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. Social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages. Similarly, in order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public workers.

The emphasis was more on performance improvement through the Memoranda of Understanding (MOU) system through which managements would be granted greater autonomy and will be held accountable. However, to facilitate a fuller discussion on performance, the MOU signed between government and the public enterprise would be placed in parliament. While focussing on major management issues, this would also help placed matters on day to day operations of public enterprises in their correct perspective. The proposed list of industries to be reserved for the public sector was reduced to eight items of strategic importance such as arms and ammunition, atomic energy, coal and lignite, mineral oils and railway transport.

16.7.5 MRTPACT

As far as Monopolies and Restrictive Trade Practices (MRTP) Act, is concerned, MRTP companies will no longer be required. Instead, emphasis will be on controlling and regulating monopolistic, restrictive and unfair trade practices rather than making it necessary for the monopoly houses to obtain prior approval of central government for expansion, establishment of new undertakings, merger, amalgamation and takeover and appointment of certain directors. The thrust of policy was more on controlling unfair or restrictive business practices. The MRTP Act was restructured by eliminating the legal requirement for prior governmental approval for expansion of present undertakings and establishment of new undertakings. The provisions relating to merger, amalgamation, and takeover were also repealed. Similarly, the provisions regarding restrictions on acquisition and transfer of shares was appropriately incorporated in the companies act.

Simultaneously, provisions of the MRTP Act was strengthened in order to enable the MRTP commission to take appropriate action in respect of monopolistic, restrictive and unfair trade practices. The newly empowered MRTP commission was encouraged to undertake investigation *suo moto* or on complaints received from individual consumers or classes of consumers.

17.8 A CRITIQUE OF THE NEW INDUSTRIAL POLICY

The New Economic Policy announced by Government of India on 24th July 1991 fulfills a long felt demand of the industry for declaring in very clear terms that the licensing has been abolished for all industries except 18 industries which include coal, petroleum, sugar, motor cars, cigarettes hazardous chemicals, pharmaceuticals and some luxury items. Besides this, the industrial policy proposes to remove the limit of assets fixed for MRTP Companies and dominant undertakings. Thus, business houses intending to float new companies or undertake substantial expansion will not be required to seek clearance from the MRTP Commission. Numerous cases of bottlenecks created by the bureaucracy are removed by this singular decision of the Government. In this sense, the industrial policy should be welcomed because it has taken the bold decision to end the license-permit raj and save the entrepreneurs the harassment of seeking permission from the bureaucracy of the country in order to set-up an undertaking. The Government thought it wise, not to keep the myth of MRTP limit since the MRTP Commission had become irrelevant in view of the changed thinking of the Government. This step shall enable MRTP companies to establish new undertaking and effect plans of expansion, mergers, amalgamations and takeovers without prior government approval. They shall have the right to appointment of directors. In other words, the new industrial policy has unshackled many of the provisions, which acted as brakes on the growth of the large private corporate sector. All these provisions have been welcomed by the business circles. There is an overall relief in the dismantling of industrial licensing and regime of controls.

However, there are several other areas, which have come in for sharp criticism.

First, the new industrial policy goes all out to woo foreign capital. It has been decided to provide automatic approval for direct foreign investment upto 51% foreign equity in high priority industries. The Government has further clarified that it will permit 100% foreign equity in case the entire output is exported. All this is being done in the belief that direct foreign investment is crucial to India's economic development. The idea of free flow of foreign capital is being sold with the understanding that it will provide the much-needed foreign exchange and secondly, that it will lead to injecting a heavy doze of investment in the high priority industries. However, in our over-enthusiasm to welcome foreign capital, the fear is that we may sell our sovereignty to multinationals.

Critics, however, base their judgement on past experience. Once foreign capital is permitted free entry, the distinction between high priority and low priority industries will gradually disappear and production will be opened to facilitate foreign investment. Thus, the Government, however, should be very careful about the hidden implications of reverse outflow of foreign exchange in the coming years. With foreign debt burden already becoming heavy, prudence demands that utmost care be taken in inviting foreign capital, which should be limited to priority industries only.

The industrial policy (1991) also takes note of the low rate of return on capital invested. The result is that many of the public sector enterprises have become a burden rather than an assets to the Government. The most striking example given in the policy statement is **take-over of sick units by the government**. It further adds that this category of public sector units accounts for almost one-third of the total losses of central public enterprises.

This being so the Government should concentrate on improving the performance of the redeemable and surplus generating public sector enterprises. The Government intends to strengthen the public sector through the instrument of Memorandum of Understanding. It also intends to introduce competition in these areas by private sector participation. The government also intends to disinvest public sector equity in favour of financial institutions or even employees.

Check Your Progress 3

1) What were the main areas into which policy initiatives were taken during 1991 industrial policy statement ?

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Answer in one sentence.

2) Tick (✓) for true and (×) for false :

i) Under the new Industrial policy foreign technicians cannot be hired.
ii) The aim of the new industrial policy is to increase competition and efficiency of Indian industry.
iii) Traditionally foreign investment policy has encouraged the foreign equity holdings in services except hotels.
iv) After 1993, the number of industries reserved for compulsory licensing is 18.

3) Critically evaluate the new industrial policy .

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17.9 LET US SUM UP

After going through this unit, we learnt that liberalization has been a continuous process in India. On the eve of Independence India inherited an industrial structure based mainly on consumer goods industries. There was lack of infrastructure as well as sufficient saving and investment. The government of independent India got the chance to break the bottlenecks and to create the conditions of industrialisation and economic growth. But, what should be the strategy of economic development? This question led to intense debate in the country. While Gandhi favoured small scale industries and self reliance, Nehru and like minded social democrats preferred rapid industrialisation through capital goods industries. The government, in turn decided to promote and regulate industrial development within the framework of planning. The strategy was operationalised through various Industrial Policy Resolutions (IPRs).

