PUNJABI UNIVERSITY PATIALA

B.A.PART – I (SEMESTER-I)

ECONOMICS : MICRO ECONOMICS AND INDIAN ECONOMY-I

Department of Distance Education
Punjabi University, Patiala

SECTION – B

LESSON NO.:

Note : Students can download the syllabus from department's website www.pbidde.org

LESSON NO. 2.1 **SIM CONVERSION : ANITA GILL**

NATURE AND CHARACTERISTICS OF INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

Structure of the Lesson

2.1.1 INTRODUCTION :

India had been under foreign rule for a long time. The invaders settled in India itself and ruled over the country. But the British conquest of India was different in the sense that, due to it, there emerged a new political and economic system whose interests were rooted in foreign soil, and whose policies were guided solely by those interests. The British did not Indianize themselves like the earlier invaders, rather they created a distinction not known before of foreign rulers and Indian subjects. We can divide the British rule in India into two parts : the rule of the East India Company (1757-1858), and rule of the British Government (1858-1947). Thus the establishment of British rule was a slow and lengthy process.

The Indian economy experienced far reaching changes during the British rule. There was the growth of railways, spread of irrigation, expansion of education and the creation of revenue settlements. But all these changes were brought about with the sole motive of accelerating the process of economic drain from India. The industrial revolution; which synchronized with the period of British conquest, helped them to sell machine made goods in India in competition with Indian handicrafts. The new land revenue system and the commercialization of agriculture exploited the Indian peasantry and disintegrated the village community. Thus, when the British rule over India came to an end in 1947, Indian economy was a colonial, semi-feudal, lop-sided, stagnant and backward economy. The partition of the country did further damage to it. Independent India inherited grave economic problems from her colonial past.

2.1.2 OBJECTIVE :

The objective of the present lesson is to familiarize the student with the condition of the Indian economy immediately after it attained independence in 1947. The British had ruled over India for nearly two centuries. The economic impact of this foreign rule on our country was quite damaging, save a few positive developments like the railways. The condition of the economy on the eve of independence had an important bearing on the path of development decided upon post-independence. The lesson also deals with the features of the Indian economy at present, and whether these are in line with what was stipulated by the planners.

2.1.3 FEATURES OF INDIAN ECONOMY ON THE EVE OF INDEPENDENCE :

Let us now take a look at the features of Indian economy on the eve of independence. It would be convenient to study these under the following heads :-

2.1.3.1 Colonial Economy : The colonial character of the Indian economy expressed itself in an unequal pattern of trade with British and other industralized countries. India was a source of raw material and a market for the machine made goods. The large scale production that grew as a result of Industrial Revolution meant a heavy reduction in costs. The machine made goods began to compete with the products of Indian industries and handicrafts. India became a classic example of a colonial country supplying her imperialist rulers with raw material and food stuffs and providing a market for the manufactures of the rulers.

Another manifestation of the colonial character of the economy was that foreign capital had entrenched itself in important segments of modern sector of the economy. At the time of Independence, India had still not freed itself from the exploitation and the influence of foreign capital.

2.1.3.2 Condition of Agriculture : The agricultural economy on the eve of independence was a semi-feudal one. In the areas which were under permanent or temporary zamindari settlements, the British had reinforced pre-existing feudalism by conferring on the former revenue farmers the rights of ownership in land. The actual cultivator did not have any legal rights which were recognised by the courts. In the areas under the Ryotwari settlement, the cultivator had been recognised as the proprietor of his land. But the prevailing conditions soon gave rise to landlord tenant relations on an extensive scale.

However, it was not an entirely feudal economy, because a capitalist sector had been created by foreign capital and enterprise. By the end of British period this sector had taken a firm root. Plantations were essentially capitalist enterprises. Even in ordinary crop farming, capitalist production relations had emerged and were gaining strength. This showed itself, on the one hand, in the emergence and growth of the stratum of the more substantial cultivators who carried on cultivation largely by employing hired labour and on the other hand in the rise and multiplication of a large class of agricultural workers who earned their livelihood principally by hiring themselves out to the cultivators. This development was particularly noticeable in the Ryotwari areas.

The condition of agriculture was miserable. Most of the peasants were in debt. Perpetual indebtedness to the employer made peasants serve them from year to year, or even from generation to generation. The size of holdings was small and scattered. Modern implements, seeds, and fertilizers were not available to the farmers; even if these were, the farmers did not have enough money to buy them. Rainfall was the main source of irrigation. The productivity of land and labour was very low. Large quantities of grains had to be imported, despite the fact that nearly 70 percent of the working population was engaged in cultivation. Besides, the country suffered severely because of the partition in 1947. India got as its share 82 per cent of the original population but only 69 per cent of land under rice, 65 percent of land under wheat, and 75 per cent of the land under cereals. Likewise, India was left with a smaller proportion of irrigated area.

2.1.3.3 Industrial Pattern : Indian manufactures had a world-wide market before the advent of modern industrial system. Indian industries not only supplied all local wants but also exported its finished products. The impact of the British connection and industrial revolution led to the decay of Indian handicrafts. This void could not be filled by the rise of modern industry in India because of the

British policy of encouraging imports of manufactures and export of raw materials. The British Govt. provided discriminating protection to some selected industries since 1923. Despite this, some industries such as cotton textile, sugar, paper, matches and to some extent iron and steel did make progress.

The Indian industrial structure reflected a lopsided size pattern. There was a high concentration of employment either in small factories and household enterprises or in large factories. The lopsidedness of the industrial pattern was reflected in the absence of the middle entrepreneurs running medium sized firms.

Another feature of the Indian industrial pattern was the prevalence of low capital intensity. It was the result of two factors : first, the general level of wages in India was low, and second, the small size of the home market in view of the low per capita income and limited use of mass production techniques resulted in low capital per worker employed. Composition of manufacturing output reflected the preponderance of consumer goods industries vis-a-vis producer goods industries.

In short, the industrial pattern on the eve of independence was marked by low capital intensity, limited development of medium sized factory enterprises and imbalances between consumer goods and capital goods industries.

2.1.3.4 Condition of Foreign Trade : Before the Second World War, India was forced to export more than its imports in order to meet the unilateral transfer of payments to Britain in the shape of salaries and pensions of British officers, interest on sterling loans and dividends on British capital invested in India. Thus, more exports and less imports was a feature of India's foreign trade. So far as commodity structure of exports is concerned, the raw material components of exports declined from 45 percent of total exports in 1938-39 to 31 percent in 1947-48. In the pre-war years India did export foodgrains, but the surplus had disappeared in the post-independence period. An important development was the creation of Pakistan in 1947, turning a part of interregional trade into international trade.

On the eve of independence, foreign trade of India showed an excess of imports over exports. The rise in imports was largely due to the pent-up demand of the war time and post war period as a consequence of various controls and restrictions. The shortage of food and basic raw materials like jute and cotton as a result of partition, the rise in the imports of machinery and equipment to meet the growing demand for hydro-electric and other projects started during the period.

2.1.3.5 Balance of Trade : India's balance of trade on the eve of independence was characterised by uncertainty and difficulties. With the partition of the country, India faced serious problems regarding food grains and raw jute. As a result of this, India had to import large quantities of food grains. By 1947-48, foodgrains imports touched a high mark of 3 million tonnes. India was also forced to import raw materials like raw jute, raw cotton, raw hides and skins and wool from Pakistan. The multipurpose irrigation projects, the manufacture of fertilizers, replacement of depreciated rolling stock and locomotives of the overburdened Indian railways necessitated the imports of capital goods. As a result of all this, imports increased over exports turning India's favourable balance of trade in an unfavourable one.

2.1.3.6 Backward Economy : At the end of the British rule, India had a backward economy which was predominantly agricultural. About 70 per cent of the population was engaged in agriculture and generated 59 per cent of the national income. The non-agricultural sector was not only small but also had an unbalanced structure. The major activity in the sector was services and not industry.

The backward state of the economy showed itself in the low per capita income of Rs. 466, in 1948-49 at 1970-71 prices. Income was unequally distributed. People lived in extreme poverty. Inadequate diet, primitive housing, illiteracy, complete lack of social security, widespread unemployment and underemployment made their life miserable. Famines were a frequent occurrence.

Poverty and backwardness manifested themselves in mass illiteracy and high rates of birth and death. The backwardness of the economy was also reflected in a low level of urbanisation. In 1941, the urban areas had only 14.2 per cent of the population. Thus, six out of every seven persons lived in villages which were without modern amenities. Also, because of its backwardness the entire country was almost completely dependent on the rest of the world for plant and machinery needed for economic development. It was in no position to produce defence equipment and depended on the outside world for means of national security.

2.1.3.7 Depleted Economy : On the eve of independence, India was an economy depleted of its resources. World War II, which just preceded the close of the British period, brought serious depletion of the economy. During the war, plant and equipment were used intensively resulting in wear and tear. But replacements were not available because India lacked engineering industries and huge quantities of imports were not possible. There was a run down of inventories with producers. The country suffered a depletion of real capital. Vigorous increase in production was impossible as the British had left a seriously depleted economy.

2.1.3.8 Stagnant Economy : Under the British rule, the economy was virtually stagnant. Per capita income increased at an annual rate of 0.5 per cent. The colonial and feudal exploitations were obstacles to growth inherent in a situation where there were tiny producers without the knowledge or means and incentives for modernising under an oppressive political regime, which could never evoke from people the effort and sacrifices needed for development. On the eve of independence, the economy was a stagnant one.

Thus, when the British rule came to an end in 1947, India was a colonial, semi feudal, lop-sided, stagnant and backward economy, After a protracted and arduous struggle waged by the Indians, the country emerged as an independent nation.

At this stage it will be appropriate to study the nature of Indian economic system. We will examine the path of development that was envisaged for India. Also whether we have been successful in following and establishing the system that was originally planned. But first, a short exercise to refresh what we have learned so far.

SELF CHECK EXERCISE

(i) What was the condition of agriculture in India on the eve of independence ?

(ii) In what sense was the Indian economy depleted on the eve of independence?

2.1.4 NATURE OF INDIAN ECONOMIC SYSTEM : POST INDEPENDENCE

Indian economy is a developing economy. Ever since independence, it has adopted the path of economic development with the help of planning. On the eve of independence Indian economy was a backward agricultural economy where national income and hence per capita income was very low. Unequal distribution of income had created poverty on one hand and unbalanced growth of agricultural and industrial sector on the other. In a way, ours was a stagnant economy. Some traits of feudalism still existed while in some areas capitalist mode of production had started emerging. This was the result of a long period of colonial exploitation by the Britishers, more effectively from 1857 to 1947. But with the beginning of planning this long spell of stagnaion was broken and the process of economic development started.

Before we started planning, there was a long debate and controversy regarding the path of economic development to be followed. There were thoughts put forward by private producers and the capitalist class that India should have a capitalist type of development where the concept of private property will exist and will dominate. This idea was given by the Tatas and Birlas. On the other hand M.N. Roy and Shriman Narayan propagated the 'Peoples' plan and 'Gandhian' plan. One thing in common was that state should intervene i.e., public sector should invest in those major and strategic sectors which are crucial from the national point of view. So the creation of public sector was a hitorical necessity. Effective intervention of the State in the economy was an imperative condition to break the low level equilibrium trap in which the economy was caught during the British period. The independent government recognised the need to develop public sector for the development of private economic activity by developing strategic sectors. It was clearly stated that 'public sector will be developed not to compete rather to supplement the private sector'. That is to say that with planning we adopted the path of mixed economy where both public as well as private sectors co-exist. Features of both the systems were incorporated in the Indian economic system, i.e., features of capitalism and socialism were incorporated.

In capitalist system, there is mainly private ownership of means of production with the capitalist class. Society is divided among two classes of 'haves' and 'have nots'. In this system, maximisation of profit is the sole motive of production and every decision regarding production is guided by market mechanism. On the other hand, in socialist economic system there is state ownership of means of production, i.e., concept of private property does not exist. There is the rule of working class known as proletariats. Production decisions are guided by planning which is centralised and the motive behind every production is social welfare of the community.

2.1.5 FEATURES OF INDIAN ECONOMIC SYSTEM : POST INDEPENDENCE

As already explained, Indian economy is a mixed economy. Before Independence India had public sector but its scope was a narrow one. Only private sector was dominating. After independence, it was clearly stated that India will be having a socialist pattern of development. It implied that the basic criterion for determining lines of advance must not be private profit but 'social gain'. Nationalisation of banks, giving priorities to public sector, the development of basic and heavy industries which are crucial from the national point of view etc... and thus enlarging its scope., sometimes gives this impression that it is moving towards socialism : but infact socio-economic relations have not undergone much change as to warrant the conclusion that Indian system has drifted away from its capitalist form. Indian economy is having planning and growth of public sector as well as market mechanism plays a decisive role. Economists characterise it as 'state capitalism' which is also known as mixed economy.

In a mixed economy, government has to play a positive role in the field of economic activity. Some industries are entirely managed by the state and some may be jointly owned by the state and private enterprise.

2.1.5.1 Co-existence of the Public and Private Sector

Under the Directive Principles of Indian Constitution, the entire economic system was split into three parts :

(a) Sectors in which production and distribution are entirely managed and controlled by the state only.

(b) Sectors in which the state and private enterprise will jointly participate.

(c) Sectors to which the private enterprise has complete access, subject only to general control and regulation of the State.

In the Industrial Policy Resolution of 1956 the State has clearly demarcated the area for the promotion of industries in the public and private sectors. Planning Commission also states that the two sectors, though distinct, must function as parts of a single organism.

2.1.5.2 Economic Planning

In every mixed economy, there is economic planning. In planning certain objectives and goals are fixed. Public sector operates according to different priorities to attain those goals. From this aspect, private sector cannot be left free to operate in its own unorganised manner. There an integrated economic plan is prepared in which private sector has a well defined role. Economic planning is a necessary component of a socialist economy but it is not essential that all planned economies are socialist economies. An economy can adopt planning retaining its capital structure. Its form can have different shapes. The same thing is happening in Indian economic system. In India economic planning has been introduced retaining the private ownership of means of production. The basic objective of planning is distributive growth with social justice, protection of weaker sections and overall stability in general. To achieve these goals certain controls are introduced. So it is said that our mixed economic system has more features of capitalist type of development though these are controlled. In industrial sector, in Industrial Policy Resolutions we have Monopolies and Restrictive Trade Practices (MRTP) Act, Licensing Policy, Minimum Wages Act, Social Security Acts, etc. to check the exploitation of labour. Further, at internal level, there is provision of infrastructure facilities and supply of public utilities like railways, transport, and communication.

Similarly in agriculture, farmers are protected with land legislations like ceiling on land holdings, security of tenure etc., minimum support price, purchase and procurement of agricultural produce, remunerative price allotment of houses to small and landless farmers, integrated rural development programmes, and provision of concessional loans and subsidies to farmers on their produce is given.

On the external front also we have certain controls like regulation and control on inflow on foreign capital, regulation on remittances, controlled flow of technology, regulation of foreign trade with FERA, etc.

2.1.5.3 Private ownership of means of production and profit induced commodity production :

The Indian Constitution has guaranteed the right to private property as the fundamental right of the people. That is to say that private ownership of means of production has been allowed (as it is there in a capitalist system). This has resulted in concentration of economic power in a few hands, And that is the reason why in the industrial sector private capitalists predominate and why only less than 20 percent national income has been contributed to public sector. Now private sector has been allowed in some cases to invest in the areas which are reserved for promotion of public sector only. Though railways and shipping etc. are state owned, road transport is still largely in private hands. Similarly, agriculture, which is the main activity of the economy, is also in the private hands.

Being in private hands, it is obviously implied that production and distribution is guided by the sole motive of profit maximization. This act of the government is not a step towards the attainment of socialism.

2.1.5.4 Decisive Role of Market Mechanism

Market mechanism means that everything is available in the market at a certain price. Even labour and capital are commodities in the market. This is so only when an economic system moves along capitalist lines. In Indian economy, market mechanism has a predominant position with effective implementation of planning. On the other hand, prices of commodities are determined by the demand and supply forces.

But at the same time, we can't say that this market mechanism is free from state control. With licensing system, we have regulated and planned industrial activity. Import of technology, distribution of essential commodities, provision of support prices for agricultural produce etc. are all steps to regulate the functioning ·of market mechanism.

2.1.5.5 Monopoly Trends

Monopoly trends means that the private producers are operating in the market in such a way that they are ousting the small producers. In the race of competition, small capitalists cannot compete. Competition breeds competition and gives rise to monopoly. By privatisation difference between 'haves and have nots' is increasing sharply. These monopolists ultimately convert themselves into the most powerful and the sole producer in the market of a specified product. This has resulted in the creation of big monopoly houses. Monopoly Enquiry Commission confirmed that there were 75 big business houses in 1963-64 controlling capital worth Rs. 2606 crores. Since then this trend has been going on. During the planning period of two decades their assets increased by six to eight times, though government had introduced certain· measures to control and regulate the operation of monopoly houses. Besides licensing policy, MRTP act restricted their trade practices. The Competition Act (2002) has replaced the MRTP Act (1969) with a view to promoting competition. The Act has created the Competition Commission of India (CCI).

The state has been using taxation and public expenditure in such a manner that resources are transferred from the richer sections of the society to the State and the State in turn spends that money for the welfare of the poorer section. The State has also been using rationing controls to check the prices of essential commodities of consumption, so that the weaker sections are ensured of their availability at reasonable prices. The main purpose of the instruments is to protect the weaker section from the exploitation of the capitalists.

SELF-CHECK EXERCISE

1. What is meant by a mixed economy?

2.1.6 SUMMARY:

When the idea of mixed economy was evolved for Indian economy, it was thought that the two extreme systems of capitalism. and socia1ism have their own drawbacks. In the capitalist system, private producer dominates the whole of the economic scene caring least for the weaker sections. For socialism, existing situations were not ripe enough to replace the existing system. So a midway path was chosen. It was clearly stated that the instruments of planning and policies will be adopted in such a way that it may help to achieve the goals of social justice and growth with stability. Ultimate goal is to have a socialistic pattern of development.