The first IPR was declared in 1948, followed by IPRs of 1956, 1973, 1975, 1980 and 1991. In all these policy resolutions, the concept of mixed economy was adopted, where public and private sector were assigned complementary roles in the common task of development. The division of enterprises between the public and private sectors was to be maintained through a licensing system.

The industrial policies adopted in the seventies provided some relaxations in the rigid system of licensing and control. In 1977, with the change in the government at the centre, the industrial policies were reviewed and cottage and small scale industries were given prominent role. Later, there was a shift from physical to financial controls and more liberalisation was allowed.

The new industrial policy adopted in 1991, brought with itself deregulation of the economy in a substantial manner. Not only domestic regulatory reforms but also more dynamic relationships with foreign investors and suppliers of technology were adopted. Among the domestic deregulatory measures were reduction in the areas reserved for public sector, abolition of industrial licensing, abolition of phased manufacturing programs, amendment in the MRTP Act and so on. Thus, reform process since 1991 has changed the role of the state from principal investor to that of facilitator of entrepreneurship giving way to privatisation and liberalisation.

17.10 KEY WORDS

Core Sector: Industries basic to national economic development and include coal and lignite, crude oil, petroleum and natural gas, power, fertilisers, petro-chemicals, etc.

Physical Controls: Any new enterprise, wishing to start production of any new article is required to apply for licenses and permits for capacity, credit, imports, location, etc. which have to go through various stages. This control is called physical control.

Import-Substitutions: In order to reduce the dependence on imports, import-substitution is advocated. It means producing similar/close substitutes of imported articles at home.

17.11 SOME USEFUL BOOKS

Ahluwalia, I.J. (1985) *Industrial Growth in India*, Oxford University Press (Ch. 6 & 8)

Bhagwati, J.N. and Desai, P. (1970) *India : Planning for Industrialisation*, Oxford University Press (Chs. 12-16)

Bhagwati, J.N. and Srinivasan, T.N. (1975) *Foreign Trade Regime and Economic Development in India*, Columbia University Press.

Chaudhary, P. (1979) *The Indian Economy : Poverty and Development*, Vikas Publishing House, New Delhi (Ch.6)

Chellaswami, T., "Policy Relating to Small Scale Sector" in Mongia, J.N. (ed.) (1980), *India's Economic Policies, 1947-77*, Allied Publishers, New Delhi

Dutt R. and Sundhram, K. P.M. (1994) *Indian Economy*, S. Chand and Company, New Delhi (Ch.10).

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Tandon BB & Tondon (1997), *Indian Economy*, Tata McGraw Hill, New Delhi. (Ch.18)

Govt. of India, *Economic Survey*, 1997.

Government of India, *Statement of Industrial Policy*, July, 24, 1991, Ministry of Industry, New Delhi.

17.12 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) (i) F, (ii) T, (iii) F, (iv) T
2) Read Section 17.2
3) Read Sub-section 17.2.2

Check Your Progress 2

1) (i) Socialist, (ii) Large houses, (iii) 1956
2) Read Sub-section 17.5.2
3) Read Sub-section 17.5.2

Check Your Progress 3

1) Read Section 17.7
2) (i) F, (ii) T, (iii) F, (iv) F
3) Read Section 17.8

UNIT 18 SMALL SCALE SECTOR

Structure

18.0 OBJECTIVES

On going through the unit, you will be able to:

- Define Small Scale Enterprises;
- Explain the reasons for promoting Small Scale Enterprises;
- Examine the contribution of small enterprises towards production, employment and exports;
- Identify the disabilities of the small sector;
- Explain the Small Sector Industrial Policy (1991) in India;
- Obtain a picture of the targets and achievements set out in the Eighth Plan; and
- Also comprehend the gap between government pronouncements and actual implementation of the small sector policy.

18.1 INTRODUCTION

Small Scale industries (SSIs) in India have a major role to play. They contribute substantially towards production, employment generation and exports. Moreover, they help in fulfillment of the objective of balanced regional development. Thus, the government has recognized the small-scale industries as a separate category and has taken measures for their growth. Several concessions in terms to tax exemptions, lower interest as loans, subsidies on output, etc. are given to these units. Certain categories of industries are reserved for these units.

In this Unit we will discuss the nature of growth as well as problems encountered by SSIs.

18.2 DEFINITION OF SMALL SCALE ENTERPRISES

The definition of Small Scale Enterprises has been changing with the passage of time. During the earlier phase of the post-independent period, all enterprises which had capital investment of less than Rs.5 lakh were grouped as small Scale Enterprises. But along with it, the government grouped small undertakings under two categories – (a) those using power but employing less than 50 persons; and (b) those not using power but employing less than 100 persons. Later in 1966, the employment criterion was dropped and small enterprises were defined on the basis of investment limit only. In 1966 this unit was set at Rs.7.5 lakh for small-scale industries and Rs.10 lakh for industrial ancillaries. Industrial ancillaries are those, whose output is used as an input in other industries.

The investment limit for small-scale industries has been raised from time to time. This is because of two reasons: (a) due to inflation, cost of machinery and other equipment has gone up. This requires higher investment than before; (ii) there has been innovation in the production structure. Technological progress has allowed production of the same commodity by a new process or production of altogether new commodities.

In 1975, the limit was revised to Rs.10 lakh for small-scale enterprises and Rs.15 lakh for ancillaries. A new category, Tiny Sector was introduced with an investment limit of less than Rs.1 lakh. In 1980, this limit was further raised to Rs.20 lakh in the case of small-scale units and Rs. 25 lakh in the case of ancillary units. For tiny units the limit was raised to Rs.2 lakh.

In 1985, the government again revised the investment limit of Small Scale Enterprises to Rs.35 lakh and for ancillary units to Rs.45 lakh. The investment limit for tiny sector was, however, retained at Rs.2 lakh.

In 1990, the investment limit for small enterprises in plant and machinery was raised to Rs.60 lakh and for ancillaries to Rs.75 lakh. The ancillary unit was, however, defined as one which sells not less than 50% of its manufactures to one or more industrial units. The definition of tiny unit was revised to an investment limit upto Rs.5 lakh.

During 1997, on the recommendation of Abid Hussain Committee, the government has raised the investment limit of small-scale units and ancillary units from Rs.60/75 lakh to Rs.3 crore and that for tiny units from 5 lakh to 25 lakh.

Table 18.1 : Definition of Small Scale Enterprises, Ancillary and Tiny Units on the basis of fixed capital investment in plant and machinery

Year	Tiny Units Less than	Small Scale Enterprises Less than	Ancillaries Less than
Upto 1950	—	Rs.5 lakh	—
1966	—	Rs. 7.5 lakh	Rs.10 lakh
1975	Rs.1 lakh	Rs.10 lakh	Rs.15 lakh
1980	Rs.2 lakh	Rs.20 lakh	Rs.35 lakh
1985	Rs.2 lakh	Rs.35 lakh	Rs.45 lakh
1990	Rs.5 lakh	Rs.60 lakh	Rs. 75 lakh
1997	Rs.25 lakh	Rs.3 crore	Rs. 3 crore

Source: Various industrial policy statements and notifications of the government.

The government has been increasing the investment limit of tiny, small-scale and ancillary units from time to time so as to accommodate the rise in prices during the period. The government was also guided by the considerations of facilitating the growth of the small-scale sector with a view to enlarge employment as well as exports. However, the increase by 5 times recommended by the Abid Hussain Committee in 1997 as against that in 1990 is unusual. The rationale given by the Committee is to promote the easy entry of new entrepreneurs into the tiny sector and provide all help to the successful enterprises to grow and prosper till they reach the investment limit of Rs.3 crore. They would not need any promotional assistance after crossing the limit of Rs.3 crore.

Classification into Traditional and Modern Small Industries

Small Scale Industries (SSIs) are classified into traditional and modern units. Among the traditional small industries are included khadi and handloom, village industries, handicrafts, sericulture, etc. Traditional SSI units were also referred to as cottage industries. The main characteristic of these units is that they do not provide full-time employment. Rather, they provide part-time employment and thus add supplementary income to agricultural labourers and artisans.

As against these, modern industries produce a large variety of goods, from simple items (e.g., electric switches, electric heaters, electric presses, modern toys, mechanical tools and instruments etc.) to more sophisticated goods (e.g., television sets, engineering goods, electronic equipment, parts of computers, etc.). The modern small industries produce high value added products. Their total output was of the order of Rs. 2,53,343 crore in 1996-97, but the output of the traditional sector was only Rs. 41,432 crore. Thus, the share of the modern SSIs in the total output of Rs.2, 94,775 crore was 86 per cent and that of the traditional sector was only 14 per cent. This may, however, be contrasted with figures of employment generation. The traditional industries provided employment to 264 lakh persons compared to 179 lakh persons by SSIs. The share of modern SSIs in total employment of 443 lakh was 40 per cent and that of traditional industries was 60 per cent. From this it follows that output per worker in modern sector was of the order of Rs.1, 41,532 while that of the traditional worker was only Rs.15, 694. This implies that labour productivity per worker was 9 times in the modern sector as against the traditional SSI sector. Better technology and manufacture of high value products explain the high labour productivity of the modern small sector.

Check Your Progress 1

1) How do you define a small enterprise?

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2) Define an ancillary unit.

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18.3 RATIONALE FOR SMALL SCALE ENTERPRISES

Some economists are against the protection of small-scale enterprises, while others strongly defend the continuance and growth of small units. The Industrial Policy Resolution of 1956 put forth four arguments in favour of small enterprises:

"They provide immediate large-scale employment, they offer a method of ensuring equitable distribution of national income and they facilitate and effect mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small-scale centres of production all over the country".

The four arguments put forth in the Industrial Policy Resolution are detailed below:

1) **The Employment Argument**

The most important single argument in favour of SSIs is that they create large volume of employment with relatively much less capital. In this sense, the SSIs are labour intensive compared to large industries, particularly heavy industries and infrastructure. Secondly, SSIs have shorter gestation period. They require much longer time for their establishment. Therefore, the advocates of small scale and cottage industries argue that these industries are capable of providing employment to a much greater number of persons. Data provided by the Annual Survey of Industries (1985-86) reveal that whereas in large units, productive capital employed per employee was Rs.1, 67,680, in the small-scale units it was only Rs.29, 800. In other words, with the same amount of capital, 5.6 times employment is generated in the small-scale enterprises as against large enterprises. In a capital-scarce and labour-surplus economy like India, small-scale industries are therefore, necessary to provide employment for the large labour force.

2) **The Equality Argument**

Large-scale enterprises tend to concentrate income in the hands of a few capitalists, who get huge profits from them. Small and cottage industries, on the other hand, tend to distribute income more widely among a large number of small owners and workers. Thus, small enterprises tend to reduce inequality and promote economic justice. Moreover, by distributing income among a large number of owners located in rural and semi-urban areas, small enterprises promote a more equitable distribution of the gains from industry. Thus, they promote greater equality.