We have completed more than seventy years of planned economic development Experience shows that there have been some drawbacks so far as the implementation of the policies and rules and regulations are concerned. So in certain lines we have failed to achieve the desired goals. Some of the points of our failures are as follows:

(1) The system of mixed economy has failed to reduce the proportion of population living below the poverty line, though.in percentage terms their number has decreased. But it is not according to the set target in plans.

(2) Growth of unemployment despite creation of additional employment opportunities under each plan: it may be due to unplanned growth of population or more emphasis on capital intensive production.

(3) Failure to check concentration of economic power in few hands. It is because of rise of monopoly houses. Under pressure of both national and international lobbies, Government has liberalized its policies towards the private sector. Subimal Datt committee has observed that since government has permitted the private sector to set up industrial units in areas reserved for the public sector they are penetrating in almost all of public sector activities also. Consequently relaxations in plan priorities were allowed in areas of sophisticated technology, they took advantage of this and start importing machinery in areas of low priority under one pretext or the other.

(4) In spite of drastic steps taken by government it has failed to curtail the ever expanding rise in prices of essential commodities like sugar, food grains, vanaspati ghee, pulses etc.

(5) Failure to bring about a redistribution of income in favour of weaker sections of the society. Despite the minimum wages act, workers are not provided due justice and their real wages have not been showing any increase.

(6) It has failed to solve the problem of regional imbalances, created by private investment. Some of the studies indicate that the government policies have rather generated regional disparities and inequalities.

From this analysis, we can sum up that in spite of certain genuine polices of the government private sector is still dominating the overall economy. Gradually, it has come to exercise a decisive influence on state policies. All this is under national and international pressure of the big industrialists. Moreover, whatever investment is made, whether that is in public sector or in private sector, the major share of benefit is extracted is by the big business houses, the traders, and landlords. These are the inherent contradictions of the system of state capitalism. K.N. Raj once rightly. remarked that, the ingredient of the mixture are making it conform more closely to a capitalist economy than a socialist pattern of development. And since 1991, India has openly adopted the path of capitalism, when it adopted the process of liberalization, prlvatisation and globalization of the economy.

2.1.7 SUGGESTED READINGS

(i) Datt and Sundharam Indian Economy (latest edition) : Gaurav Datt and Ashwani Mahajan

(ii) S.K. Misra and V.K. Puri: Indian Economy (latest edition).

2.1.8 QUESTIONS FOR PRACTICE:

(i) "Independent India inherited a very backward and virtually stagnant economy from her colonial past." Explain.

(ii) Give very brief answers:

- (a) What was the condition of Indian industry at the time of independence?
- (b) Does market mechanism have a dominant role in Indian economy?

Sim conversion with financial assistance from DEC.

LESSON NO. 2.2-A **SIM CONVERSION : ANITA GILL**

NEW AGRICULTURAL STRATEGY – GREEN REVOLUTION

Structure :

2.2A.1 INTRODUCTION

'Green Revolution' can be described as the large-scale adoption of new agricultural strategy along with technology and the rise in agricultural production. This new agricultural strategy which was introduced in the mid sixties means the application of cost-reducing or yield increasing innovations which can be classified into two categories: (i) bio-chemical innovations and (ii) mechanical innovations. Further, these innovations are not to be found in India alone, rather these have been widely spread in other tropical countries and have been transferred from the developed countries .. High yielding varieties of wheat, commonly known as Mexican varieties, have been introduced from Mexico, which is a striking example of a deficit country becoming self-.sufficient and even achieving a small exportable surplus.

2.2A.2 OBJECTIVES

The present lesson deals with the agricultural strategy adopted in India around 1960s, which brought out revolutionary increase in the production and productivity of mainly two crops - wheat and rice. Although this strategy brought economic gains to the farmers, yet this strategy was a failure on a number of issues. The student will gain knowledge regarding these benefits and failures in this lesson.

2.2A.3 HISTORY OF NEW AGRICULTURAL STRATEGY

Although the adoption of new agricultural strategy is said to have taken place in the mid-sixties, yet its history dates back to 1961. Economists like Hanumantha Rao assert that "High yielding varieties of seeds in case of wheat, rice and bajra were introduced in Indian agriculture. in a big way in the period beginning from 1965-66".

If we analyze the approach to agricultural development in India during the first three Plans, we would find the co-existence of two aims :-

(i) the economic aim of achieving maximum increases in agricultural output to support rapid industrialization and

(ii) the social objective of reducing disparities in rural life.

In fact, one of the most difficult economic dilemmas of choice had existed right from the beginning of planned era in India. This dilemma arose from the obvious economic advantage of concentrating scarce inputs of improved seeds, fertilizers, pesticides and equipment in irrigated areas of the country where they could be expected to bring greatest return in output. In fact, the selection of the first Community Projects in 1951-52 were to be guided by this consideration, where they were to be allocated only to districts with assured irrigation. However, almost immediately serious social objection was raised against the practice of picking out the best and most favorable spots for intensive development while the larger part of the rural areas was economically backward. Therefore, the principle of selective development was abandoned immediately and the Planning Commission announced a programme for rapid development and all India coverage under the National Extension Service and Community Development Programme with special attention to backward and less favored regions, was started. The social goal of reducing disparities also influenced the selection of methods of agricultural development. The planners gave only secondary importance to the introduction of costly modern inputs as a means of increasing agricultural productivity. Instead, they devised agricultural development programmes based on intensive cultivation of land and improving conditions of living in rural areas through community projects, land reforms, consolidation of holdings, etc. In fact, the planners, strategy for agricultural development was based on the capacity of the Community Programme to mobilise more than 60 million peasant cultivator's participation in labour intensive agriculture production programme and community works including the construction of capital projects. Some institutional changes were also promised. The highest priority was assigned to rapid implementation of land reforms, including security of tenure, lower rents, transfer of ownership rights to tenants and distribution of land. Meanwhile, state level village cooperatives were created to provide cheap credit facilities and agricultural marketing facilities for inputs and outputs particularly to the small farmers. But these institutional reforms, particularly those relating to tenancy and land could not be enforced because of large land owners who had majority in legislatures and thus could assert their voices.

Except for the First Five Year Plan, agricultural growth always fell short of expectation. Actually, as early as 1955, lagging growth rates in the agricultural sector became a serious limiting factor on the overall rate of economic advance. By the middle of the Third Plan, four years of relatively low production levels (1960-61 to 1967 -68) convinced the Planning Commission that continuation of shortfall in agriculture would jeopardize the entire programme of industrial development. In 1964, therefore, the planners announced a "fresh consideration of the assumptions, methods, and techniques. as well as the machinery of planning and plan implementation in the field of agriculture". As a result of this reappraisal, two major departures from previous policy were intimated :(i) development efforts were subsequently to be concentrated in the 20 percent to 25 percent of cultivated area where supplies of assured water created "fair prospects of achieving rapid increases in production: and (ii) within these areas there was to be a "systematic effort to extend the application of science and technology", including the "adoption of better implements and more scientific method" to raise yields. In October 1965, therefore, the new policy was put into practice when 114 districts (out of 325) were selected for an I.A.A.P. (Intensive Agriculture Area Programme). In fact, the model for the new approach already existed in the 15 districts taken up under the pilot I.A.D.P. (Intensive Agriculture District Programme) during 1961. I.A.D.P. had emphasized the necessity of providing the cultivator with a complete package of practices in order to increase yields. This included credit, modern inputs, price incentives, marketing facilities and technical advice of the so called ingredients of new agricultural strategy. With the introduction to these, the production of wheat, which stood at 12.3 million tons in 1964-65 rose to about 26.5 million tons in 1971-72. Although this increase could partly be attributed to an extension of the area, yet yield also rose from 9.13 qtls. per hectare to 13.82 qtls. per hectare. Maize and bajra were other crops whose productivity per hectare and total production recorded an increase. But in case of other high yielding variety crops viz. Jowar and Rice, the yield was stagnant initially. Hanumantha Rao in his book entitled "Technological Change and Distribution of Gains in Indian Agriculture" asserts that "in case of rice and kharif cereals in general, the Green Revolution does not appear to have contributed to their growth to any significant extent". Pulses are the other crops in whose case no increase in production has occurred: in fact-most of the economists have termed the 'Green Revolution' as the 'Wheat Revolution'.

SELF-CHECK EXERCISE

(i) What do you understand by Green Revolution?

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(ii) Discuss very briefly the steps taken during the initial planning period to bring about agricultural growth.

2.2A.4 ASSESSMENT OF GAINS AND FAILURES OF NEW AGRICULTURAL STRATEGY:

2.2A.4.1 GAINS

The main feature of new agriculture strategy is to apply concentrated scientific efforts to increase agricultural production in limited areas which have assured irrigation. This intensive programme of agriculture development in the selected areas has certain advantages as well as disadvantages. The main advantages are as follows:-

(a) The advocates of new strategy consider intensive approach as the only alternative to achieve self-sufficiency in food in the shortest possible time. Because keeping in view the resources at our disposal the indecisive approach to agricultural development is a shortcut to increase agricultural production.

(b) Scarcity of agricultural resources is well known. Therefore, the choice is either to have a thin layer of the inputs spread over the whole country or to apply concentrated doses, in selected and promising areas. According to the advocates of new strategy, the latter choice is more rational as it ensures maximum production in a short period. According to Dr. Hanumantha Rao; new agricultural strategy reduced the importance of traditional factors like land and labour. Capital and knowledge rather contributed more to increase in agricultural production. Thus the increased importance of man made factors i.e. capital and knowledge brought the aim of food self-sufficiency within sight.

(c) Realization of better results in the selected areas had a salutary demonstration effect on the other farmers. In fact important features of new agricultural strategy was to establish some demonstration farms to show their results to the adjoining farmers so that they are induced to adopt the new technology. In this way the spread effect of the programme raised the overall level of productivity in Indian agriculture.

(d) The new agricultural strategy has also some healthy secondary and tertiary effects. For example the increased agricultural production; by making raw materials available encouraged the agro-based industries. By stabilizing prices of major wage goods i.e. food grains, it induced industrialization. Increased agricultural production also reduced our dependence on imports of food grains, thereby our scarce foreign exchange could be used for some other important uses. In the economy, increased agricultural production, by increasing income, also created markets for industrial goods.

(e) The development of new agricultural strategy also reduced the fluctuation in output. By concentrating in areas having assured irrigation, total agricultural production may not fall even in the worst affected years. In other words, high yielding varieties act as insurance against the failures of monsoon. According to Professor Hanumantha Rao, the new agricultural strategy (by stepping up rapid production) also reduced the seasonal fluctuations in output.

(f) The development of short duration high yielding varieties salso enhanced the scope for double and multiple cropping. Assured irrigation, which is a pre-requisite of new agricultural technology also made it possible to raise more than one crop in a year, thereby increasing the production from the same unit of land. Application of chemical fertilizers also made the practice of fallow land a thing of the past. Thus cropping intensity greatly increased in the wake of new agriculture technology.

(g) The increased income consequent upon the increased production had a beneficial effect on savings and investment is encouraging. In a study conducted by the Punjab Agricultural University, it was found to be a progressive one. The same conclusion was arrived at in a study conducted by Dr. G.S. Bhalla in Haryana, Further, the rate of increase in saving and investment was also higher in case of progressive farmers than in case of non-progressive farmers.

2.2A.4.2 FAILURES

No doubt, the new agricultural technology solved the food problem in India and has also stepped up the rate of savings and investment in the economy, but it gave birth to a number of other problems which need urgent attention. Following are some such problems due to which the adoption of high yielding varieties is criticized.

(a) Green Revolution and Pattern of Family Expenditure

There is no denying the fact that the increased income due to high yielding varieties has stepped up the rate of savings and investment in the rural sector, but it is also true that the consumption pattern of the rural people has undergone a change' which is detrimental to their health. It has been established by many empirical studies that the proportion of family expenditure on social-religious ceremony (unproductive purposes) has increased. Liquor is the item that has experienced the greatest increase in consumption. Thus consumption expenditure for unproductive purposes has increased in the wake of green revolution.

(b) Green Revolution and Cropping Pattern

So far high yielding varieties have been developed for only a limited number of crops viz. wheat, jowar and bajra. A large number of other crops remaied outside its purview Further, wheat is perhaps the only crop which has shown promising results. This, accompanied with ever increasing wheat prices for public procurement has greatly changed the cropping pattern in favour of wheat. This is one of the important factors responsible for reduction in area under pulses and other grains.

Prof. C.H. Hanumantha Rao in his book "Technological Change and Distribution of Gains in Indian Agriculture" has shown that the growth rate in output of foodgrains as well as of agricultural output as a whole lessened in 1961-71 than in 1951-61. Whereas in the pre-green revolution decade,'70 percent of the increase in production was due to increase in productivity per acre, in the post-green revolution period this percentage was only 33 per cent. Dr. Hanumantha Rao lay responsibility of slow growth in productivity on the slow growth of perennial irrigation.

(c) Green Revolution and Fluctuations in Output

Another factor, which has been brought into notice by Professor C.H. Hanumantha Rao is the impact of Green Revolution on the fluctuations in output. So far as the technological change has raised the importance of rabi cultivation, seasonal fluctuations in output have been greatly reduced. But so far as annual fluctuations are concerned they were more in the post green revolution period than in the pre-green revolution period. Apart from the non-technological factors such as the increasing significance of yield as a component of growth, the addition of marginal land and the incidence of two drought years of unusual intensity (i.e. 1965-66 and 1966-67); the increasing use of modern inputs like fertilizers under conditions of unstable irrigation could be an important factor responsible for this increase in fluctuations. The performance of bajra provides an excellent example of continued fluctuations in its yield because of the fact that high yielding variety of bajra is cultivated under unrelated conditions.

(d) Green Revolution and Inter-Regional Disparities

Green revolution seems to have accentuated the disparities both in the personal income distribution and regional income distribution. The adopting of new technology was found to have concentrated in the irrigated areas of Punjab, Haryana and Western U.P. These areas are primarily wheat growing areas under assured irrigation. Naturally, the stage of agricultural development in these states is far ahead of other states. Whereas the farmers of these developed states have started using even harvest combine, the farmers of the less developed areas are still operating their farms mostly with human labour. They are not even able to afford animal labour for such arduous jobs as ploughing and planting of fields. Thus, the gains of green revolution seem to have been concentrated only in the limited areas in the country, thereby greatly increasing the inter-regional disparities.

(e) Green Revolution and Distribution of Income

Although there exists a conflicting evidence about the impact of green revolution on the farm income distribution, yet there is little doubt that the income of haves (who own resources) has greatly increased as compared with the income of have nots (who do not own resources). Those who assert that everybody has gained from the green revolution cannot deny this fact that the small farmers and agricultural labourers with poor resource base have lost the battle to the large farmers. The income gap has therefore, widened in the post green revolution period.

Further the disparity in the distribution of income is likely to increase with the progressive spread of green revolution. To correct this disparity the following measures are suggested.

(i) adoption of a policy measure aimed at raising the production levels of small farmers like cheaper credit facilities for those farmers, subsidization of seed, irrigation, fertilizer, etc.

(ii) a progressive system of taxation of rural incomes in the form of a progressive income tax.

(iii) a comprehensive scheme of income transfer or welfare for the small farmers possibly financed out of tax revenues of large farms.

(iv) an effective implementation of laws pertaining to land ceiling to reduce the disparities in the sources of such disparity in income.

(f) Green Revolution and Labour Displacement

A number of studies have been conducted to examine the impact of green revolution on the employment of labour. Following K. Srivastava, Robert W. and Earl O. Heady, we can divide the technological innovations introduced under green revolution in two categories:

(i) biological innovations and

(ii) mechanical innovations.

The term biological innovations refers to the use of inputs which increase productivity e.g. fertilizers, improved seeds, insecticides, pesticides etc. In the second category fall those innovations which involve the use of machines which will clearly be at the cost of human labour. Thus, whereas biological innovations enhance the use of human labour, the 'impact of technological innovations on the human labour use will depend on the interaction of these two opposing forces. Over a long period, such displacement cannot be ruled out. According to Earl O. Heady and others, 'Since mechanization may dampen the increase in labour employment, the policies that encourage premature mechanisation in labour surplus economies such as India's do not seem conducive to solving the ,problems of growing unemployment. M.H. Billings and Arjan Singh in their study, had rightly revealed that by 1983-84 the labour displacement will be of the order of 17.4 per cent (a) nearly 100 percent of wheat mechanically threshed. (b) 100 per cent of corn mechanically shelled. (c) 20 per cent of the gross cropped area is tilled by tractors, (d) 50 per cent of wheat mechanically reaped and (e) pump sets feed 60 ·per cent irrigated area and irrigable areas are largely irrigated. Billings and Singh further revealed that tractors and

pump sets would be responsible for 55 per cent of such labour displacement. Threshers and reapers would also cause about 37 percent of this displacement.
Thus it has been rightly warned that in the labour surplus economies, the indiscrete use of such labour saving machinery will be greatly explosive both socially and politically.

(g) Green Revolution and the Growth of Capitalist Farming in Indian Agriculture

The new technology which is composed of high doses of fertilizers, water, insecticides and pesticides besides improved seeds, naturally requires heavy investment, which may be beyond the capacity of a large number of small and medium farmers. In India, it has been estimated that the top 10 per cent of the farmers occupy as much as 50 percent of the total cultivated area. And it is only this category of farmers who make investment in the installation of tube wells and pumping sets and other agricultural machinery. The growth of big farmers has also helped the growth of capitalistic relations in Indian agriculture by making the employment of hired labour more popular. Thus in the wake of green revolution, capitalistic farming in India has been greatly enhanced.

Francine R. Franknel in her book (edited) "India's Green Revolution: Economic Gains and Political Costs" observed that "the introduction of modem technology under the intensive areas and the high-yielding varieties programmes has not only . quickened the process of economic polarization in the rural areas, but it has also contributed to increasing social antagonism between landlords and tenants and landlords and labourers."