3) **The Decentralisation Argument**

Small enterprises require small amounts of capital and simple machines, tools and implements. These industries can be easily spread over a large area. On the other hand, large industries are generally located in large towns and big cities. Such concentration of large enterprises in a few urban centres creates problems of over-crowding in cities, which in turn leads to pollution growth of slums and associated health hazards. By decentralising production with the help of small industries, most of these problems are taken care of. Instead of men and women shifting from rural and semi-urban areas, industry can be shifted to rural areas. Decentralisation, therefore, is beneficial because it has a much greater spread effect.

4) **Latent Resources Argument**

Small scale and cottage industries help in mobilising talent and unutilised resources lying idle in rural and semi-urban areas in several ways. Firstly, a large number of small entrepreneurs who do not have very large amount of capital to set up large enterprises can use their talent and limited resources to set up small units. Secondly, a good number of industrial units can be located near the places of raw material availability. Small units can make use of local raw materials and local talent. Thirdly, dispersal of industry with the help of small units would make it possible to mobilise idle savings, thinly spread throughout the country in profitable channels of production.

Some economists oppose the employment argument by saying that employment should not be created for the sake of employment. The more important problem is how to make the best use of scarce resources. In other words, the employment argument is in fact the 'output argument'. In large factories working in two or three shifts is common, it is not so in case of small enterprises. Thus, though apparently small enterprises appear to use less capital per unit of labour, but in reality, the most capital-intensive type of manufacturing establishments is the small factory using modern machines and employing upto 50 workers.

Table 18. 2: Productive Capital, Employment and Value Added in Industries (1993-94)

Gross Value of Plant and Machinery	Productive Capita per Employee(K/L) (Rs.)	Value added per unit of Employment (O/L)	Value added per unit of Capital (O/K)
Tiny Units (upto Rs.5 lakh)	33,945	32,677	0.96
Small Scale Units (Upto Rs.50 lakh)	65,409	44,861	0.68
Large Units (Rs.50 lakh & above)	5,27,296	1,36,038	0.26

Source: Computed from Annual Survey of Industries (1993-94).

There is no doubt that with an increasing trend of modernisation, capital-labour ratio of small-scale enterprises is rising at a much higher rate. Similarly, there is acceleration in capital intensity of large enterprises.

Data provided by the Annual Survey of Industries (1993-94) (see Table 18.2) reveal that productive capital per employee (K/L) is 8.1 times higher in large units than in the small units. Moreover, the value added per unit of capital (O/K) is higher in small units. On the other hand, value added per unit of employment (O/L) is 3.03 times in large units than in small units, which could be because of higher capital per labour. These results support the case of small units both from the point of view of employment and output considerations of a capital-scarce economy trying to reconcile the objectives of employment and output.

18.4 GROWTH OF SMALL SCALE ENTERPRISES IN THE INDIAN ECONOMY

The government has been promoting the growth of small-scale sector in the Indian economy. Various methods are used for the purpose. First, a number of items are reserved for the small-scale sector. As against 177 items reserved in 1972, the number of reserved items was increased to 837 by 1983. The small-scale sector is engaged in the production of nearly 7,500 items.

Second, the government provided cheap credit for SSI units. The rate of interest charged is usually lower than that for large industries. Third, it opened a network of marketing centres under the Khadi and Village Industries Board. Fourth, programmes for training of workers engaged in the small sector have been undertaken. As a result of the efforts of the State, the small-scale sector has shown a tremendous growth in the Indian economy.

The total number of small-scale units, which were 4.2 lakh in 1973-74, increased to 27.24 lakh in 1995-96. Simultaneously, there has been a tremendous growth of employment from about 4 million in 1973-74 to 12.5 million in 1990-91 and further to 15.3 million by 1995-96.

Production in the small-scale sector increased from Rs.7, 200 crore in 1973-74 to Rs.1, 55,340 crore in 1990-91 and then shot up to Rs.3, 56,213 crore in 1995-96.

Table 18.3: Production, Employment and Exports in the Small Scale Sector

	Production (Rs. Crore) (at current price)	Employment (in lakh persons)	Exports (Rs. Crore)
1973-74	7,200	39.7	393
1980-81	28,060	71.0	1,643
1990-91	1,55,340	125.3	9,100
1995-96	3,56,213	152.61	36,470
Compound rates of growth			
1973-74 to 1980-81	21.4	8.7	22.6
1980-81 to 1990-91	18.6	5.8	18.6
1990-91 to 1995-96	18.0	4.0	14.9

Source: Handbook of Industrial Statistics (1987) and Report on Currency and Finance (1995-96)

The rate of growth of production between 1980-81 and 1990-91 was 18.6 per cent per annum. During the next 5 years (1990-91 to 1995-96) , it was around 18 per cent per annum. This is very creditable record and as a consequence, the small-scale sector is described as a dynamic sector of the economy.

In terms of employment, the growth rate during 1980-81 to 1990-91 was 5.8 per cent per annum and during the next 5 year (1990-91 to 1995-96), it was around 4 per cent per annum. This is much higher than the growth rate in the large-scale industrial sector as also the overall growth rate of employment in the economy.

Exports : The small scale sector has made rapid progress in boosting up exports from Rs.1,643 crore in 1980-81 to Rs.9,100 crore in 1990-91 and then shooting up to Rs.36,470 crore in 1995-96. As a percentage of total exports, the small-scale sector accounts for nearly 34 per cent of exports in 1995-96, whereas its share in 1990-91 was only 28 per cent in 1973-74, it was merely 15.6 per cent. Among the items, which have shown remarkable growth in exports, are ready-made garments, canned and processed fish, leather products, hosiery, marine products, food products, etc. Being a major contributor to exports, SSI sector deserves greater encouragement so that it continues to earn the much-needed foreign exchange.

18.5 STATE POLICY TO REMOVE DISABILITIES OF THE SMALL SECTOR

The major problem with the small sector is competition from the large sector and comparatively higher costs of production. The government has been providing assistance in the allocation of raw materials and imported components and equipment. Secondly, lack of cheap credit and non-availability of credit has been another major problem. Thirdly, low level of technical skill and managerial abilities of the small entrepreneurs has been another weakness of this sector. Fourthly, marketing of small sector products, standardisation of their quality, improvement in design and advertisement have been some other weaknesses. It would be desirable to review the measures taken by the state in these areas:

Measures to remove disabilities

i) **Allocation of Raw Material and Imported Components and Equipment** - Following the recommendations of the Second International Team, the government has been treating the SSI sector as a priority sector in the allocation of raw materials as well as imported equipment. For this purpose, the government established the Small Industries Development Corporation (SIDC). However, there is dissatisfaction with the effectiveness of state policy. The seventh plan recognised this fact and stated that though in theory, the small sector enjoyed a 'priority status', in practice it was merely treated as a 'residuary sector' in raw material allocation. With the economic reforms being initiated in 1991, the government has been over-emphasising the corporate sector and neglecting the SSI sector. This policy needs to be changed in the interests of enlarging employment and production via the small-scale sector.

ii) **Assistance in the form of Credit** – One of the major problems of the small-scale units is lack of adequate credit availability. It may also be noted that sometimes, credit is available at a very high rate of interest. As a result, the small-scale sector cannot enlarge its production or meet production targets for the orders available. For this purpose, the government, more especially after bank natinalisation in 1969, made the small scale sector the priority sector in industry. Its share in total loans available to industry was 6.6 per cent in 1967. By 1994, the share of small industries was Rs.22,620 crore, out of the total loans, Rs.80,492 crore available to industry– i.e., 28 per cent of total. This is a significant improvement, but still the needs of the small-scale sector are not fully met. There is a need to evolve different criteria of credit-worthiness for the small sector. Instead of insisting on priority or assets as security, it would be more fruitful to consider the capacity of the unit to earn profits as the basis for granting credit. Moreover, the rate of interest should be reasonable so that the cost of borrowing does not become very high and the units can earn reasonable profit.

iii) **Technical Assistance-** A large number of small units suffer from low level of technology and shortage of trained technical persons. It is, therefore, essential that the state should help to improve the technology of these units so that they can compete in the market effectively and can also manufacture in new product lines, which are now acceptable.

The government has set up two organisations for providing technical assistance to small units. First, the Central Small-Scale Industries Organisation (CSIO), through the medium of Service Institute and Extension Centres, provides advice to small entrepreneurs on technical problems. Secondly, technical assistance is provided by common facility workshops. The charges for attending these workshops from small firms are very low. Yet it has been found that these facilities are not fully utilised.

iv) **Marketing Assistance** – A major disability of the small-scale units is that their products being non-standardised differ in quality. This puts them at a disadvantage because large firms by using brand names and highly pressurised advertisement are able to capture the market. However, in some cases, the originality of design does help small units to meet the tastes of fashionable consumers. This is specially true in garments. But for a large variety of products, such as electric and electronic equipment, watches, footwear, etc., standardisation is essential. The government along with the Khadi and Village Industries Commission (KVIC) can help in this direction. Moreover, marketing being a specialised function should be taken over by certain government and non-government organisations. The Khadi and Village Industries Board has created a network of over 22,000 outlets for this purpose throughout the country.

Besides, the government can give preference to small-scale units in its purchases. The National Small Industries Corporation (NISC) helps small firms to secure a share from the government and defence purchases to the extent of 15 per cent. All these efforts have helped to improve the marketing of products manufactured by small firms.

Over the last four decades, the government has been promoting the growth of small enterprises by various measures given above. All these have helped to give encouragement to small enterprises, yet much still remains to be done on the question of credit so that the dependence of small entrepreneurs on private sources who charge high rate of interest can be reduced.

Check Your Progress 2

1) List the types of government assistance provided to small-scale industries.

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2) Name three major organisations, which help small-scale enterprises.

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18.6 SMALL SCALE SECTOR INDUSTRIAL POLICY (1991)

A few months after the announcement of the Industrial Policy of 1991, the government also announced the Small Sector Industrial Policy. It noted that at the end of the Seventh Plan, the small sector accounted for nearly 35 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the exports form the country. It also provided employment opportunities to around 12 million persons. The primary objective of the Small Sector Industrial Policy would be to impart more vitality and growth-impetus to the sector to enable it to contribute fully to the economy, particularly in terms of growth of output, employment and exports.

Raising the Ceiling for Small-Enterprises

The Industrial policy noted that the government has raised the investment limit in plant and machinery of small-scale industries, ancillaries and export-oriented units to Rs.60 lakh, Rs.75 lakh and Rs.75 lakh and Rs.75 lakh respectively. For the tiny enterprises, investment limit has been increased from Rs.2 lakh to Rs.5 lakh. (This was the limit as per 1991 policy. This has been raised to Rs.3 crore and Rs.25 lakh respectively in 1997.)

A new feature of the small sector policy is that all industry-related service and business enterprises would be recognised as small-scale industries and their investment ceilings would be the same as prescribed for the tiny sector enterprises.

Financial Support Measures

For making credit available, the government stated that emphasis would henceforth shift from subsidised/cheap credit (except for specified target groups), to availability of adequate credit to small sector and ensure its delivery to this sector.