Ashok Rudra, A. Majid and Talib conducted a study of the big farmers in Punjab so as to analyse the growth of capitalist farming. They have defined the capitalist farmers as those who have at least 20 acres of land. The study revealed that land owned by such farmers increased by about 9.5 percent between 1955-56 and 1967-68. According to them, it is this group of farmers who are to make investments in the form of tractors, tube wells, pumping sets and other equipments. Similarly, these farmers are in a position to incur capital expenditure on buildings, improvement of land and other repairs on their buildings.

Francine Frankel who undertook a study on the impact of new agricultural technology on the economic gains and political costs has concluded that :

(i) Overwhelming majority of the cultivators having uneconomic holdings of 2-3 acres have managed to increase per acre yield from the application of small doses of fertilizers, but aggregate gains in output have been insufficient to create capital surpluses for investment in land development.

(ii) In case where small farmers also lease in some land, the resumption of such land by the landlords had further deteriorated the lot of small farmers-cum-tenants. Large farmers who used to lease out their land to the small farmers before the Green Revolution have started cultivating the land themselves partly because of higher profitability and partly to evade the tenancy laws.

(iii) Only a small minority of cultivators with holdings of ten acres or more have been in a position to mobilize surplus capital for investment in land development (especially minor irrigation) as an essential pre-condition for the efficient utilization of modem inputs. Moreover, this class has further concentrated its gains by increased profits to buy more land, by making improvements on land already under cultivation and by purchasing modern inputs.

(iv) Farmers with 20 acres of land or more have made the greatest absolute and relative gains, not only by mechanizing farm operations to take up double or multiple cropping, but also by diversifying their cropping pattern in more profitable commercial crops.

(h) Green Revolution and Social Tensions

Regarding the impact of green revolution on the generation of social tensions, conclusive evidence exists. Yet, it is apprehended that the disparity in the distribution of economic gains is likely to give rise to social unrest in the rural economy. According to Francine Franknel the traditional norms of rural society are breaking. Agricultural labourers are agitating over the deterioration in their lot. “It is doubtful if agricultural labourers or share croppers will long remain satisfied with their status either in the economic or political life”. In fact, some critics have been naming green revolution as ‘red revolution’.

(i) Side Tracking the Need for Institutional Reforms

Green revolution and the resulting increase in productivity has set aside the importance of land reforms which are so urgently required in Indian agriculture. A study conducted by Minhas and Srinivasan, found that the application of fertilizers yield more net returns in the owned lands than lands cultivated on sharing basis. Their main conclusion was that tenancy cultivation itself poses an obstruction in the way of fertilizer use. Profit maximisation criterion, therefore, suggested that the cost of fertilizers be borne by the owners and not by the tenants or the share croppers. Minhas and Srinivasan conclude that, “It is probably needless to stress that the optimum level of fertilizers use (and the profits per unit of investment) for tenants are lower than for owners. In the long run, share cropping can obstruct the process of intensification of current input use which would be desirable from the point of view of extracting maximum output from the limited amount of available land.”

Some recent studies have shown that the landlords have started paying for inputs to the tenants. In other words, cost sharing of inputs is fast becoming a norm in Indian agriculture, thus sidetracking the need for institutional reforms. It might however be noted that the cost-sharing device has rather enhanced the bargaining position of the landlords and they are demanding a greater share in the total product.

SELF-CHECK EXERCISE

(i) What were the secondary and tertiary benefits brought about by Green Revolution?

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(ii) How did Green Revolution increase regional disparities?

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2.2A.5 CONCLUSION :

To conclude, one can say that the new agricultural strategy is not all pervasive. It has improved the prospects of production of limited number of crops. viz., wheat, bajra and to some extent maize. Recently, rice also seems to be coming within its purview. A large number of crops like pulses and cash crops still lie outside its purview. The new strategy has led to a number of problems like regional disparities, inequality in the personal income distribution and social tensions. It has also not made a proper use of our scarce resources. As shown by Dr. V.K.R.V. Rao, much more can be achieved by having a judicious combination of existing factors of production. It, however, goes to the credit of new strategy that it has nearly solved our food problem. The foreign experts who used to remark earlier that India would starve in 1980s were stunned with the progress which India achieved in the field of agriculture.

2.2A.6 SUGGESTED READINGS:

Same as Lesson NO.9.

2.2A.7 QUESTIONS FOR PRACTICE

(i) Discuss the gains from Green Revolution.

(ii) What were the main failures of Green Revolution?

(iii) Give very brief answeres:

- (a) Concept of New Agricultural Strategy.
- (b) Impact of Green Revolution on family expenditure.
- (c) In what ways did Green Revolution bring about labour. displacement?

Sim conversion with financial assistance from DEC.

LESSON NO. 2.2-B **SIM CONVERSION : ANITA GILL**

LAND TENURE SYSTEM AND LAND REFORMS

Structure of the Lesson

2.2B.1 Introduction :

Indian economy is a planned and growing economy. One of the objectives of planning in our-country is to increase industrial and agricultural production. But, as we already know our agriculture suffers from a number of defects. One such defect is the system of land tenure, Le., the way land is owned. In addition to this, there is the problem of tenancy system and the size of holding. It is generally admitted that agriculture development is the real basis of economic development. But the agriculture is organized in a way that permits exploitation of the tiller, his incentive and initiative are killed and he does not try to increase agricultural production which is so essential for capital formation. All these defects are, therefore, to be eliminated if agriculture is to contribute its share to the economic development of the country.

Land reforms imply not only elimination of defects regarding tenure and tenancy but also introduction of scientific methods of cultivating land because this is the only way to transform our agriculture. Land reforms can also facilitate the spread of operative movement by making the introduction of this principle in the field of farming, credit, and sales. till this clearly indicates that land reforms can really add to the tempo of economic development. The concept of land reforms aims at the abolition of intermediaries and bringing the actual cultivator in direct contact with the state. The purpose of hind, reforms becomes two-fold. On the one hand it aims to make more rational use of the scarce land resources by consolidation of holding, imposing ceiling and floor on holding to make cultivation more economical, and on the other hand, redistributing agricultural land in favour of landless labour and improving the conditions of cultivation.

Thus the scope of land reforms includes

(a) abolition of intermediaries.

(b) tenancy reforms

(c) ceiling and floor on land holdings

(d) agrarian reorganisation including consolidation of holding, and prevention of subdivision and fragmentation.

(e) organisation of co-operative farms.

All these reforms will be discussed one by one.

2.2B.2 Objectives of the Lesson :

After reading this lesson, the student will understand what was the system of land tenure in our country in the past and how reforms were carried out over a period of time to save tenants from exploitation and give land to the actual tiller.

2.2B.3 LAND TENURE AND TENANCY REFORMS

In the preceding lesson you have studied the nature and causes of the problem of low agricultural productivity in India. It needs no emphasis that agricultural productivity has to be raised by a very substantial margin for meeting the full requirements of our rapidly growing population and also achieving a higher rate of economic development. Agriculture is the largest sector of Indian economy providing means of livelihood to nearly 70% of the population. Without the development of this sector, there can be little hope for economic development. Now the development of agriculture requires two broad sets of measures. One relates to the provision of the modern improved seeds, manures, fertilizers, irrigation, improved implements, machines etc. These inputs are absolutely necessary for raising productivity of agriculture. The second set of measures relates to the replacement of the existing disincentive ridden agrarian structure by an efficient and growth inducing institutional framework. The first is the method of technological reforms and the second is the method of institutional or structural reform. Both of these reforms are equally efficient for the development of our agriculture. As a matter of fact, institutional reform is the first step in the direction of revitalization of agriculture and should precede technological reform. The reason is that technical improvements in agriculture would remain fruitless and would not lead to any progress worth the name so long as the agrarian structure is not congenial and favorable to economic growth. India's past experience also suggests the same conclusion. In the pre-independence period our efforts to increase agricultural production by the provision of technical facilities did not succeed because we did not change the defective agrarian structure which was the main cause of stagnation in agriculture. The major defect in the agrarian structure at the time of independence was the following :

(i) Unjust and growth retarding system of land tenure.

(ii) Un-equal distribution of land ownership together with a serious extent of sub-division and fragmentation of holdings.

LAND TENURE :-

The term 'Land Tenure' refers to the sum total of arrangements whereby land is owned, rented, leased or otherwise held for use. The word tenure comes from a Latin word which means 'to hold'. Land tenure is thus a study of the rights of ownership and rights of cultivation of land that can be held by its user under different set of conditions. He may hold it in the capacity of an owner or as a mere tenant with no ownership. Further, the tenant may hold the land as an occupancy tenant or as a tenant at will. If there is an occupancy tenant, he has a permanent and heritable right in land. On the other hand, if he happens to be tenant at will, he has no security of tenure which means that he holds land at the pleasure and mercy of landlords who can also increase the amount of rent quite frequently.

Importance of Land Tenure

Agriculture production takes place within the framework of a tenurial system. If this framework is defective, as is the case in most of the developing economies, it becomes a serious obstacle in the way of agricultural progress. Improvement in agriculture is not possible unless this degenerated and disincentive ridden system is removed and replaced by a more efficient and just one. Besides this, the system of land tenure determines the social and political status as well as the economic power of the agricultural population which is quite a high proportion of the total population in less developed economies.

SYSTEM OF LAND TENURE PREVAILING IN INDIA AND ABOLITION OF INTERMEDIARIES

At the time of independence, India had three main land tenure systems known a amindari, Ryotwari and Mahalwari.

Zamindari System

This system prevailed in nearly one-half of the country. It was a creation of British rule in India. The system was introduced by Lord, Cornwallis in 1793 with a view to create a class of people who would help the British rulers in collecting revenue and who would observe the British interests in India. What Lord Cornwallis did was that absolute, permanent and heritage rights of ownership in land were vested in persons who formerly used to be mere revenue collectors for the Government on a commission basis. These revenue collectors now became the owner of the land for which they previously used to collect revenue, and came to be known as Zamindars. The main features of this system were

(i) A landlord or few landlords owned all the land or a village or number of villages. In some cases they cultivated a portion of their vast land estates with the help of hired laborers and shares croppers but the bulk of the land was given on rent to tenants for cultivation.

(ii) Zamindar was directly responsible for the payment of land revenue to the government.

(iii) Under permanent settlement which was introduced in Bengal, North Madras and Benaras, the amount of land revenue payable by Zamindar to government was fixed once for all. But under temporary settlement which was prevalent in U.P. and M.P., the amount of land revenue was not fixed permanently. The Government reserved for itself the right to revise the land-revenue after every twenty or thirty years. In actual practice, however, the revisions of land revenue was rare even in the temporary settlement areas.

(iv) Though the land revenue paid by the Zamindar to the State was fixed, the Zamindars were autharised to increase rent charges from the tenants as frequently as they liked.

(v) The village waste lands were the property of the landlords.

(vi) The State was not in touch with the actual tiller of land because of a long chain of intermediaries between the two.

A system similar to Zamindari system developed in most of the Princely States such as Madhya Pradesh, Maharashtra, Hyderabad and Rajasthan. This came to be mown as Jagirdari or landmark settlements. Jagirdars or landmarks were given the ight to collect rents from the cultivators in lieu of specific services rendered by them to princes. Unlike the Zamindars, however, the Jagirdars did not have the right to manage or to cultivate land given to them as Jagirs. They enjoyed the right to collect rent only.

The Zamindari system was introduced in India on the lines of the British landlord system. It was hoped that, like English landlords, the Zamindars would live in villages, invest capital, make improvements on land, persuade their tenants for adopting improved and scientific techniques of farming. But this hope did not materialize and the system became a serious bottleneck in the way of agricultural progress. It suffered from a number of defects :-

(i) The Zamindars took no interest on their lands. They lived a luxurious life in big towns and cities far away from their lands. Their only interest in land was the extraction of maximum possible rent from their lands.

(ii) The state lost all contact with the actual cultivators because of the existence of a long chain of intermediaries between the State and the cultivator. In the absence of any contact with the cultivator, the State could do nothing to improve their conditions.

(iii) With the growth of population the demand for land increased. This enabled the Zamindars to charge excessive rents from the tenants. In some of the densely populated fertile areas the rents were often as high as 3/4th of the gross produce of lands. Those tenants who did not agree or were unable to pay rents at enhanced rates, were ruthlessly evicted from their holdings. The result was rack-renting of the tenants and insecurity of tenure. There was also the fear of eviction.

(iv) The cultivators had no incentive to work hard on land because they knew that it was the landlord who benefited from their hard work. There was also the fear of eviction.

The system resulted in a serious financial loss to the government since the land revenue was permanently fixed (in permanent settlement areas). The state could not increase the land revenue although the Zamindars collected exorbitant rents from the cultivators.

In view of these serious defects this system was abolished after the attainment of independence in 1947. This is discussed a little later.

Ryotwari System:

This was another system of land tenure which was prevalent in large parts of the country. This system of tenure is in existence even at present in most parts of this country. In fact this is the ideal system of land tenure. Under this system, the cultivator known as Ryot is supposed to come in direct link with State. He .holds the land directly. from the state and is directly responsible to the State for the payment of income revenue. Thus there was a direct contact between the State and the actual tiller of the soil. In the initial stages the system was free from intermediaries. Later on with growth of population and the consequent increasing pressure on land, the ryots also started sub-letting their lands to the tenants, who in turn, did further sub letting to others and so on. In this way several layers of intermediaries were introduced between the State and the actual cultivator. The difference between the Zamindari and the Ryotwari system almost disappeared and they became similar in structure and operation.

Mahalwari System:

This system was first adopted in Agra and Oudh and was later on extended to Punjab and parts of U.P. and Bihar. It is known as Mahalwari because it refers to the whole mahal or village rather than to an individual. The most distinguishing feature of this system is joint holding of the entire village land by the village community, technically known as the body of co-sharers. The members of village community or co sharers are jointly as well as individually responsible for the payment of land revenue to the State. Each village undertakes to pay through its headman, known as Lambardar, a specified amount of revenue which is distributed among the villagers. Primarily each cultivator pays for himself but ultimately he is responsible for his co-villagers and they for him. The village common land and the village waste land are also common property of the village community. With the passage of time joint ownership of land by village community has gradually disappeared in most of the Mahalwan villages. Joint ownership has been replaced by individual ownership and individual assessment of revenue.

Abolition of Zamindari System:

The Zamindari system was a product of the British rule. Contrary to the expectation of its authors, it proved to be very harmful for India. It was the main cause of the stagnation and inefficiency of the Indian agriculture for about 100 years preceding independence. The cultivator suffered due to exorbitant rents ad insecurity of tenure under this system. The landlords, on the other hand, grew rich at the expense of helpless tenants. They were given to wasteful and conspicuous consumption and were least bothered about investment and improvement on their lands. This system was socially undesirable as it reduced the tenant to the position of serfs. Politically this system created a class of vested interests which opposed the progressive nationalist forces in the fight for freedom and even after the attainment of independence. The system was described as economically inefficient, socially undesirable and politically inexpedient. The system had outlived its utility, if any,_ and its abolition was long overdue.

The abolition of Zamindari was taken up as a national, policy soon after independence. Legislation for the abolition of intermediaries was passed in the States. The process of abolition was initiated in 1950 and was completed within a decade in all the major zamindari and Jagirdari areas.

Abolition of intermediaries involved the following steps : (i) taking away the rights of land ownership from the Zamindars and vesting them in the government, (ii) allowing occupancy rights to Zamindars in the personally cultivated land (khud kasht) conferring occupancy rights on the tenants.

Unlike in the socialist countries like Russia and China abolition of zamindari in India was accompanied by the payment of suitable compensation to the Zamindars. The mode and rates of compensation however varied from state to state . In most of the states, the basis of compensation was the net income of the Zamindar from his land at the time of abolition. Compensation was fixed as a multiple of this net income. The multiple was kept high in the case of small Zamindars with low net income and was low in case of big Zamindars with large incomes.

Compensation was paid by the various States either in cash or in bonds or partly cash and partly in interest bearing bonds. The total amount of compensation payable to all the States was about Rs. 640 crores.

The difficult task of abolition is not practically complete in all the states. As a result of this measure about 20 lakh tenants (formerly intermediaries) have come into possession of land. But the process has been rather slow. It has led to prolonged and costly litigation between the Zamindars and the State. It has also imposed serious financial burdens on the State in the shape of compensation and other incidental expenses.

Tenancy Reforms

The abolition of intermediaries did not result in bringing all the tenants of erstwhile Zamindari and Jagirdari estates into direct contact with the state. As the Zamindars were allowed to keep their khud kasht lands, the tenants or crop-shares in these personal estates continued to hold land from their former intermediaries and had no direct contact with the state. Further it may be noticed that all the tenants who have come into direct contact with the State as a result of abolition of intermediaries do not cultivate the land themselves. In many cases they have leased out their lands to sub-tenants. The abolition of intermediaries does not affect the position of the sub-tenants who hold the land from the tenant in-chief, the main beneficiary of abolition. Moreover the problem of tenancy exists on a fairly large scale in the ryotwari areas. The ryots can sublet their land to tenants whose interests need to be safeguarded. So even after the abolition of intermediary rights, the tenancy problem exists and it will continue to exist so long as the leasing of land is not banned. Tenancy laws which define the rights and obligations of the tenants vis-a-vis the land owners thus become imperative.

Tenancy legislation has a fairly long history in India. The pre-independence tenancy legislation mainly focused its attention on the regulation of rents and security of tenure as its practical effect. However, the effect was to protect the interests of the landowner than to provide benefits to the tenants. On the eve of independence tenants-at-will of land owners in ryotwari and sub-tenants. of intermediaries in the Zamindari areas enjoyed very little legal protection.

This was the background in which tenancy reforms were undertaken in the post independence period. Tenancy legislation, which regulates the relationship between land owner and tenants, was passed in a number of States in the period of the First Five Year Plan. Tenancy laws are now in existence in all the States. The following are the main provisions of these ·laws :

Regulation of Rent

Before independence, rent which the tenant was required to pay, used to be half of the produce or even more. This was an excessive rate of rent by any standard. Such a high rent had an adverse effect on agricultural production. The First Five Year Plan recommended that the rate of rent should not exceed 1/4 or 1/5 of the produce. Acting on this recommendation the State governments have passed legislation fixing the maximum limit of the rent which can be legally charged from the tenants. Some of the states have fixed rent at a level which is higher than the limit recommended in the plans. For example in Punjab and Haryana the maximum rent chargeable from tenants has been fixed at 1/3 of the gross produce. Not only the rent is fixed higher than the limit proposed by the Planning Commission but the enforcement of rent laws has also been found to be rather less. Various enquiries made to evaluate effects of tenancy reforms show that not only the rents charged are much higher than those fixed by law but majority of land owners have no hesitation in stating them.

Security of Tenure

Legislation providing security of tenure has also been enacted in all the States. The legislation has three main features: (i) eviction of tenants should not take place except as provided in law, (ii) land may be resumed by an owner for personal cultivation only, and (iii) in the event of resumption a prescribed minimum area of land be left with the tenant. The progress achieved in the enactment and implementation of measure has not been uniform in the different States. In some States all tenants have been given full security of tenure and no right of resumption has been allowed to owners. In some other States, the landlord is permitted to resume a limited area of land for personal cultivation subject to the condition that a prescribed minimum area is with the tenant. There are still others where there is a provision for the land owner to resume a limited area for personal cultivation but no provision for leaving a minimum area with the tenant. The main difficulty experienced in the implementation of this measure has been a vague and elastic definition of personal cultivation. Taking advantage of this a large number of land - owners have ejected their tenants under the guise of 'voluntary surrenders'.

Right of ownership of tenants

'Land to the tiller' has been the accepted national policy ever since independence. The first Planning Commission recommended that they should be entitled to become owner of holdings provided those holdings are not presumable by the landlord for cultivation. The necessary legislation has been passed in all States. It authorises tenants to acquire ownership right on payment of a price which is much less than the market price of land. In most of the States the right to purchase land is optional. Being optional, this right has not been exercised by a large majority of tenants. An important reason why the right has not been exercised is that the tenants are too poor to pay the required price.

2.2B.4 SIZE OF AGRICULTURAL HOLDINGS

One of the crucial problems confronting Indian agriculture is the inadequate size of holdings in India.

Size and pattern of holdings in India

The holdings in India are small and fragmented, i.e. a holding is not one compact block or at one place. It is in scattered strips usually separated by long distances. Supposing a man has a holding of 20 acres scattered in strips of 5 acres each. If this has to be divided into four heirs, then an heir would not accept a single strip of five acres as his share. In case he did, it would lead to sub-division of a holding but not fragmentation. But the usual practice is that each heir would take 1.25 acres from each plot of land. Sub-division and fragmentation are thus the twin results of the division of land amongst the heirs.

In India, as has been pointed out earlier, the size of holdings is ridiculously small. When we compare the size of our holding with that of holdings in advanced countries, our holdings literally look toy-sized. In India the average size of ownership holdings (to which most of the statistics pertain) is very small. But still smaller is the size of cultivated holding. According to a report of National Sample Survey (1954-55) the average size of operational holding in India is only 5.43 acres. 71% of the holdings are below 5.43 acres, 27% of the holdings are between 5 to 20 acres and only 1.10% is above 50 acres. The averages size of farms is lower in South India as, compared to that in North-West India. We can have a better idea of the problem, when we compare this figure with those of other countries. For example, the size of operational holdings in U.S.A. is 145 acres and in U.K. 20 acres. U.S.S.R., Denmark, Norway, New Zealand, Yugoslavia all have holdings much larger than ours. Of course, Japan is one country which is advanced otherwise but where an average operational holding is smaller than ours (less than 2 acres).

In the same way, fragmentation of holdings has also gone very far in this country. Earlier studies done (for e.g. by Mr. Keating and Dr. Mann) revealed the extent of this problem. The farm management studies, conducted recently, support it as well. They reveal that as the size of the ·farm increases, number of fragments per farm increased. This shows that the unit of cultivation is reduced to a ridiculous degree, so much so that cultivation becomes uneconomical. Just to take one example; in D.P. the farms between 5 to 7.5 acres are on an average divided in about nine fragments. In one of the villages in Punjab 34.5% of the cultivators had over 25 fragments each.

Causes of Sub-division and Fragmentation

There are many factors that have led to this evil :-

(i) Growth of Population : Rapidly increasing population .unaccompanied by industrial development has been the most important cause 'of the problem. The inevitable result is more and more pressure of population on land leading to smaller and smaller holdings. 70 per cent of the population depends on agriculture and this percentage has remained more or less constant for the past so many decades.

(ii) Institutional Changes: The joint family system, which was a very common social institution in India a few decades back started breaking up as a result of the Western influence. Property was no longer held jointly. Industrialization and consequent growth of towns created the desire and necessity to partition property and live apart. The result was sub-division and fragmentation of holdings.

(iii) Laws of inheritance : Our laws of inheritance have also been responsible for the malady. According to our laws, property is divided equally among the sons (and now daughters also). But strictly speaking, it is not a cause, it is a factor which facilitated the process.

(iv) The decline of indigenous industries: During the British rule, cheap machine-made goods came to India. The competition from these goods crushed the indigenous industries. The artisans who were dependent on these industries for their livelihood fell back on land. This further accentuated the problem.

(v) Agricultural indebtedness: Another factor that has accentuated the problem of sub-division and fragmentation is increasing indebtedness of the cultivator. Once the cultivator takes a loan from the money-lender he cannot get out of his clutches. Excessive interest rates and other unscrupulous ways of the money-lender entrap the cultivator for generations. And ultimately a part of the holding is taken away by the money-lender. When the British government imposed restrictions on the transfer of land from agriculturist class, there cropped up a class of agricultural money-lenders. As a result of transfer of a part of land to the money lender, less is left with· the cultivator.

(vi) Attachment to landed property: In India, people look upon land not only as a source of livelihood, or a mode of living but as a mode of life also. They insist on getting a share out of their ancestral property and cultivate if Even if the share consists of a small piece of land they keep it and refuse to sell it.

Economic Effects of Sub-division and Fragmentation:

Advantages:

(i) It ensures fair and just distribution of property. When land gets divided equally amongst the heirs we get a large class of peasant proprietors, instead of big landlords on one side and landlords cultivators on the other. It gives rise to a middle class.

(ii) All heirs have something to start with in life.

(iii) When the holdings are scattered, the cultivator gets varied types of land. That enables him to raise a number of crops which means less risk of crop failure. It also keeps him busy for a longer period in the year. For example, one field may be flooded by water while another is free from it and one-crop may fetch lower price and that is compensated by higher price for the other. But even if such advantages are there, we cannot recommend fragmentation. The interest of the country is above the interest of the individual.

It is also claimed that small holding means intensive farming which is not possible at large farms.

Harmful Consequences:

A study of disadvantages of sub-division and fragmentation will show that its advantages are not of much significance. Sometimes small farms are justified. Japan is the frequently quoted example in this case. There the average size of holding is only two acres. Lewis holds the same opinion. But the trouble in India is that even the small holdings are found in a number of fragments, perhaps the smallest in the world. It is a strong impediment in the introduction of improved and modem methods of production.

The chief disadvantages are given below:

(i) Improved methods of cultivation cannot be used to get maximum yield and the result is higher cost per unit The fixed costs as on tube well and tractors remain the same up to a point. And it would not be worthwhile incurring such a cost when the holdings are very small because the average fixed cost comes out very high.

There is a vicious circle operating in agriculture. Old and primitive methods mean less of income ; less income means poverty as a result of which the farmer cannot adopt better methods of cultivation.

(ii) Even variable costs do not change in exact proportion and it may not be worthwhile incurring such costs (e.g. expenditure on fencing) when the holdings are very small.

(iii) On a small holding it is not possible to make an economical use of even such equipment as the cultivator has. For example, a farmer with two acres of land may have a pair of bullocks who will stand idle for most of the time though the cost of maintaining the bullocks remains the same. In a capital poor country like India, the under-utilization of even such meager capital is a grave disadvantage.

(iv) In case of fragments even irrigation becomes almost impossible. When a well is dug on the fragment, water will have to be taken to other fragments through channels located in the fields of the other cultivators. Hence irrigation of all fragments would be difficult.

(v) It leads of waste of precious agricultural land. Much land is wasted on fencing. Loss of land also takes place when the holding, due to persistent sub-division becomes too small to be cultivated. It has been estimated that in Punjab 60% of the land is wasted on account of fragments being too small to be cultivated and another 1 % is wasted on boundaries and fencing.

(vi) Another important disadvantage of fragmentation is that close supervision, so essential for profitable cultivation is impossible: how can one cultivator look after scattered pieces of land simultaneously? His cattle and all other equipments are kept in his house in the village, and are daily carried to the field. It involves time and energy of both the cultivator as well as his cattle. This is also the case when he moves from one fragment to another. This not only wastes his time, but also tires him and his cattle. So often he tries to save his time by passing through other people's land. And the obvious result is disputes which lead to expensive litigation, and enmities that are then passed on to the next generation.

So we find that sub-division and fragmentation of holdings have many disadvantages which have obstinately stood in the way of improvement in agriculture. Dr. Mann admirably sums up the combined evils of sub-division and fragmentation and says "this destroys enterprise, results in enormous wastage of labour, leads to loss of land owing to boundaries, makes it impossible to cultivate holdings intensively as would otherwise be possible and prevent the possibility of outsiders with more money as tenant farmers or as purchasers of good agricultural property. So progressive agriculture demands restriction on sub-division and fragmentation.

Solution

Consolidation of Holdings : The solution of fragmentation lies in consolidation of holdings. Consolidation of holdings means of the re-arrangement of holdings among several landowners in such a way as to make the holding held by a landowner more compact. The size of the holding remains the same. The difference is that the landowner gets a compact area equivalent in value and size to what he owned as scattered pieces.

As has been pointed out above, consolidation holds the key to solve • fragmentation of holdings. It will save land, time and labour and make irrigation possible. It will also facilitate better planning of the village land as a whole.

Progress of Consolidation

Consolidation of holding was first taken up on voluntary basis through Cooperative Societies in Punjab in 1921 But it was soon realized that compulsion was needed. So an element of parti.al compulsion was introduced in D.P., Madhya Pardesh etc. The State Government could undertake scheme of consolidation where a given proportion of landowners owning a given proportion of land agree4 to it. But even then much progress did not take place. So after Independence in 1947 compulsory consolidation was introduced Le., State Government assumed the power to take up the work on its own initiative. Such laws now exist in almost all the States. Mumbai was the first State to enact such legislation in 1947. Some States like Kerala and Tamil-Nadu took up the issue only recently.

The progress of consolidation of holdings has been uneven and unsatisfactory.

In some states, the performance is very good and in others, it is poor. In some states the laws exist, but no progress has been made, in still others the Legislation was enacted only recently. Punjab has shown the best result. Till the end of the Second Five Year Plan, consolidation was complete on 96% of the total land in Punjab. This percentage was 18 in U.P., 10.5 in Madhya Pradesh, and 8.5 in Rajasthan and almost negligible in Andhra Pradesh and Bihar. Till the end of the Second Five Year Plan, 29.6 million acres of land had been consolidated. The target proposed for the Third Year Plan was 2 million acres, which was completed. The total consolidated area by the end of the Third Plan was 240 lakh heCtares .

Difficulties in Consolidation

Important difficulties which are faced in the process of consolidation are

1. The farmers are not only illiterate but conservative also. They cannot understand the benefits of consolidation. That is why the progress of consolidation work is rapid in those States' where the peasants are conscious of its benefits e.g. Punjab.
2. Sentimental attachment to ancenstral land is an important hindrance. The peasants refuse to part even with tiny bits of ancestral property, even when they get exactly the same area in exchange.
3. Lack of uniformity of land is another difficulty. All pieces of land are not identical. And those who have better quality of land are not interested in exchanging it with land of less superior or inferior quality.
4. Consolidation is a lengthy process. It involves many stages some of which are really difficult and require considerable administrative capacity. The revaluation of records has to be brought up to date. Different plots are examined then the details of principles on which lands are to be allotted are laid down. The villagers are invited to lodge their complaints against the allotment and then land is transferred and compact holdings are formed.
5. On the whole, we find that the movement has not evoked the necessary cooperation of the people especially of rich peasantry who propagate against consolidation. Consolidation is undoubtedly desirable and we should expedite it at the earliest. But two things have to be borne in

mind. Firstly, consolidation does not increase the size of the holdings, it only makes it compact. Secondly fragmentation is a continuing process. Therefore, after consolidation further fragmentation needs to be prevented. This brings us to the study of other solutions.

Prevention of fresh fragmentation

As has been pointed out above, mere consolidation of holdings will not solve the problem permanently. The present laws of inheritance and the practice of sub-division and fragmentation will undo it in a generation's time. So fresh "fragmentation -has to be avoided. For this the minimum limit, beyond which further sub-division should not take place must be laid down. In almost all the States a floor on holdings· has been fixed. For example, it is .3.25 acres in U.P. and 4 standard acres in Delhi. Though all the States have enacted this legislation there are administrative difficulties in its execution. The minimum . limit also varies from State to State.

Creation of Economic Holding

Another solution of small holdings is creation of economic holdings. But it i,s not easy to define an economic holding, because different economists have given different definitions. For example, Dr. Mann deftness it as one "which will provide average family the minimum standard of life considered satisfactory." Stanley Jevons wants to give a' high standard of living while Keating associates reasonable standard of living with it. The Congress Agrarian Reforms Committee used the term economic holding to mean a holding which, under given conditions would provide (a) reasonable standard of living and (b) full employment for a family of normal size and at least a pair of bullocks.

Obviously an economic holding should mean that holding which, together with other factors of production give us the best result in terms of output and at the same time, provides reasonable living to the dependants on it. So naturally the size of the economic holding will vary with the fertility of the soil techniques of cultivation, crops to be grown nature of farming and the irrigation facilities. So the size of economic holding will be different under different conditions.

Whatever be the factors determining the size of economic holding ; one thing is certain, that a major part of holding in India is far below the size of economic holding.' The question is can we convert these into economic holdings? i.e. from where will we get the land? Lakhs of small cultivators will be thrown out of job. There are other obstacles also. It is not easy to take away the surplus land from the rich landlords. It is equally difficult to persuade the poor peasants to sell their uneconomic holdings as sentimental attachment with land is too strong to permit it. In a democracy, force cannot be used. It means that at the present moment creation of economic holding does not seem feasible. It will be possible for us only when there is substantial diversion of population from land to industry.

Another thing that has to be kept in mind is that even when economic holdings are created the problem won't be solved. It has to be seen that the economic holdings once created are not split up afterwards. That will have to be checked by law. The law of inheritance has to be amended in such a way as will not allow the division of land after that limit. Only division of income may be permitted.

Creation of family holding:

Another concept, family holding, has been introduced by the Planning Commission. A family farm has been defined as the area of land which yields a gross average income of Rs. 1600/- per annum or a net annual income (including remuneration for the family labour) of Rs. 12001- and is not less than a plough unit.

Since creation of economic holding will take a very long time, we have to make a start with the creation of family holding. Even that would have to be preceded by some diversion of population' from land to industry.

Co-operative Farming:

Economists and politicians have looked upon cooperative farming as the best solution of the uneconomic holdings in India. The Congress Agrarian Committee long ago expressed the view that efficiency of agriculture cannot increase substantially without cooperative farming. Co-operative farming holds the key to solution of this problem.

The term cooperative farming is used in more than one sense. Sometimes it is used to indicate a system in which farmers owning and cultivating the land individually join hands for non-farm operation like marketing of crops, purchase of seeds, manure, tools etc. This is given the name of Co-operative Better Farming or Service Co-operation or Co-operative Servicing of Individual farming or Co-operative. This is a case of co-operation only. Under corporative farming proper, or Co-operative joint farming the cultivators pool together their holdings voluntarily and manage the whole farm as one unit under elected management.

While cultivation is joint, the ownership of land is individual. The distribution of income is functional and· not personal. They who give their land only get rent and they who work on land only, get only wages. They, who do both, ge~ rentals well as wages. The profit is shared in proportion. Mostly, when we talk of co-operative farming, the reference is to co-operative joint farming.

Difficulties in the way of solution:

Firstly, these societies are not spread all over the country. They are mostly found in Punjab, Uttar Pradesh, Andhra Pradesh and Rajasthan. In other states the progress is far from satisfactory. Secondly, a major part of these societies (50% to 60%) are formed just for the purpose of getting assistance from the government or to escape ceiling on holdings. Societies are quite often formed by members of the same family or with the same family or with friends and relations. Very few societies are working properly.

So these weaknesses found in the working of co-operative farming societies have to be removed. All the difficulties (of different solutions) mentioned above highlight the fact that the problems of sub division and fragmentation are not merely an administrative one. Its solution is possible Only if it is viewed as part of the larger problem of Indian Policy.

2.2B.5 CEILING ON AGRICULTURAL HOLDINGS

We have seen that apart from a degenerate and disincentive ridden tenurial framework, our agrarian structure suffers from large disparities in land ownership and also sub-division and fragmentation of holdings. Various measures have been adopted from time to time to remove these defects of the agrarian structure. To reduce the disparities in land ownership, ceiling on land holdings has been introduced. To tackle the problem of fragmentation, consolidation of holdings scheme had been adopted and to enlarge the size or the production unit co-operative farming is being introduced.

Ceiling on Land Holding :

Ceiling on land means fixing an upper limit to the area of land which an individual may be allowed to own. Land in excess of this upper limit is to be taken away from the existing owners and is to be re-distributed among landless agricultural labourers and small peasants. The principle of ceiling was first suggested by the Planning Commission in the First Five Year Plan. The Second Plan recommended that steps to impose ceiling should be taken in all States. The general principle laid down by the Planning Commission in this respect was that ceiling should be put at three times the family holding. Family Holding was defined as the area which under the existing techniques of production can be cultivated by a family of average size working with such assistance as is customary in agricultural operation.