To provide access to the capital market and to encourage modernisation and technological upgradation, the government decided to allow equity participation by other industrial undertakings in the SSI, not exceeding 24 per cent of the total shareholding. This would provide a powerful push to ancillarisation and sub-contracting leading to expansion of employment opportunities.

A beginning was made towards solving the problem of delayed payments to small industries by setting up 'factoring' services through Small Industries Development Bank of India (SIDBI). Factoring services imply that SIDBI or any commercial bank will buy the manufacturer's invoices from SSI units and take the responsibility for collecting payments due to them by charging a commission or brokerage. The policy statement further mentions that network of such services would be set up throughout the country and operated through commercial banks.

Infrastructural Facilities

A Technology Development Cell (TDC) would be set up in the Small Industries Development Corporation to improve the technology of small-scale units, thereby raising their productivity and improving their competitive strength.

The state will ensure adequate and equitable distribution of indigenous and imported raw materials to the small-scale sector, particularly the tiny sector.

Marketing and Exports

National Small Industries Corporation (NSIC) would undertake the marketing of mass consumption goods under a common brand name and Small Industries Development Corporation (SIDC) has been recognised as the nodal agency to promote exports of small-scale industries.

Village Industries : Handloom Sector

Janata Cloth Scheme which sustains weavers often on a minimum level of livelihood will be phased out by the terminal year of the Eighth Plan and replaced by the omnibus project package scheme under which substantial funds will be provided for modernisation of looms, training, provision of better designs, provision of better dyes and chemicals and marketing assistance. All this will be done to sustain employment in the rural areas and improve the quality of life for handloom weavers who contribute 30 per cent of total textile production in the country.

Handicraft Sector and other Village Industries

To encourage non-farm employment, the activities of the Khadi and Villages Industries Commission will be expanded and they will be using the area development approach to specially benefit the weaker sections like scheduled castes and scheduled tribes and women throughout the country.

An Assessment of the Small Sector Policy (1991)

Critics find that the new small sector policy suffers from several shortcomings. It would be appropriate to note some of them :

First, although emphasis is put on adequate supply of credit, no concrete suggestions have been made to increase the supply of credit to the SSIs. Even before, the supply of cheap credit was a myth. It was barely 0.5 to 1.0 per cent lower rate of interest that was charged to SSIs. This was not enough.

Secondly, the new small sector policy permits large undertakings–Indian or foreign – to hold 24 per cent equity in small undertakings. This is being allowed on the plea that these undertakings will bring about modern technology to small units. But this policy will make the small units appendages of the large units. With 24 per cent equity holding, the large units can exercise complete control of the small units. Even now, it is argued that, several big units create fake small units to benefit from the concessions available to such units. The new policy only legalises this phenomenon.

Thirdly, one of the principal causes of the sickness of small units is that big firms (the principals) delay payments to small units. As a result, the cash flow available to small units becomes less and they find it difficult to continue production. The policy leaves much to be desired as a form of action in this area. There is a need to make the law more stringent and more effective to check delayed payments.

Fourthly, the new policy does very little to control the widely prevalent sickness among the sick units. According to the Economic Survey (1993-94), there were 2.46 lakh sick units in the small sector with outstanding bank credit of Rs.3,100 crore. Studies about sickness reveal that poor management and lack of professional training are the major causes of sickness. The new policy should have given more attention to training of small entrepreneurs.

A better course would have been to develop an umbrella type co-operative of entrepreneurs so that they can guide entrepreneurs in the selection of projects, provide information about the supply of inputs, techniques of production and help in the marketing of their output. Co-operatives could also become agencies to secure adequate credit. The new policy, instead of promoting them, has chosen the dangerous path of corporatisation of these units. In other words, instead of strengthening small enterprises, the new policy only permits easy entry by big business to control these units. Such a policy, therefore, cannot be considered as appropriate from the point of view of growth and equity.

Check Your Progress 3

1) What is the share of SSI sector in production, employment and exports of the manufacturing sector ?

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2) List three major recommendations of Small Sector Industrial Policy (1991).

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18.7 VILLAGE AND SMALL INDUSTRIES IN THE EIGHTH PLAN

The Eighth Plan (1992-97) considered village and small industries as the vehicles of generating employment. In the process, they would also provide help in the removal of poverty. With this philosophy stated in the Eighth Plan, an allocation of Rs.6,334 crore was made in the public sector to develop village and small industries. The targets set for the production, employment and exports are given in Table 18.4. The data reveal that there are two major sectors of SSIs – the modern SSI sector and the traditional SSI sector. The modern sector production is expected to increase from Rs.1,74,378 crore in 1991-92 to Rs.2,53,343 crore in 1996-97. In other words, the modern SSI sector will account for 86 per cent of the total production at the end of the Eighth Plan and the traditional sector will merely account for the balance 14 per cent. So far as employment is concerned, the employment in modern sector is likely to increase from 179 lakh in 1991-92 to 225 lakh, but in the traditional sector will increase from 264 lakh to 328 lakh. In relative terms, the share of employment between the modern and traditional sectors will remain constant, i.e., 41 per cent and 59 per cent respectively. However, exports from the modern sector will rise form Rs.12,658 crore to Rs.20,200 crore, while that of the traditional sector are expected to grow from Rs.10,331 crore in 1991-92 to Rs.30,015 crore in 1996-97. Consequently, the share of exports in the modern sector will decline from 55% to 40% during the Eighth Plan, that of the traditional sector will improve from 45% to 60% . The main contributor in this sharp increase in traditional sector exports will be handicrafts, whose exports are expected to shoot up from Rs.9,215 crore to Rs.27,915 crore–a rise of three times. Handicrafts, which blend utility with beauty, satisfy the needs of the richer classes who are the main buyers of these items.