The main purpose of land ceiling is to reduce disparities in the ownership of land by cutting down the size of large and very large farms. It has two aspects: (i) Ceiling of future acquisition of land; (ii) Ceiling on existing holdings. The reduction of disparities will help to achieve two objectives: (i) It will make available surplus land which can be distributed among the landless agricultural labourers : petty land holders and other poor classes in rural areas. The resu.lt would be the creation of a contented and broad based land-owing peasantry. (ii) Ceiling will have the way for a co-operative rural economy by creating homogenous rural society in which there would be no large disparities in the economic and social status of the various members. In the absence of ceiling co-operative farming and other forms of cooperation cannot be successful because some members of the co-operatives will be owners of large farms and others, of small farms and it would be extremely difficult to bring them together in the same co-operative society.

Following arguments are put in its favour:

(i) Utilization of the surplus land with big landlords will enable us to increase the size of the small holdings. That will not only mean fuller employment for those who are dependent on land, but would increase agricultural output also.

(ii) With this reform, the landless tenants/labourers wil1 also get land of their own. This will put an' end to their exploitation and thus increase output in land.

(iii) This 'will' facilitate consolidation of holdings.

(iv) This would provide sound basis for the development of co-operative rural structure in general.

(v) The biggest advantage claimed in its favour is that it will bring about fair distribution of land and would help us in the attainment of socialistic pattern of society.

Some people do not favour the idea of land ceiling.' They. have put forth the following **objections** to the imposition of ceilings :

(i) It has been suggested that ceilings will have an adverse effect on agricultural production. The argument is that the well-managed an efficient big farms will be split up as a result of ceiling and transferred from the resourceful to the resourceless people who will fail to make the necessary improvements and investment. Agricultural production would thus suffer as a result of the break up of larger farms.

This objection does not, however, seem to be based on actual facts because the Farm Management Surveys and some other studies clearly show that productivity per acre of small holdings is higher than that of large holdings.

(ii) Another objection is that ceiling will not release enough land for enlarging all petty holdings and for giving land to all landless agricultural labourers. It is argued that the number of land-owners having land in excess of the ceiling is not very large so that the surplus land surrendered to the government would not be enough to satisfy the land hunger of all landless labourers or to make all uneconomic holdings, economic. So the measure will fail to achieve the purpose it has in view.

The answer to this objection is that something is better than nothing. Even if some petty holdings can be enlarged by using surplus land and some landless labourers can be made owners, it would definitely be an improvement upon the existing situation.

(iii) It is objected that ceilings on land holdings would put a ceiling on agricultural income for which there is no justification so long as there is no ceiling on non-agricultural income.

This argument is also based on a fallacious reasoning. A ceiling on agricultural land is not the same thing ,as a ceiling on agricultural income because the same land can be made to produce a much larger income than at present through more intensive cultivation.

So we conclude that most of the objections to ceiling are based more on ignorance or prejudice than on sound reasoning. They are not altogether false but have been considerably exaggerated.

Progress of Ceiling :

Ceiling legislation has been enacted in all states. The level of ceiling, however, differs from State to State. It is 50 acres in Assam, 30 acres in H.P. and 25 acres in West Bengal.

So, progress of land reforms in respect of ceiling on land holdings may be described under the four heads : (i) unit of application (ii) upper limit for land (iii) exemption and (iv) availability of surplus land and its distribution.

(i) Unit of Application : Under the old declaration of the act the basis of fixation of ceiling was an individual instead of a family. It means that every member of a family could keep land up to the prescribed limit of ceiling As a result, despite the ceiling law, each family came to possess large areas of land.

But under the present and new policy the basis of fixation of ceiling is the family and the unit of family is strictly defined.

(ii) Maximum Limit: The maximum limit fixed under the old Act was very high and the gap between the lowest and the highest limit was very high, e.g., in Punjab' and Haryana the limit ranged from 30 to 80 acres. But under the new policy this upper limit of holding has been lowered and the gap between the lower and the upper limits has been narrowed.

(iii) Exemption: With regard to exemption different laws were laid down for different states. Among the lands exempted were orchards, grazing lands, sugarcane fields of sugar factories, co-operative farms, mechanised farms and lands under religious trusts etc. This list of exempted land was a long one and there did not seem much use of that type of regulations. So in the new policy special amendments are made in this regard and the number of exemptions has been considerably lowered. Under it, mechanised farms of old princes and private trusts are no longer on the list of exemption.

(iv) Surplus land and its distribution : Though the ceiling legislations were enacted in all States, the pace of its implementation has been rather slow. In most of the States rules have been framed and declarations of holders of surplus lands have been obtained but the surplus lands have not been taken away for redistribution. Apart from the slow implementation, the ceiling programme has suffered from many other wealmesses. Firstly, the limit of three times the family holdings has not strictly been adhered by all the States. In a number of States, ceilings have been placed at a limit which is higher than that proposed by the Planning Commission. High ceilings have reduced the effectiveness of this measure. Secondly, large malafide transfers of land have taken place in various States to circumvent the ceiling legislation. These malafide transfers became possible mainly because of the long gap between the enactment of ceiling legislation and its actual implementation. Thirdly, there has been wide spread misuse of the exemption provisions.

A Conference of Chief Ministers was held in July, 1972 to consider all aspects of the problem of ceiling. The national guidelines on ceilings were drawn up and sent to all States. Consequently, ceiling laws of most States have been amended and the position, according to Agricultural Statistics at a Glance (2002) is as follows :

State	**Level of Ceiling (Hectares)**
Andhra Pradesh	4.05 to 21.85
Assam	6.74
Bihar	6.07 to 18.21
Gujarat	4.05 to 21.85
Haryana	7.25 to.21.85
Himachal Pradesh	4.05 to 28.33
Jammu & Kashmir	3.68 to 9.20
Maharashtra	7.28 to 21.85
Karnataka	4.05 to 21.85
Kerala	4.85 to 6.07
Madhya Pradesh	7.28 to 21.85
Orissa	4.05 to 18.21
Punjab	7.00 to 20.50
Rajasthan	7.28 to 70.82
Tamil Nadu	4.86 to 24.28
Tripura	4.00 to 12.00
Uttar Pradesh	7.30 to 18.25
W. Bengal	5.00 to 7.00

Note: The lower limit is for irrigated land with two crops, and the upper is the (upper limit) for dry land. Inspite of the revised legislation on ceiling in the light of the Chief Ministers meet the progress in acquisition and distribution of surplus land has not been achieved. It is very slow and much below expectation.

2.2B.6 SUGGESTED READINGS:

1. Datt and Sundharam Indian Economy : Gaurav Datt and Ashwani Mahajan
2. Indian Economy : Misra and Puri

2.2B.7 QUESTIONS FOR PRACTICE

(i) Define the term land tenure

(ii) Explain the terms fragmentation and subdivision of land holdings. Discuss their advantages and disadvantages.

(iii) Briefly explain Zamindari System.

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LESSON NO. 2.3

INDUSTRIAL POLICY OF INDIA SINCE 1947

Structure of the Lesson

2.3.1 Introduction
2.3.2 Industrial Policy Resolution (IPR) 1948
2.3.3 Industrial Policy Resolution-1956
2.3.4 Industrial Policy Statement 1970
2.3.5 The Industrial Policy, December 1977
2.3.6 Industrial Policy-1980
2.3.7 Industrial Policy-1991
2.3.8 Suggested Readings
2.3.9 Question for Practice

2.3.1 INTRODUCTION:

In common usage the term industry refers to manufacturing activity, which if broadly interpreted, may include the operations of the extractive sector also, but not cultivation and services. Thus, industrialization refers to the development of manufacturing and extractive industries. Most under-developed countries of today look upon industrialisation as the panacea for solving problems of economic backwardness and poverty and it can be said that a policy of carefully planned industrialisation could help to solve these problems as has happened in the case of advanced countries of today. As such industrial policy becomes a vital component of development plans of most developing countries. India is no exception.

The need for industrialization in India arises both from the general backwardness of the economy as well as from the desire to solve certain specific problems such as that of unemployment and low productivity of labour and capital. It is not the intention here to trace the decay of early Indian handicrafts or the evolution of modern industry in the country. Suffice to say that on the morrow of independence India was still a predominantly agricultural country and little growth of modern industry had taken place, which was neither balanced nor widespread, though the railways had perhaps spread a veneer of modernisation across the Indian subcontinent. Whatever little industrialisation had taken place was under the stress of the two world wars jogged along a bit by the spirit of the Swadeshi movement. But it was considerably atrophied when the country was partitioned on the eve of independence. Thus, the stark poverty and the staggering dimensions of the development effort needed to pull the country out of the morass, were justification enough for a concerted and planned attempt to industrialize it.

Another dimension of industrialization of India is that it requires creation of institutional arrangements to encourage new methods of production and investment in technical and managerial skills and in social overhead capital so this usually involves a long gestation lag and poor profitability which scares away private enterprise and makes state intervention a necessary condition of rapid industrial development of under developed economy such as that of India. Thus, a long term and consistent industrial policy is vital for the process of industrial development.

Independence of India was accompanied by the country's partition and widespread industrial unrest. There was also what came to be known, as a 'crisis of confidence" between the government and the entrepreneurial class and yet a widespread desire to harness the resources of the nation for long-range industrial development. Thus the first industrial policy resolution was formulated by the Union government's industrial policy for the next ten years. However, government passed a revised industrial policy resolution in 1956, on the eve of the country's Second Five Year Plan, two years ahead of the stipulated time.

2.3.2 INDUSTRIAL POLICY RESOLUTION (IPR) 1948 :

The purpose of the IPR was to increase national and per capita income through rapid industrialization. The main objectives of the Industrial Policy Resolution (IPR) 1948 were defined as follows:

a) to promote a just and equitable social order

b) to promote rapid rise in the standard of living of the people.

c) to accelerate production to meet the needs of growing population;

d) to provide increasing opportunities for employment.

The First Five Year Plan of the country endorsed the above resolution and also laid down that the constitution, which came into force from January 26, 1950 includes certain Directive Principles for the guidance of the state. Among these the economic clauses relevant to our subject enjoined the state to ensure that : (i) ownership of material resources of the community are so distributed as to best sub serve common good and that (ii) operation of the system shall not result in concentration of wealth and means of production.

It is obvious that these objectives could not be achieved by sticking to the traditional policy of laissez-faire which the pre-independence Government of India had adopted. The state now for the first time assumed an active role in promotion of industrial development and economic well-being, equity and social justice to all its citizens without any distinction of caste, creed or religion. The large-scale industrial sector of the economy was divided into four categories according to the pattern, ownership and control envisaged for its development. Category 'A' consisted of industries which may be described as "strategic" because they were considered vital for the security of the country. These industries were manufactures of arms and ammunition, the production and control of atomic power and the ownership and management of railway transport.

These industries were proposed to be exclusive monopoly of the state. Further, in any emergency the government would always have the power to take over any industry vital for national defence.

Category 'B' consisted of the following six industries in which the resolution said, "The State will be exclusively responsible where, for the national interest, the state itself finds it necessary to secure the cooperation of private enterprise, subject to such control and regulations as the central government may prescribe.

(1) Coal; (2) Iron and steel; (3) Aircraft manufacture; (4) Ship-building (5) Manufacture of telephone, telegraph and wireless apparatus excluding radio receiving sets; and (6) Minerals oils.

However, the resolutions provided that without prejudice to the State's inherent right to acquire any industrial undertaking, the existing undertaking in these fields may be allowed to develop for a period of ten years during which they will be allowed all facilities for efficient working and reasonable expansion.

The third category 'C' consisted of 107 industries which were to be under 'Central regulation and control" in as much as "their location must be governed by economic factors of all India import" if "they required considerable investment and a high degree of technical skill."

The rest of the industrial field will normally be open to private enterprise, individual as well as cooperative. The state will also progressively participate in the field; and will not hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory.

In addition to classifying various industries as above and describing the respective role of state and the private industry and their inter-relationship, the Industrial Policy Resolution (1948) made a few other points. First, the resolution emphasised, "Offering as they do, scope for individual, village or co-operative enterprise and means for rehabilitation of displaced persons", and the desirability or decentralising larger industries wherever conditions permit.

Secondly, resolution indicated government's intention of designing 'tariff policy so as to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer." Thirdly, the resolution recognised India's need for foreign capital and enterprise particularly as regards industrial and technical knowledge but considered it necessary to regulate the conditions of its participation in the national interest and called for suitable legislation empowering government to scrutinize individual case of participation, to ensure control in the hands of Indians except in very exceptional cases and to ensure the training of Indian personnel to replace foreign experts.

Finally, the resolution enunciated a policy of social justice, fair working conditions, and equitable remuneration which should provide for profit-sharing "After making provision for payment of fair wages to labour, fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking."

EVALUATION:

This policy resolution had a mixed reaction in the country. Those with 'leftist' leaning welcomed state initiative in industrialisation as well as proposals to regulate private industry. The business community regretted that the area of private enterprise had been restricted. They also felt that the talk of controlling private enterprise and threat of take over would inhibit private enterprise considerably. More criticism in the same strain was made by industrialists when a few years later in 1951 the government passed the Industries Development and Regulation Act 1951 which has been the main instrument of implementing industrial policy, with its licencing and capital issues control. However, eight years after the 1948 Industrial Policy Resolution and the beginning of the second year plan the Central Government thought it proper to reconsider and revise the industrial policy in the light of experience gained. Thus a new Industrial Policy Resolution was presented to Parliament in April 1956.

2.3.3 INDUSTRIAL POLICY RESOLUTION- 1956

During 1950-51 Indian Government decided to have a planned economic development with building a strong industrial base. The main idea behind this was to have a socialistic pattern of development emphasising the role of public sector. Under this consideration the new IPR (1956) was announced.

Objective

— to accelerate the rate of economic growth and to speed up industrialization.
— to reduce disparities in income and wealth,
— to prevent the growth of monopolies and concentration of economic powers in few hands,
— to develop heavy and machine building industries in the country, and
— to enlarge the scope of public sector enterprise as well as cooperative sector.

The main points of the policy are as follows:

New classification of Industries:

IPR of 1956 classified industries into three categories in order to specify the role of the state and private sector.

(i) Schedule A - Consisted of 17 industries which may be described as defence industries (like arms and ammunitions, atomic energy, iron and steel, heavy machinery and electricals, coal mineral, mining or iron ore, chrome ore, manganese ore, gypsum, sulphur, diamond and gold mining, and processing of copper, lead, zinc etc. minerals connected with production and use of atomic energy; aircraft, air and railway transport, ship building, electricity generation and distribution, telephone, telegraph, wireless equipment).

(ii) Schedule B – The second category consisted of 12 industries. In these industries the state would progressively take initiative to set up new units, though private enterprise would co-exist side by side the state and may even supplement state enterprise. Thus it was a sort of mixed sector. Industries included in this group were aluminum and other nonferrous metals not included in first category, ferrous alloy, basic and intermediate chemicals and products required by chemical industries, antibiotics and essential drugs, fertilizers, road and sea transport, synthetic rubber, corporisation of coal, chemical pulp.

These 12 industries were those industries which were to be nationalised with passage of time, new investments were to be done only by state. But those units which were running efficiently were to continue.

(iii) Schedule C - The rest of the large industrial sector was left to the initiative of private sector subject to the social control by the state to ensure objectives of the planned economy.

Encouragement to Private Sector:

The resolution did not seek to divide the industries into water tight compartments and the government was given the freedom to undertake any type of industrial production. The private enterprise could also produce some of the items included in the category falling in the domain of the State.

Emphasis on Cottage and Small Scale Industries :

The small scale and cottage industries were to be favoured for their large employment potential ensuring more equitable distribution of income and for mobilising capital and labour resources still lying unused. Subsidies and tax concession were to be allowed to them. They were to be provided all facilities for growth.

Balanced Regional Development

The resolution also stressed the need for balanced regional development. The areas lagging behind in industrial development were to be extended special facilities. It recognised the importance of cordial relations between labour and management. It called upon the public sector undertaking to become model employers by improving working conditions. It also emphasized the need for maintaining facilities at the University and factory levels for the training of managerial and technical personnel for the fast expanding public sector undertakings. The undertakings were to be run more efficiently so that they could earn profits to augment state resources.

Industrial policy of 1956 was looked upon as a programme of action in which both the public and private sector were to co-operate for achieving complete industrialisation. It was a realistic approach unshadowed by ideological consideration. It not only retained the system of mixed economy but also widened its scope to make it serve the objectives of the society.

The 1948 industrial policy gave coherence to the hereto existing loose and scattered industrial picture. The 1956 policy enlarged and improved upon it. It reflected the objectives of planning, laid down do's and don'ts helpful in its implementation. It gave so where the government owns, where the government will own and where the government regulates. Without the active interest taken by the state nothing much could have been achieved in India's bid to develop industrially.

Evaluation

The shortcomings of industrial policy of 1956 was that by placing overemphasis on heavy industry importance of agriculture was not properly seen. The small scale industry was given its due role but these were not integrated with programme of development of large scale industry.

The implementation of the six pillar industrial policy only saw a qualified success by choosing capital intensive techniques, it lost the opportunity to make use of layout intensive methods where they could be profitably employed. Many efficient and high cost industries came to be created. There also arose the problem of surplus capacity in most of the public sector industries. Weakness on the implementation front led to inflationary pressure in the economy and the demand of rising prices led to dismay and frustration in the public. Concentration of wealth in the hands of industrial houses increased much more than before. It was felt that the foreign investment policy should be a part of the industrial policy.

The expansion of industry in Third and Fourth Plans was governed by the 1956 Industrial Policy. The role of the public and private sectors were thought of as supplementary and complementary to one another. Both were to be encouraged to follow their own laws of growth and receive equal treatment in the matter of access to capital, raw materials, foreign exchange etc.

SELF CHECK EXERCISE

1. What do you mean by balanced regional development.

 ____

 ____

2.3.4 INDUSTRIAL (LICENSING) POLICY STATEMENT 1970

The licensing policy of February 1970 had a significant effect on the industrial policy. The Government reiterated the Industrial Policy Resolution of 1956 but added that the state will have to take direct responsibility for the future development of industries over a wide field in order to promote the objectives of growth, social justice, self reliance and satisfaction of basic needs. The features of the new industrial policy were :

(i) The industrial policy of 1956 was updated in the light of industrial licensing policy of 1970 and the Monopolies and Restrictive Trade Practices Act, 1969. This was necessary to facilitate investment on the basis of priorities and objectives of the Fifth Plan.

(ii) It accepted the definition of large house as laid down in the Monopolies and Restrictive Trade Practices Act, 1960 for licensing restriction.

(iii) It enumerated 19 industries as core industries of importance to the national economy in the future. Large houses were eligible to participate and contribute to the establishment of industries in the list, provided the item of manufacture was not reserved for production in the public sector or in the small scale sector. Large houses were to be excluded from the industries not included in the list except where production was predominantly for export.

(iv) Foreign concern and subsidiaries and branches of foreign companies were to be treated for purpose of establishment and participation in industries on the same footing as the large houses. But their investments were to be subject to the guidelines on the dilution of foreign equity. They were also to be examined as to technological aspects, export possibilities and overall effect on the balance of payments.

(v) The government was to continue to encourage small and medium entrepreneurs in all industries including the listed 19 industries. The small enterprises would be preferred over large houses and foreign companies in the establishment of the new capacity. The production of ancillaries, where possible, would be in the medium and small scale sectors. These sectors would be encouraged to participate in the production of mass consumption goods. The public should be assuming an increasing role in the manufacture of consumption goods.

(vi) Co-operative sector would also be encouraged to participate in the production of goods of mass consumption.

(vii) The joint sector device might be resorted to in specific cases keeping in mind the production targets to the plan. Each case was to be examined in the light of social and economic objectives. New and medium entrepreneur would be preferred in developing priority industries. In the guiding policy, management and operation of joint sector units the government would have an effective role.

The new policy was heavily tilted in favour of small and medium entrepreneurs and particularly in the production of the joint sector. A big departure from the previous policy was that a much wider field was thrown open to foreign concerns. Certain industries were to be open to them at par with the Indian entrepreneurs. The area open to large houses which had been restricted to 9 industries in the licensing policy statement of February 1970, came to 12 listed industries.

2.3.5 THE INDUSTRIAL POLICY, DECEMBER 1977

The policy remained in force for a period of two years and had little impact on the industrial policy scene. A critical look at it is useful to assess if it provided any solution of the country's industrial maladies.

The emphasis of new policy was on the small industrial units. It said, "Whatever can be produced by small and cottage industries must be produced by them. This emphasis was meant to bring more employment and dispersal of industries in rural areas and small towns. It believed that small was beautiful. Several measures for production in small units were taken. Industrial centres were to set up in district to provide all the requirements of these industries. Special arrangements were to be made for marketing the products of small units.

The areas specified for the large scale industries came to be restricted on the basis of the development of small scale and cottage industries. The capital goods industries were to be meant for providing machinery to basic industries and to the small and cottage industries. The high technology industries producing on large scale were to be those related to the development of agriculture and small scale industries such as fertilizers, pesticides, petro-chemicals, etc. All these industries which were not connected with agriculture and small scale industries constituted a separate category. There was to be a ceiling on the large scale industries producing items reserved for the small scale sector.

To secure industrial dispersal over area it was envisaged that no more licences were to be issued for new units within certain limits to large metropolitan cities having a population of more than one million and urban areas with a population of more than 5 lakhs as per the 1971 census. Support was to be denied to industries not requiring licences for their establishment. Assistance was to be provided to small scale industries wishing to invest in backward areas.

To reduce economic inequalities the Monopolies and Restrictive Trade Practice Act, 1969 was to be effectively implemented. The expansion of existing undertakings into new lines was not to be usually permitted. The public financial institutions were not to provided funds for the expansion of old and the establishment of new ones wherever the financial institutions were to ensure that management was increasingly professionalised and conformed to national priorities.

An expanding role was assigned to the public sector. In addition to producing important and strategic goods, it was to be used as a stabilising force for maintaining essential supplies for the consumers. It was also given the responsibilities of encouraging a wide range of ancillary industries and small scale and cottage industries by making available to them its expert knowledge of technology and management. A professional cadre of dynamic and efficient managers was to be built up to run these enterprises. Public sector undertakings were to work on lines in order to earn adequate returns on their investments.

In case of private enterprises, a reasonable dividend was to be made available to share holders by regulating product-prices. These were also to be used for further development of industries. Leaving those foreign concerns which were hundred percent export-oriented the foreign shareholding was to be restricted to 40 percent as laid down in the Foreign Exchange Regulation Act. Approved foreign investments, i.e. those allowed in national interest, were to be free in respect of remittance of profits, royalties, and also repatriation of capital.

The policy viewed foreign trade as a part of its objectives of self reliance. Export was to be expanded through export oriented manufacturing capacity. Example from excise and customs duties on imports for wholly export based activities was to be given if such activities led to addition of substantial net-value and large employment. In view of large foreign exchange holdings, there was to be considerable relaxation and even removal of such restrictions as import quotas.

But for a few significant departures, the policy was more or less a continuation of the old industrial policy. The objectives of the new policy was practically the same as enumerated in the earlier polices. When the large industrial capacities were created as the result of earlier policies, it emphasized much more the objectives of creating more employment and eradication of poverty. Major aims such as curbing monopoly and restriction on economic concentration, self reliance, etc. were similar in both.

The new policy approved the continuation of means already conceived and put into operation by the earlier policies. There were of course, certain reservations arising from the reservation of items for small sector, extended role of public sector, extent of foreign holding in the foreign companies, liberalisation of imports etc.

There was a big departure in respect of small sector. It was to pursue something general to expect that the large scale and the public sector would exist for the promotion and service of the small sector.

Nothing much could be said in favour of the tools provided for the implementation of the policy objectives. It laid down in the text book style that the restriction and "irritants" in the industrial procedures should be removed. It talked in terms of axiomatic platitudes about controlled prices, adequate return to investors, dividend to share-holders, plough back, dispensing with quantitave restrictions and reducing of tariff rehabilitation of sick-units on the basis of cost-benefit accounting etc. It almost ignored the fact that the competition between large and small scale industries generated in the atmosphere of free economy and the disparities in the income pattern might not let the desired industrial structure to come into existence. The pronouncements in favour of the small sector were likely to remain as much unfulfilled in the past. The innovation of the district industrial centres might have proved to be like the existing official wearing different hats and the old offices refurnished with repainted signboards.

There was apprehension by the policy makers that the existing administration, management and organisation was too inefficient to implement the programme of development. All the defects which plagued the success of programmes of industrialisation in the past were being washed away without any correction being applied.

2.3.6 The Industrial Policy of 1980

The statement on industrial policy made in Lok Sabha on July 23, 1980 recognised that the 1956 resolution formed its basis. It sought to pursue the following socio-economic objectives:

(i) Optimum utilisation of the installed capacity;

(ii) Maximising production and achieving higher productivity.

(iii) Higher employment generating;

(iv) Correction of regional imbalances through preferential development of industrially backward areas;

(v) Strengthening the agriculture base by according a professional treatment to agro-based industries, and promoting optimum intersectional relationship.

(vi) Faster promotion of export-oriented and import substitution industries.

(vii) Promoting economic federalism with an equal spread of investments and dispersal or returns amongst widely spread small and growing units, in rural as well as in urban areas;

(viii) Consumer protection against high prices and bad quality; and

(ix) Rehabilitation of faith in the public sector and evolving effective system of management.

The statement recognised that private sector undertakings would be allowed to develop in consonance with targets and objectives of national plans and policies. But monopolistic tendencies and concentration of economic power in a few hands would not be permitted. The statement proposed to promote economic federalism by setting up a few nucleus plants in each industrially backward district or generate as many ancillaries and small and cottage units as possible. The nucleus would assemble the produce of ancillary units and also make marketing arrangements for the output. It would also help to upgrade technology of small units.

To ensure the rapid growth of small scale industries, the limit of investment in case of tiny units was raised from Rs. 1 lakh to Rs. 2 lakh, of small scale units from Rs. 10 lakhs, to 20 lakhs. The Government proposed to strengthen the existing arrangement and make necessary changes to facilitate the availability of credit to the growing small scale units to help them. It was also intended to build up better stocks of essential materials which were not easy to obtain. In the interest of their growth, reservation of items for this sector would continue.

The generation of higher employment and higher per capita income, village industries like khadi and handloom weaving received greater attention. The regional imbalances would be corrected by encouraging dispersal of industries and setting up units in the industrially backward areas. Special concession and facilities would be offered for the purpose. There would be regular periodic assessment to the incentives provided in order to find out the extent to which they were effective.

The statement was of the opinion that as a result of increased labour productivity of technological improvements, productive capacities in certain industries/units might have increased. The Government had come to the conclusion that it would not be fair to stand in the way of the maximisation of production, it would, therefore, recognise such capacities on “selective basis”.

The facility of automatic expansion upto 25 percent in five years had been permitted in 15 industries in 1975. This was in addition to the normal permissible addition to production by 25 percent of the approved capacity. The facility would not be extended to other industries in Appendix 1 of the (Dev. and Reg.) Act, 1951

Government would also consider requests for setting upto 100 percent export oriented units, expansion of existing units exclusively for purpose of export and for allowing higher production for exploiting fully the emerging export opportunities. Government could also consider favourably the introduction of advanced technology and would permit creation of capacity large enough to make it competitive in the world markets. This would not only encourage exports but also enable industries to produce better quality product for the benefits of the consumers in terms of price and quality.

The industry and energy policies would be dovetailed. Soft loans would be given for special assistance to enable units to control pollution. Government was also committed to preserve ecological balance and for improving conditions in the urban centres.

The licencing producers would be streamlined. A comprehensive system of monitoring the implementation of schemes would be evolved. A data-bank in all major investment proposals, etc. would be introduced to serve an early warning system for identifying symptoms of industrial sickness. Sick units would be encouraged to merge with efficient ones.

As regards industrial relation the tripartite labour conference could be revived. It would be possible through constructive cooperation to establish higher standards of productivity and harmony. The Government would also start a dialogue with the industry to ensure a rationalisation of price for the benefit of the consumers.

The District Industries Centres which had figured prominently in the policy of 1977 were to be scraped as “they had not produced benefits commensurate with the expenditure incurred."

The policy was hailed by business and industry for removing constraints on industrial undertaking. But it is rather sad that it is silent about the level of living standards of the people. It does not say that the first change on industrial output would meet the needs of the citizens of the country. Basic industries are bound to remain in short supply.

2.3.7 INDUSTRIAL POLICY (1991)

The recent changes in this industrial policy were in continuation of the changes introduced in 1980 and 1985-86. But quantum of changes make them qualitatively different in nature. The changes announced on 24th July, 1991 are titled as New Industrial Policy. Objectives of this policy have been to correct the distortion or weakness in the industrial structure and maintain a sustained growth in productivity, gainful employment and attain international competitiveness. For this the policy of liberalisation both at domestic as well as foreign level has been carried to logical conclusion. The package of changes have been announced in two phases; in the first phase large industrial sector was covered. For small sector changes were introduced in the second phase in August 1991. Therefore, policy changes are divided into two parts in our discussion:

1. Policy changes in large industrial sector, and
2. Policy changes in small industrial sector.

1. Change in Large Sector: Changes in policy in this sector have been announced under the following heads:

a. Industrial Licensing;
b. Foreign Investment;
c. Foreign Technology Agreements;
d. Public Sector Policy;
e. M.R.T.P. Act.

a. Industrial Licensing Policy : Licensing was abolished for all the industries except 17 which include coal, sugar, motor cars, cigarettes, hazardous chemicals, drugs and pharmaceuticals, entertainment, white goods (refrigerators, domestic washing machines, air conditioners etc.), industrial explosives, petroleum and products, distillation of alcoholic drinks, animals fats and oils, asbestos, plywood and decorative material, raw hides and skins and paper and newsprints except bagasse based units. The compulsory licencing provisions would not apply in respect of small scale units taking up the manufacture of any of the above items reserved for exclusive manufacture in the small scale sector. These specified industries will be subject to compulsory licencing for reasons related to security and strategic concerns, social reasons, problems related to safety and environment issues and manufacture of hazardous nature of products and articles of elitist concern. Government considers that exemption from the licencing will encourage small and medium range entrepreneurs who had been unnecessarily hampered by the licencing system. This is supposed to benefit the entire economy by making it more competitive, efficient and modern.

b. Foreign Investment : The relationship between domestic and foreign industry is being made more dynamic than in the past in terms of both technology and investment. Foreign investment is being welcomed for country's industrial development. In high priority industries, it has been decided to provide approval for direct foreign investment upto 51 percent foreign equity. There shall be no bottlenecks of any kind in this process. 34 steam generating plants, prime movers (other than electrical generators) electrical equipment, electronic equipment, Transportation, Industrial Machinery, Agricultural Machinery, Earth moving Machinery, Industrial Instruments, Scientific Instruments and Laboratory, Equipment, Nitrogenous and Phosphatic Fertilizers, Chemicals (other than fertilizers) Chemicals for industrial use, Drugs and Pharmaceuticals, Plate Glass, Ceramics, Cement Products, Carbon and Carbon products, pretensioned high pressure RCC pipes, rubber machinery, Printing Machinery, Welding Electricals, Industrial synthetic diamonds, Photosynthesis etc. Extraction and upgrading of mineral oils, pre fabricated building material, Soya products, High-yielding and synthetic seeds, Food processing Industries and Hotels and Tourism related industry. Clearance will be available if foreign equity covers the foreign exchange requirements for imported capital goods. The payment of dividends are to be monitored through RBI. Foreign equity proposals including proposals involving 51 percent foreign equity holding is also permitted for trading companies primarily engaged in export activities and they will be treated at par with domestic trading engaged in export in accordance with the import-export policy.

A special Empower Board is entrusted with the task of negotiations with a number of large international firms and approved foreign investment in selected areas.

c. Foreign Technology Agreements : For import of foreign technology following steps have been decided.

(i) Automatic permission will be given for foreign agreements in high priority industries up to lump sum payment of Rs. 1 crore, 5 percent royalty for domestic sale and 8 percent exports subject to total payments of 8 percent sales over a 10 year period from the date of agreement of 7 years from commencement of production. The prescribed royalty rates are to be calculated according to standard procedures.

(ii) For non-high priority industries also above guidelines will be followed.

(iii) All other proposals will need specified approval.

(iv) No permission will be necessary for hiring of foreign technicians, foreign testing of indigenously developed technologies. Payment will be made from blanket permits on free foreign exchange according to RBI guidelines.

d. Public Sector : Industries reserved earlier for exclusive development by public sector have been restricted to 6. They are arms and ammunition and allied items of defence, atomic energy, coal and lignite, minerals oils, mining of iron ore, manganese chrome or gypsum sulphur, gold & diamond, mining of copper, lead, zinc, tin, molydenum and wolfram, mineral specified in the schedule to the Atomic Energy, and Railway transport. These industries belong to strategic, high tech and essential infrastructure. The reservation has been given to public sector but there would be no bar areas exclusively to be opened to private sector selectively. Similarly public sector will be allowed entry in areas not reserved for it.

Chronically sick units in public sector will be referred to the Board for Industrial and Financial Reconstruction (BIFR). A social security mechanism will be created to protect the interest of the worker likely to be affected by such rehabilitation packages including closures.

To raise resources and encourage wider public participation a part of the Government share of holding in public sector would be offered to mutual funds, financial institutions, general public and workers.

Board of public sector companies would be made more professional. Management will be given greater autonomy and will be held accountable for performance.

e. M.R.T.P. Act : The threshold limits of assets in respect of M.R.T.P. companies and dominant undertakings have been done away with. This eliminates the requirements of period approval of Central Government for establishment of new undertakings, expansion, merger, amalgamation and take-over, the appointment of Directors, under certain circumstances.

M.R.T.P. commissions will concentrate on controlling and regulating monopolistic, restrictive and unfair trade practices and is authorised to initiate investigation on complaints received from individual consumer in these matters. To enable the MRTP commission to exercise punitive and compensatory powers necessary amendment in the Act has been decided.

2. Policy Changes for small sector : The primary objective of small scale industrial policy during the decade of nineties would be to impart more vitality and growth impetus to the sector to contribute its might in terms of growth of output, employment and exports of the country. To remove all fetters on its growth following policy initiatives are taken.

(i) Investment Limit :

Investment Limit in plant and machinery of small scale industries, ancillary units have been kept at Rs. 60 lakhs and 75 lakhs respectively. Such limits in respect of tiny enterprises have been increased from Rs. 2 lakhs to 5 lakhs irrespective of location of the units. During 1997, the Govt. raised the investment limit on plant and machinery for small and ancillary units to Rs 3 crores and for tiny units to Rs 25 lakhs. All industries related to service and business enterprises irrespective of their location are recognised as small scale industries and their investment ceiling would correspond to those of tiny enterprises. The Govt. in 2000 reduced the investment limit on plant and machinery to Rs 1 crore (from Rs 3 crore), but for tiny units it was been retained at Rs 25 lakhs.

(ii) Financial Support :

While the small scale sector other than tiny enterprises would be entitled to one benefit like preference in allocation, power connection, access to facilities for skill technology upgradation, the tiny sector will be eligible for additional support on continuing basis including easier access to institutional finance, priority or government purchase programme and relaxation from certain provisions of labour laws.