Table-18.4 : Village and Small Industries – Eighth Plan Targets

Industry	Production (Rs. Crore)		Employment (lakh persons)		Exports (Rs. Crore)	
	1991-92	1996-97	1991-92	1996-97	1991-92	1996-97
1. Modern Small Scale Industry	1,74,378 (89.3)	2,53,343 (85.9)	179,0 (40.4)	225.5 (40.7)	12,658 (55.1)	20,200 (40,.2)
a. Small Scale Industries	1,60,000	2,33,436	126.0	150.5	12,658	20,200
b. Powerloom Cloth	14,378	19,907	53.0	75.0	—	
2. Traditional Industries	20,916 (10.7)	41,432 (14.1)	264.3 (59.6)	328.2 (59.3)	10,331 (44.9)	30,015 (59.8)
c. Khadi Cloth	278	560	14.6	16.5	—	—
d. Village Industries	2,150	3,760	35.4	46.3	—	—
e. Handloom Cloth	4,064	5,690	106.0	117.0	450	1,000
f. Sericulture-Raw Silk	996	1,590	54.6	65.0	600	1,000
g. Handicrafts	13,260	29,620	48.3	77.7	9,215	27,915
h. Coir fibre	168	212	5.5	5.8	66	100
Total (1+2)	1,95,294 (100.0)	2,94,775 (100.0)	443.5 (100.0)	553.7 (100.0)	22,989 (100.0)	50,215 (100.0)

Note: Figures in parentheses are percentages of the total.

Source: Complied from Planning Commission, Eighth Five-Year Plan (1992-97).

From the ongoing analysis, it becomes clear that whereas the share of the organised private sector accounts for a total employment of 8.5 million, the village and small sector industries promise an employment of 55.3 million by 1996.97. Thus from the point of view of employment generation and poverty removal, the role of small scale industries is much larger than that of the large corporate sector which is the focus of new economic reforms. Even from the point of view of export promotion, the share of the small-scale industries has shown a continuos upward trend. Both these considerations are important and the government should, therefore, concentrate more efforts to develop this sector of the economy.

18.8 CONFLICT BETWEEN GOVERNMENT PRONOUNCEMENTS AND ACTUAL POLICY IMPLEMENTATION

There is a big gap between what the government professes and what it actually implements. The Expert Committee on Small Enterprises headed by Mr. Abid Hussain submitted its Report in January 1997, which made two significant recommendations. First, it pleaded for abolition of reservation on all items for the small-scale industries. This was recommended because a large number of products are not manufactured at all by the small-scale sector or their turnover is insignificant. Moreover, the policy of reservations is inconsistent with the new economic reforms that have been initiated since 1991. Second, the Committee recommended that ceiling on the investment in plant and machinery which was 5 lakh for tiny units be raised to Rs.25 lakh and for small enterprises and ancillary units from Rs.60/75 lakh to Rs.3 crore. The government has decided to raise the ceiling as suggested by the Abid Hussain Committee. The Finance Minister in his budget speech of 1997-98 dereserved 14 items, then reserved for the small-scale sector. The de-reserved items include rice milling, dal milling, poultry feed, vinegar, synthetic syrups, biscuits, ice-creams, a variety of automobile parts and corrugated paper and paper boards.

Both decisions of the government have been criticised by the representatives of the SSIs. First, why has the ceiling been raised five times - from Rs.60 lakh to Rs.3 crore. One can appreciate raising the ceiling in view of rise in prices. But the price index between May 1990 and May 1997 rose only by 88 per cent. Thus there seems to be no justification for raising the ceiling limit by 500 per cent. Obviously, this has opened the SSI window for the large sector to enter the field reserved for small sector and take advantage of concessions available to it. This will reduce employment in the small sector and will have adverse effect from the point of view of social justice.

Out of 822 items reserved for the small sector, 60 items in the reserved list account for 80 per cent of total production. The government should have withdrawn reservation on such items, which are not being manufactured, by the SSIs, but the unfortunate reality that the government has dereserved 14 such items, which are among the most successful items in the group of 60 items. While the government advocates promotion of SSIs, in reality it follows policies, which adversely affect the SSIs. This conflict needs to be resolved, if the most vibrant and dynamic small sector has to be strengthened. The Working Group Report of the Planning Commission has argued in favour of continuance of reservation. The working group said: As a large number of reserved items were being produced by medium and large industries, dereservation may not only retard the growth of the SSI sector but also result in unfair competition by the large sector.

18.9 LET US SUM UP

Definition of Small Scale Enterprises

In 1990, the small enterprises were defined as those having investment in plant and machinery upto Rs.60 lakh and for ancillaries the investment limit was raised to RS.75 lakh. The ancillary unit was defined as one, which sells not less than 50% of its manufactures to one or more industrial units. The definition of tiny unit was revised to an investment limit upto 5 lakh.

In 1997, the government raised the investment limit of small-scale units, ancillary from Rs.60/75 lakh to Rs.3 crore and that for tiny units from Rs.5 lakh to Rs.25 lakh.

Small enterprises are classified into modern SSIs and traditional SSIs. Modern enterprises produce high value products like electric gadgets, mechanical tools and instruments, parts of computers, etc. Traditional SSIs include khadi and handloom, village industries, handicrafts, sericulture, etc. The share of the modern sector in the total production of the SSI sector was 86 per cent, but in employment it was only 40 per cent. Productivity per worker in the modern sector was 9 times that in traditional sector.