It has been decided to widen the scope of National Equity Fund scheme to cover projects upto Rs. 20 lakhs with working capital margin up to Rs. 10 lakhs. Facilities available through State Financial Corporation (SFCs) and State Small Industries Development Corporation (SSIDCs) would also be channelised through commercial banks. A special monitoring agency would be set up to oversee the genuine credit needs of small scale sector.

Other industrial undertakings have been allowed equity participation in small scale upto 24 percent of the total share holding. This is supposed to encourage ancillarisation and sub contracting. A suitable legislation is also being passed to ensure prompt payments of small industries bills.

(iii) Infrastructural Facilities :

A new scheme of Integrated Infrastructural Development (including, Technological Back up Services) for small scale industries is being implemented with active participation of State Government and financial institutions.

This includes setting up of Technology Development Cell (TDC) in Small Industries Development Organisation. TDC would co-ordinate with tool rooms and process-cum-product Development centres. These measures will help in technology modernisation and make available the needed raw materials.

(iv) Marketing and Export :

Marketing of products of the small industries will be promoted through National Small Scale Industries Development Organisation (SIDO), process of ancillarisation and subcontracting of small units while the large enterprises in public sector will be encouraged.

SIDO has been recognised as nodal agency to support the small scale industries in export promotion. An Export Development centre in SIDO will help the sector in this matter through a network of field officers.

(v) Other Measures :

Several other measures have been announced for promotion of small scale industries. This includes measures to promote entrepreneurs, simplification of rules and procedures and special provisions of resources, materials and facilities for village industries particularly handloom sector, handicrafts sector and other industries.

The policy changes announced for small sector intended to create greater integration of small sector wilh the large industrial sector. It is entrusted with the task of creation of large employment and help the country in earning of large amount of foreign exchange. The changes announced are also in consonance with the policy measures of large sector in terms of greater liberalisation of the economy and promotion of competition in the country.

Futher Liberalisation :

In April 1993, three more items from the list of 18 industries reserved for compulsory licensing were removed. These items were motor cars, white goods (refrigerators, washing machines, air conditioners etc.) and raw hides and skins and patent leather.

In 1996 the Govt. decided to include 16 categories of industries in respect of which automatic approval would be accorded to foreign equity participation upto 51 percent. It also added another list of 9 industries for which automatic approval upto 74 percent would be allowed.

Assessment :

The recent policy changes are motivated to productive improvement through greater privatization, decontrol, liberation and greater competition both at national as well as international level. The greater efficiency in resources use and the technological upgradation is expected to boost the rate of growth of industrial sector of economy. The objective of growth is given preference over the objectives of the policy of India. The critics of the policy changes point the following difficulties which need serious attention.

(a) Social Justice:

Removal of MRTP limits of large monopoly houses, open invitation of MNCS, abolition of licensing for large number of industries and move of privatization of public sector enterprises are steps which ensure greater expansion of assets and income of monopoly houses in the country. This will add further to meet the needs of the upper sections of the society. The commodities of mass consumption which are consumed by the poor will be ignored. The complete neglect of objective of social justice will have serious long run social implications which a country cannot afford to ignore.

(b) Self Reliance :

The main thrust of the recent policy is to integrate the industrial sector of the country with the global economy. Increasingly this sector will produce for foreign market, and will invite more foreign firms and their capital and technology leading to increased dependence on foreign sources both for market as well as for capital and technology. This will underline our long cherished objective of self-reliance on one hand and add to India's already deteriorating balance of payment problem.

(c) Employment :

India is suffering from a serious unemployment problem. This is contributed by a strong demographic pressure on one hand and slow expanding employment on the other hand. In the decade of 1980's the large private sector in the country did not generate any additional employment. Whatever little additional employment has been created it has been by public sector enterprises and the small scale sector. Both these sectors will suffer due to recent policy changes and large private (both Indian and foreign) sector will gain in terms of resources and output. This will badly affect the process of creation of additional employment. Consequently the problem of unemployment will become more serious. The first victims of the unemployment will be women and children from the very poor families.

Thus the thrust of new industrial policy is to promote the rate of industrial development and ignore the other objectives of economic policy in the country. It may be able to attract foreign and domestic investment, but may not lead to higher employment.

2.3.8 SUGGESTED READINGS :

(i) Datt and Sundharam Indian Economy (latest edition) : Gaurav Datt and Ashwani Mahajan

(ii) S.K. Misra and V.K. Puri: Indian Economy (latest edition).

2.3.9 QUESTIONS FOR PARACTICE:

1 Critically examine the Industrial Policy 1991.

2. What were the main features of Industrial Policy 1948.

3. Write a brief note on Industrial Policy 1977.

LESSON NO. 2.4

ROLE AND PROBLEMS OF SMALL AND LARGE SCALE INDUSTRIES:

Structure of the Lesson

2.4.1 INTRODUCTION

Cottage industries and handicrafts constituted the major elements in the unity and culture of the people from the earliest beginning in the known history of India[1]. The unique products of the painstaking labourers of the cottage industries found their full bloom till the British came to the country. With the advent of the British power in India, Indian cottage industries were affected very badly. The demand for the products of these industries suffered through competition with cheap machine made products of the British industry.

After attaining independence in 1947, the Government of India realising the importance of these cottage industries as the chief means of livelihood for a large number of people, felt that further decay of cottage industries should be stopped and they should be given a legitimate place in the national economy by rendering every possible help to them to organise themselves in a manner capable of meeting the changing conditions. Accordingly, a conference was convened by the Government of India in 1947. At that conference, the importance of cottage and small scale industries was recognised. The importance of the cottage and small-scale industry was recognised through a resolution which reads as follows: "The conference recognises the importance of cottage and small-scale industry to the economy of the country and is of the view that while the size and nature of these industries make it unavoidable that their proper development must remain the responsibility of the provincial and State Government, the Central Government should

1. V.K. Rao, Cottage and Small-Scale Industries and Planned Economy. Sterling Publisher (P) Ltd., 1977, p. 17.
2. Ibid., pp. 17, 18.

investigate, how far and in what manner these industries can be coordinated and integrated with large scale industries."[2]

2.4.2 DEFINITION OF SMALL SCALE INDUSTRIES :

The report of the Fiscal Commission (1949-50) defines it as; "A cottage industry is one which is operated mainly or primarily with the help of the members of the family either as a whole-time or part-time occupation. A small-scale industry is one which is operated mainly with hired labour normally numbering 10 to 50 hands.[2] According to the Planning Commission, cottage industries are mainly rural in character and is generally associated with agriculture involving operations mostly by hand and are carried on in the home either as a whole-time or as part time occupation, primarily with the help of members of the family. Small-scale industries are located in urban centres and produce goods with partially or wholly mechanised equipment employing labour, small in size, having little capital resources and a small labour force. A small scale industrial unit is also defined as one which has 50 workers using power or 100 without using power and the investment of less than Rs. 5 lakhs.

Sometimes the term cottage industry is used synonymously for small-scale industry. But while the work in small-scale industries is carried on with hired labour and use of power, it is carried on in cottage industries with simple tools and without the use of power. Thus, there would be employment for a wage in small-scale industries and self-employment in cottage industries. Also cottage industries distinguish themselves from small-scale industries by being much smaller in size and more rural in location.

It may be observed that the definition of small-scale industry emphasises two criteria :

(i) Such industries should not have total investment of more than five lakhs rupees, and

(ii) They should not employ more than 50 persons when they use power, and 100 when they don't use the power.

Until recently, definition of small-scale industries included all industrial units with a capital investment of not more than Rs. 1 lakh irrespective of the number of persons employed. (For the purpose of this definition capital investment included land, buildings, machinery and equipment). In the case of ancillaries, which produced some spare parts for the finished products of the large-scale industries, the capital limit has been relaxed to Rs. 10 lakhs, since production of parts to accurate specification involves higher investments.

Various suggestions were made to revise this definition in the light of changing conditions. It is pointed out that the value of land and buildings as well as the cost of machinery have increased considerably. With improved technologies, the economic scale for operation would be more than the limit originally envisaged in the above definition. This matter was also examined by the National Small Industries Board, which has recommended that the limit of capital investment might be raised to Rs.

10 lakhs for all small units. The Government did not, however, accept the recommendation on the ground that it would cause further strain on the economy as small-scale units are eligible for assistance under various programmes such as financial assistance, space in Government Industrial Estates, preferential treatment in state purchase policy, subsidy for power supply rates, etc.

However, as a consequence of devaluation of Rupee in1966 which increased the cost of imported machines, the Government of India in June 1966 revised the definition of small-scale industry by raising the capital limit from Rs. 5 lakhs (including land and building) to Rs. 7.5 lakhs (excluding land and buildings).

The question of value to be the definition was discussed at great length at the 32nd meeting of the Small-Scale Industries Board held in November 1974. The unanimous view of the Board was that the increase in the prices of capital equipment has made the present ceiling in the definition unrealistic and that a revision of the ceiling was necessary to facilitate the modernisation of existing small industries and the growth of new viable units in sophisticated lines of production. The Board recommended that the ceiling in investment in plant and machinery should be raised from Rs. 7.5 lakhs to Rs. 10 lakhs and that of ancillary units from 10 lakhs to Rs. 15 lakhs. The revised definitions recommended by the Board were as under :

(i) Small-Scale Industries : "Undertakings having investment in fixed assets in plant and machinery not exceeding Rs. 10 lakhs."

(ii) Ancillary Industries : "Undertaking having investment in fixed assets in plant and machinery components, sub-assemblies, toolings or intermediates or (b) the rendering of service, and supplying or rendering or proposing to supply or render 50 percent of their production or the total services, as the case may be, to the other units for production of other articles; provided that no such undertaking shall be a subsidiary of, or owned or controlled by any other undertaking."

The Government of India accepted the revised definitions recommended by the Board and decided to give effect to the decision from 1st May, 1975.

Apart from the increase in the monetary ceiling the new definition for ancillaries involved, changes in the following respects; (a) a unit producing intermediates will now be recognised as ancillaries; (b) units providing servicing facilities, e.g. sand-blasting, machining, pressure cleaning etc. will be recognised as ancillaries; (c) the concept of 'parent' units will now include small-scale industries also; thus one small-scale industry can function as ancillary to another and (d) a unit to be recognised as ancillary should supply or propose to supply at least 50 percent of its production of one or more parent units.

The Industrial Policy Statement laid before the Parliament by the Union Industries Minister, on the 23rd December 1977, evolved another sector called 'tiny sector' within the small-scale sector. The units with investments in machinery and equipment up to Rs. one lakh and situated in towns with a population of less than 50,000 according to

1971 census figures and villages will be considered as tiny sector units.

The Industrial Policy Statements made by the Union Industries Minister in July, 1980, laid emphasis on the need for rapid growth of small-scale industry. In order to boost the development of small-scale industries, the Government decided :

(i) To increase the limit of investment in the case of the tiny units from Rs. 1 lakh to Rs. 2 lakhs.

(ii) To increase the limit of investment in the case of ancillaries from Rs. 15 lakhs to Rs. 25 lakhs.

The Union Finance Minister in the budget proposals for the year 1985-86 in March, 1985, proposed to raise the limit of investment in plant and machinery in the case of small-scale units from Rs. 20 lakhs to Rs. 35 lakhs and in respect of ancillaries from Rs. 25 lakhs to Rs. 45 lakhs.

The Government of India again revised the ceiling of investment in small-scale industries with effect from 2nd April, 1991. According to this revision, an industrial unit in which investment in fixed assets in plant machinery does not exceed Rs. 60 lakhs is regarded as small-scale undertaking. In the case of industrial units undertaking to export at 30% of the annual production by the end of the third year from the date of commencement of production, the ceiling of investment in plant and machinery shall be Rs. 75 lakhs. Further, in the case of ancillary industrial undertaking also, the ceiling of investment in plant and machinery has been fixed at Rs. 75 lakhs. The measure is expected to result in greater technological input and export thrust in the small-scale sector.

The Small and medium sector has been defined as micro, small an medium enterprises with effect from October 2, 2006, as a result of the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Further, separate investment limits were laid down for the manufacturing and service enterprises. The new definition is as follows:

Manufacturing Enterprises:

I. A micro enterprise is one where the investment in plant and machinery is not more than Rs 25 lakh.

II. A small enterprise is one where investment in plant and machinery is between Rs 25 Lakh and Rs.5 crores

III. A medium enterpise has investment limit of more than Rs 5 crore, but less than Rs. 10 crore.

Service Enterprises:

The investment is equipment is as follows:

I. Micro enterprise: Less than Rs. 10 Lakh

II. Small enterprise: more than Rs. 10 lakh but does not exceed Rs 2 crore.

III. Medium enterprise: more than Rs 2 crore but does not exceed Rs 5 crore.

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2. Govt. of India, Report of Industrial Commission, 1918, p. 1,9, Ibid, p 295.

2.4.3 PAST GLORY AND CAUSES FOR THE DECLINE

Cottage and small-scale industries had flourished India in early times. They were a principal source of income and employment and their products found a ready market abroad. The products were noted for their excellence and artistic skill. "At a time when Western Europe, the birthplace to the modern industrial system, was inhabited by uncivilised tribes, India was famous for the wealth of her rulers and for the high artistic skill of her craftsman[2]".

The Muslin of Dacca was famous ages ago, throughout the civilised world. Textile fabrics of inimitable fineness, tapestry glittering with gold-germs, rich embroideries and brocades, carpets known for the most exquisite harmony of colours and of most brilliant hue, furniture most elaborately carved, swords of curious forms and excellent temper are among the objects that prove the perfection of art of India. It is also said that Indian silk fabrics are said to have been sold in Rome in their equivalent weight in gold. Megasthenes, the Greek traveller, while praising the riches of the Indian rulers, said that "their robes were worked in gold and ornamented with precious stones and they wear flavoured garments made of the finest muslin".

The above quotations signify the prominence and past glory of the products of the cottage and small-scale industries. Even the East India Company started its activities by exporting the products of cottage industries of Indian and imported into this country gold and other products from Europe.

Though the decay of this industry had accelerated after the arrival of the British, the seeds had been shown in the Moghul period itself. The causes working towards this were many. Most important of them could be traced to :

1. **The Disappearance of the Native Courts :** Most of the productions of the cottage and small-scale industries were having patronage of the courts of Moghuls and it was the main source of demand. The silk manufacturers of Bengal were prosperous because of patronage of the courts of the Moghuls at Agra, Delhi and Lahore. The Nawabs of Oudh fostered a flourishing dyeing industry at Lucknow. With the disappearance of these native courts, the cottage and small-scale industries lost their patronage.
2. **The Establishment of an Alien Rule:** The influx of many foreign influences resulted in the decline in the demand for home-made goods. Some sections of the population were influenced by the new rulers and preferred imported machine made cheap goods. Hence, there was a clear change in the tastes and habits of the people which reduced the demand for the products of the cottage and small-scale industries.
3. **The competition from machine-made goods :** The Industrial Revolution brought about a radical change in the economic structure of England. It protected her new industries against the competition of Indian goods. British industries made rapid progress under protection. The protective tariffs excluded Indian goods from England.

The process of decline in the Indian handicrafts was hastened by the establishment of foreign rule and helped by the force of foreign influence, was completed by the competition of foreign machine-made goods. The machine made goods of the British industry were cheap when compared to the prices of the products of Indian cottage and small-scale industries. As such people were preferring the cheap products of the British industry, which resulted in the fall of demand for the Indian good.

4. Policy of the East India Company : Though East India Company was helping the Indian cottage and small-scale industries by purchasing their products and setting them in Britain in the initial stages of its establishment, later it changed its policy when the vested interests in England raised a cry of opposition and began to emphasise more on the export of raw materials rather than the products of Indian manufactures. Indian artisans were forced to work in the company's workshops for their livelihood, as they could not find sufficient demand for their home made goods.

5. Development of Railway : The revolution in transport in India due to spread of railways in the interior caused rapid construction of transport lines in the interior parts of the country. With the development of railways, the transport cost became cheapest and the imported foreign goods reached Indian markets, even to the remote parts of the country, with little difficulty and cost which intensified the forces of competition.

6. Failure of the artisans to adapt to the changing conditions : By and large the Indian artisans did not adapt the changing conditions and tastes. Many used the old tools and implements and failed to introduce the modern techniques of production as a result of which the cost of production of their product was very high and so were not in a position to compete with the machine made goods of the British industry.

2.4.4 SURVIVAL OF COTTAGE INDUSTRIES IN INDIA

In spite of the sagging factors enumerated above some of the cottage industries have shown remarkable utility and have survived the British rule in India.

There are a number of reasons for the survival of cottage and small-scale industries in India. Some of the major ones could be listed as follows :

1. The Indian artisan is by nature home-loving and conservative. The stay-at-home nature of the cottage workers, their illiteracy and poverty, lack of alternative means of employment and the social and religious institutions have forced him to stick to this age-old ancestral profession.
2. The Indian artisan disliked the discipline, hard work, and long hours of factory and feels more independent and at ease while amidst his family surroundings.
3. The rigid caste system stood in the way of changing their ancestral work irrespective of the fact that these industries ceased to be remunerative.
4. The proximity of the markets and the intimate knowledge of the customer needs gave an advantage to the cottage industries over the factory.

5. Some able and efficient cottage workers introduced new varieties of their articles in accordance with the changed times and tastes of the people.
6. Larger number of people, even today, like to have goods of high artistic skill produced by cottage industries. They are prepared to pay higher prices for durable and artistic good rather than purchase cheap machine-made goods. Industries catering for personal taste like tailoring, ivory carving, fancy cane-work of various types, embroidery, lacquered ware, gold and silver ware, etc., by their very nature fall under this category.
7. The joint family system and congenial home atmosphere provided facilities for the continuance of cottage industries.
8. There are a large number of services that have followed in the wake of large scale industries, which can be and are indeed carried on in small establishments in the vicinity of larger industries. Example : Repair of different types.
9. Indian agriculturists needed supplementary occupation to absorb their idle time and augment their low earnings. The cottage industries provided supplementary occupation for the idle agriculturists in the off season.
10. The Swadeshi Movement, started under the aegis of the Indian National Congress, provided stimulus to cottage industries, and infused Swadeshi spirit in the Indians to patronise them.
11. The establishment of various departments of small industries and various incentives provided by the government in the present century encouraged them to continue their work.