Rationale for Small Scale Enterprises

Four arguments are put forth in favour of SSIs:

i) They generate large volume of employment as they are labour intensive.
ii) The SSIs tend to distribute income more widely among a large number of small owners and workers. They reduce inequality and promote social justice.
iii) Small enterprises promote a more decentralised pattern of production. Decentralisation helps to reduce over-crowding in cities and thus decreases pollution and growth of slums.
iv) SSIs help to mobilise resources lying idle in rural and urban areas.

Annual Survey of Industries (1993-94) data reveal that productive capital per employee in large enterprises is 8 times that in small enterprises, but value added per unit of capital is 2.6 times in SSIs as against that in large enterprises. This supports the view that both from the point of view of employment and output, small units should be supported in a capital-scarce economy.

Growth of Small Sector in Indian Economy

Production of SSI units increased at the rate of 18-19 per cent during 1980-81 to 1995-96. Employment growth in SSI units was 5.8% per annum during 1980-81 to 1990-91 and was around 4 per cent during 1990-91 to 1995-96.

Exports of SSI units account for nearly 34 per cent of total exports in 1995-96.

State Policies to Remove Disabilities of SSIs

i) Assistance in the allocation of scarce raw materials and imported components and equipment.
ii) Provision of cheap credit.
iii) Training to artisans and entrepreneurs engaged in SSEs.

iv) Assistance in the marketing of SSE products.

Small Sector Industrial Policy (1991)

It made the following major changes:

i) Ceiling limit for Small Scale Industries was raised to Rs.60 lakh, for ancillaries to Rs.75 lakh and for tiny units to Rs.5 lakh.
ii) All small industry-related service and business enterprises were recognised as SSIs.
iii) Emphasis shifted from the supply of cheap credit to the supply of adequate credit.
iv) Equity participation by industrial undertakings in SSIs allowed to the extent of 24% of total shareholding.
v) To solve the problem of delayed payments to SSIs, factoring services will be made available by Small Industries Development Bank of India.
vi) A Technology Development Cell to be set up to improve technology of SSI units so as to increase their productivity and competitive strength.
vii) Janata Cloth Scheme to be phased out by the end of the Eighth Plan.
viii) Modernisation of handloom sector to be undertaken.

Critics believe that permitting 24 per cent equity participation by large units in SSI sector will strengthen their control over SSIs. Moreover, the new policy does little to reduce delayed payments to SSIs by large units. It also bypasses the problem of industrial sickness of 2.46 lakh small units. New policy, instead of promoting co-operativisation of small units has chosen the dangerous path of corporatisation of SSIs.

Village and Small Industries in the Eighth Plan

The Eighth Plan targeted to increase output, employment and exports from the SSI sector. At the end of the Eighth Plan, the share of the modern SSI sector will be 86% and that of the traditional sector 14% in total production of SSI sector. But in employment and exports, the share of the traditional sector will be 59% and 60% respectively.

Whereas organised private sector employment will be about 8.5 million by 1996-97, the SSIs will account for an employment of 55.3 million.

Conflict between Government Pronouncements and Actual Policy Implementation

Government by accepting the recommendation of Abid Hussain Committee (1997) has raised the ceiling on the investment in plant and machinery for small enterprises and ancillaries to Rs.3 crore and for tiny enterprises to Rs.25 lakh. Secondly, the government has dereserved 14 items, which were earlier reserved for the small sector.

Critics point out that by raising the ceiling limit on investment for small sector, the government has opened the SSI sector window for the large sector. The government decision to de-reserve 14 successful items of the small sector will hurt the interests of small producers.

18.10 KEY WORDS

Ancillary Unit is defined as one, which sells not less than 50% of its manufactures to one or more industrial units.

Cooperativisation implies the process of increasingly bringing in more and more small units to come together so that they can act united. As a co-operative, they can exercise more influence and secure better benefits for themselves.

Corporatisation implies the process of increasing the share of the corporate sector in the share capital of a certain sector, may be the small-scale sector.

Factoring service imply that any development or commercial bank will buy the manufacturers' invoices from SSI units and take the responsibility for collecting payments due to them by charging a commission or brokerage.

Small Enterprises According to Government of India, a small enterprise is one whose investment in plant and machinery is up to Rs.3 crore.

Small Industries Development Bank of India (SIDBI) – A bank created to provide credit specifically for the development of small industries.

Small Industries Development Corporation (SIDC) – An organisation created for allocation of raw materials and components to SSIs on a priority basis.

Tiny Unit is defined as one whose investment in plant and machinery is up to Rs.25 lakh.

18.11 SOME USEFUL BOOKS

Ruddat Datt and KPM Sundharam, *Indian Economy*, S. Chand & Co., New Delhi (1997).

Planning Commission, *Second Five-Year Plan.*

Planning Commission, *Eighth Five Year Plan (1992-97).*

Government of India, *Report of the Expert Committee on Small Enterprises (1997).*

18.12 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) A small enterprise is defined on the basis of initial capital investment in it. Keeping in view inflationary rise in costs, this limit has been increased from time to time. Since 1997 this limit is Rs.3 crore.

2) An ancillary unit is one whose output is used as an input in large and medium industries. Presently, it is defined as one, which sells not less than 50% of its manufactures to one or more industrial units. The investment limit for ancillary units is Rs.3 crore.

Check Your Progress 2

1) The government provides assistance to SSIs with respect to allocation of raw material, cheaper credit, technical assistance and marketing facilities. See Section 18.4 for further details.

2) Three main institutions, which provide assitance to SSIs, are SIDC, CSIO and NSIC.

Check Your Progress 3

1) 35% in manufacturing output, 85% in employment and 40% in exports.

2) There are a number of measures taken by the small-scale industrial policy, 1991. Three important among them are: (i) adequate credit provision, (ii) equity participation by large industries, and (iii) marketing through NSIC through a common brand name.