Apart from the beneficial changes brought about in cotton mill, the rice mill, and the flour mill, modern industrial enterprise has left India in substantial possession of its cottage industries. It must be assumed that cottage industries have survived because they have so far adapted to their environment. The artisans produce commodities which are in demand, and so far have not been displaced by the factory made goods; and they work under conditions which they prefer to factory life.

2.4.5 ROLE OF COTTAGE AND SMALL SCALE INDUSTRIES IN INDIA'S ECONOMY

This importance of cottage and small-scale, industries arises from the various advantages which they possess.

1. Employment :- Unemployment and underemployment are the prevailing economic diseases in most of the underdeveloped countries. As is well known, there are far too many people working on land in India and it is imperative that these should be drawn away from the land as has happened in most of the developed countries. It is now recognised that too many people working on the land contributed too little output. The problem of that too many people working on the land contributed too little output. The problem of unemployment is becoming more and more acute with each plan period.

The statistics indicate that the number of unemployed has been 5.3 million at the end of the First Plan, nine million at the end of Second Plan and 12 million at the end of the Third Plan[12]. The number of unemployed in 2009-2010 has been of the order of 28 million. The problem is further aggravated by rapidly increasing population. To provide employment to such a large number is a difficult problem. As cottage and small scale industries are labour intensive, more employment could be provided through their development. In underdeveloped countries with large reserves of surplus labour there is undoubtedly a case for paying special attention to labour intensive and light industries scattered and decentralised rather than concentrating on the capital intensive heavy industries. So it is often argued that one the most promising opportunities for employment lies in developing small industries. The healthy development of small-scale industries would be an effective approach to the pressing human welfare problem of unemployment and would moreover provide a strong base for stable growth of a large sector of the Indian economy.

More than 60 percent of the people in India are dependent on agriculture. In agriculture there is a seasonal unemployment. An agricultural labourer will find work for a period of six months and rest of the year he will be unemployed. Only small scale industries can solve the problem of this seasonal unemployment. The industry can be easily started and simply operated. They can be left off during the agricultural season. The industries will provide employment without adversely affecting the main occupation, namely, agriculture. The illiterate masses of rural areas can undertake work in off seasons in these industries.

In India today, the micro,small and medium industries provide employment roughly to 732 lakh people whereas large-scale industries provide employment to a far less number. As far as employment is concerned, they stand next only to agriculture. Hence there is great need for developing cottage and small-scale industries. While emphasising this, a former President has said : "An employment oriented industrial programme to bridge the widening gulf between economic growth and surplus manpower is urgently called for".

2. Capital :- In India capital is scarce. While capital is scare, the optimum use of available capital resources in terms of employment and productivity must, therefore, become one of the main goals of economic planning. Large industries require huge amount of capital. Small industries can be established with limited capital. If we invest the scarce capital in small-scale industries, the returns are quick and hence the generated returns may again form capital. Small rural industry can do without many of the urban services, and can thereby save for productive purposes capital expenditures that would otherwise be involved in the cost of urbanisation. Therefore, as small-scale industries need less capital, these yield quick returns with less risk Investment in these units is preferable in India, a country where capital is relatively scarce.

3. Inequalities in Income :- In India there is a wide disparity in wealth and incomes of the people. One of the important objects of planning is the reduction of inequalities. It is possible to reduce these inequalities to some extent, by providing opportunities to the have-nots to take up cottage or small-scale industries for their living. True to this expectation, Professor V.K.R.V. Rao has said that small-scale and cottage industries have this in their favour that, with proper safeguards they will result in a large and more widely distributed sharing of the productive function and therefore, a more equitable distribution of the produce of industry. Further, small-scale industries apart from playing dominant part in our economy, serve as a means of an equitable distribution of national wealth.

4. Regional Disparities :- For reasons partly economic and social and partly political, all regions in India are not equally developed. Some areas like Mumbai, Chennai and Kolkata attained a high degree of development, when compared to other parts of the country. So in some quarters it is felt that there is need for dispersal and decentralisation of industries. Cottage and small-scale industries play an important role in dispersal and cottage industries have a special claim for consideration in that they are the local investment through which the decentralisation of industrial production can be achieved.

5. Miscellaneous : Small-scale industries are also adaptable to a large extent to the changing conditions and habits of the people in large-scale industries. As the scope for personal touch between the workers and management is less, there is scope for industrial strife. But small-scale industries do not require higher outlays of foreign exchange.

All the above considerations form a strong base for the urgency to develop the cottage and small-scale industries. As Aldous Huxley put it: “The ownership of the means of small-scale production has none of the disastrous political, economic, psychological consequences of large-scale production, loss of independence, enslavement to an employer, insecurity of terms of employment.”

SELF CHECK EXERCISE

1. What is difference between Small Scale Industries and Cottage Industries?

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2.4.6 PROBLEMS :

In spirit of the many advantages they possess and their vital role in the national economy, cottage and small-scale industries face varieties of problems. Some of the major may be listed under the following heads :

1. Raw Material : It is estimated that the raw material alone accounts for nearly 70 percent of the ex-factory price of the products in the small-scale sector and most of these industries have to depend heavily on the open market for the supply of scarce raw-materials, where the prices are more than double the controlled prices. Large scale industries being more organised take away most of the raw-materials. The inequity in the struggle for existence of the small-scale units against the large units is too glaring owing to the Government's faulty distribution policy of raw-materials. All the other facilities and incentives, provided by the Government, would have only a marginal impact unless these are accompanied by a commensurate and regular supply of essential raw-materials. Though there have been many important recommendations of the various study teams recommendation did not get implemented and the few which were implemented were not carried out with the necessary dynamism with the result that the status quo continues in several fields. A number of public sector undertakings like the State Trading 'Corporation of India, Minerals and Metal Trading Corporation of India, Hindustan Steel Ltd., Indian Drug and Pharmaceuticals Ltd., Indian Copper, etc., virtually control the supply of the basic raw materials and intermediaries are being produced by the private sector undertakings. The availability of even these items to small sector is uncertain and the prices are exorbitant. To quote the recommendation of the Dutt Committee on Industrial Licensing, "Certain components or materials needed by small scale industries have to be produced on a large scale for technological and economic reasons. We suggest that proper measures should be instituted to ensure that the small-scale sector is able to obtain those on fair conditions relating to price to only those producers who are themselves not engaged in the business of producing the final product in competition with the small-scale producers. Preference might perhaps be given to co-operatives of small-producers in this respect. A provision should, therefore, be made that the existing and intending producers of raw materials in the large-scale sector should earmark and make available a portion of the raw material to the small-scale sector at reasonable prices. The village artisans and small industries may organise themselves into co-operative societies so that they can pool their resources to bargain with the supplier to raw-materials and to keep buffer stock of scarce materials. In the matter of requirement of imported raw-materials, import-licences should be literally granted to small industries. It is extremely urgent to establish stable, reliable and controllable channels of distribution to ensure that raw-materials are made available at fair prices and adequate quantities to small-scale industries.

2. Technique of Manufacture : In the cottage and small-scale industries, the technique of manufactures is poor and primitive. They use old methods and implements. The existing techniques in a number of cases have descended from the past and still retain their shape and size which they first had centuries ago. Thus, in many places the weaver's handloom is still of the old crude type while the oil ghani shows no change at all. The Ford Foundation team also came to a similar conclusion, when they stated : "More often than not age old methods are being used and seemingly have not been changed for generations. Thus, the production per capita is low resulting in low earnings and low wages.

Though the position in some small industries like engineering industries is somewhat better, when compared to the organised large scale, the instruments of production and management of small industries leave much to be desired. The Planning Commission has also admitted that the development of small industries has been hampered by the low level of technology. The village artisans lack in technical education. Even if they want to introduce improved tools and implements, due to lack of finance, they use primitive and outmoded tools and machines. It is also pointed out that more than the availability of credit, lack of technical consultancy services at all levels has been pointed out as the biggest obstacle in the development of small scale industry by a survey made by the Reserve Bank of India. Recognising the need, the Government set up the Small Industries Services Institutes. But technical assistance provided through these small laboratories have to be set up in large numbers. The plant surveys of small-scale unit by the Small Industries Services Institute and other bodies should be conducted so as to suggest significant improvement in productivity of these units. More research in optimum technology to suit the stage of development of the industry is to be undertaken instead of indiscriminate application of techniques.

3. Finance :- The biggest problem for cottage and small-scale industries is that of obtaining necessary finance. The artisan requires finance for purchasing raw-materials for stocking the same and for holding his finished articles. It is difficult for him to obtain the money that he requires from banks or even from cooperative credit societies, for his assets are negligible; and so, he cannot furnish sufficient security. This was recognised by the Industrial Planning Team, 1955. In their report they stated that : "In most of the workshops visited, real finance did not seem to exist at all. There was a lack of capital as well as of credit. The small factories in traditional Indian branches such as the brass industry in Moradabad, the lock industry in Aligarh or the shoe industry in Agra, to a greater extent, seemed to rely on dealers when buying raw-materials as well as when marketing their products.

Many advantages of large-scale production are absent in the case of small-scale industries and as such they cannot cope with the unequal costs. The problem of finance is more acute in the case of small-scale industries which are comparatively capital intensive like engineering units. Government's assistance in the field of finance is inadequate. Until recently, the commercial banks were not in favour of financing the small-scale industry, but after the nationalisation of the major commercial banks in 1969, there is a clear shift in their attitude and they are coming forward to finance the small-scale industry. Co-operative credit societies can be of great services in advancing short-term loans to cottage and small-scale industries. They know the artisans better and the procedures for getting loans are also simple.

Small-scale units doing jobs or supplying goods to Government department suffer due to the delays in payment of the bills for months and years and funds involved in those transactions remain blocked for long without their being ploughed back into the industry in time. In contrast with this situation, any application to the Government for the supply of raw-materials is required to be accompanied by some advance payment. It may take a fairly long time for the Government to supply the materials or for the units to be told that the particular material is not available.

4. Marketing :- Lack of proper marketing channels is another difficulty. The products of the cottage industries have to be sold mainly in the local market. This considerably limits the scope for remunerative prices. The artisans are not aware of the market information and their products are not in accordance with the changes in fashions of the customers of many cases.

Though small-scale industries are better placed in this respect when compared to cottage industries, they are faced with competition from large-scale industries. To overcome this difficulty, an efficient marketing system is essential. The Government could come forward to provide a fair market for the products of small-scale industry by showing discrimination in its purchasing policy. The Ford Foundation team recommended (a) Made-in-India-goods must be good and of uniform quality; (b) Products must be geared to meet consumer's need and to be so designed that they awaken latent need also; and (c) Aggressive efforts must be made to reach stimulate the huge potential market of the villages.

5. Heavy Taxation :- Cottage and small-scale industries have also to bear a heavy burden of taxation. Their raw materials are subject to octroi duties and their finished products to sales tax, when in all fairness, they should be exempt from sales tax on all purchases whether capital or otherwise. Concessions to all those who plough back their earnings, tax holidays, revision of excise duties, revision of the rules pertaining to development rebate are some of the areas where small industries could be helped.

6. Filling of Cumbersome Statistical Returns :- Apart from the normal work that production in the unit involves, the small-scale industrialists have to comply with a spate of dictates from municipal, State and Central Government departments to submit a number of returns. Employment of additional staff becomes a burden on the small units, resulting in higher costs.

2.4.7 PROMOTIONAL MEASURES

Having declared faith in the efficiency of small industries as a tool for rapid progress, Government of India introduced a number of programmes for developing establishment of various All-India Boards :

The Government had established various Boards or Organisations with large powers of initiative and each of them with its own sphere of work.

1. The Central Silk Board : The Central Silk Board was set up in 1949 as a statutory body. It was reconstituted in 1952. The Board is entrusted with the development of sericulture and the silk industry acts as a co-ordinating agency for the industry as a whole. Further, it provides technical and financial assistance to the states.

The Board has established foreign race seed stations and training, production centres and provisions of research facilities.

It also includes schemes for assisting the marketing and development of non-mulberry silk. Since 1955, the important schemes taken up were: The establishment of sericulture research station in Mysore, installation of a cold storage plant at Srinagar, expansion of the Foreign Race Seed Station at Kalimpong, establishment of Muga Seed Farm in Assam and Central Silk-Worm Rearing Station at Coonor. Imports of raw-silk are channelised through the Central Silk-Board with a view to bring greater stability for the raw silk market. This helps to ensure steady and fair remuneration for silk-worm reeders and cocoon reelers.

2. The All-India Handloom Board :- The Board was set up in 1952 for dealing with the various problems of development of handloom industries. It renders assistance in organising cooperatives in handloom textile industry, establishing sales emporia and in providing grants and loans. It has set up a central marketing organisation which looks after the sales of handloom cloth in the home market as well as in the foreign markets. The All-India Institute of Handloom Technology established at Salem started functioning from September 1960. It conducts a diploma course in handloom technology. Technical advice is given for design, quality improvement, standardisation and equipment modification.

3. The All India Handicrafts Board :- The Board was constituted in 1952 with the object of improving and developing production of handicrafts and promoting the sales at home and abroad, of co-ordinating the activities of the various statements relating to cottage industries. This Board has helped research in the new designs and patterns and in improved processes. It also organised a survey of marketing of handicrafts. The Handicrafts Board is running 19 pilot centres out of which four are for training, three for training cum production, three for research and experimentation, five for revival of traditional crafts and four for experimental production. Financial assistance on an increasing scale was given to the State Governments for the development of local traditional handicrafts. Further, assistance was extended to various institutions for imparting training in handicrafts. These include the Handicrafts, Vocational Training College, Dharwar, etc. The export promotion section of the Board gave vital information to exporters about crafts which may be exported with benefit to other countries.

4. The Khadi and Village Industries Board :- It was started in 1953 to prepare and organise programme for the development of Khadi and Village Industries. The functions of the Board were subsequently taken over by the Khadi and Village Industries Commission with effect from 1st April, 1957. The Khadi and Village Industries Commission, in addition to Khadi, had taken over the work of the development of 22 selected village industries like soap making, oil, rice-pounding, match, hand-made paper, bee-keeping, leather, flour chakkies, village potteries etc. The commission is encouraging the use of power for purposes like pulp making for the manufacture of paper, crushing non-edible oilseeds, gur and khandsari and the manufacture of sugar from palm. The Commission improved processes and develops new machinery at its technical institute at Wardha. The innovations are carried to the village through an information service division, a demonstration division and a section for the training of village industry extension workers. In addition, the Commission shares responsibility with the Small-Scale Industries Board for the training of the small industry extension workers for community development.

5. The Coir Board :- It was set up by the Government of India in 1954 under the Coir Industries Act 1953 for developing the coir industry. The Board is concerned with different problems of production, marketing and research relating to coir fiber years and finished products. The Coir Research Institute near Alleppey started functioning from April 1959. The Coir Board had undertaken various schemes for developing the industry, such as introduction of small machines for improving the quality of coir yarn, providing better facilities for dyeing and processing, development of fibre and ropemaking, utilisation of coconut pith and waste etc. The Board promoted the establishment of co-operative societies for production and marketing as the main direction of work for the rehabilitant of the coir industry. In Kerala, which is the principal coir producing State in the country, 120 primary coir co-operative societies and 22 'thondu vyavasaya' cooperative societies were formed.

6. Small Scale Industries Board :- The Central Government set up a Small-Scale Industries Board in 1954 to frame and implement programmes for the development of small scale industries. In November 1954, the Government of India appointed a development Commissioner for small-scale industries who will be also the ex-office chairman of the Small Scale Industries Board. Under the aegis of this Board, four Regional Small Industries Service Institute, one each at Calcutta, Mumbai, Chennai and Faridabad have been set up to provide technical service, advice and assistance in marketing and promotion patters.

7. Directorate of Cottage and Small Scale Industries :- Almost all the State Governments have constituted separate directories of cottage and small-scale industries whose activities are to be coordinated by the Development Commissioner for small-scale industries. The role played by the State Directorates of Industries is of great importance. The successful implementation of development of small-scale industries programme depends, to a considerable extent, on the initiative, leadership and resourcefulness of the Directorates of Industries. The pattern of organisation of the State Directorates of Industries varies from state to state, depending upon the actual requirements. The State Directorates of Industries are organised on a four tier system i.e. (i) headquarters; (ii) the Zone; (iii) the District; and (iv) block levels. The work entrusted to the Directorates may be divided into two categories : (i) Promotional ; and (ii) Regulatory.

The promotional function to new entrepreneurs include : survey of development potentialities of an area; preparation of schemes; publicity; issue to technical literature; technical assistance, etc. In majority of states, the Directorates have set up common facility centres and industrial research laboratories for the benefit of small industries. The regulatory measures include : registration of small scale units; implementation of quality making and marketing schemes; construction of industrial estates etc. In fact these Directorates of Industries are always looked upon by the industrialists in their states as their guide for solving all their difficulties and for meeting their requirements.

8. For improving credit to small-scale industries: The composite loan scheme limit has been enhanced.With effect from Sept. 2005, ceiling on loans has been raised to Rs 1 crore and the rate of subsidy from 12 percent to 15 percent. RBI has also formulated a scheme of small enterprises Financial Centres to encourage banks to establish mechanisms for better coordination between their branches and branches of SIDBI for more efficient credit delivery.

To facilitate technology upgradation and enchance competitiveness, the investment limit in plant and machinery is to be raised from Rs 1 crore to Rs 5 crore in respect of 69 items reserved for manufacture in the small scale sector.

So sum up, all policy initiatives are directed towards enchancing the overall contribution of the sector to the national economy.

2.4.8 ROLE OF LARGE SCALE INDUSTRIES :

Large scale industries have an important role to play in the economic development of a country. These industries not only provide employment and thereby lead to increase in income and standard of living, but also lead to capital formation, development of infrastructural facilities, and a favourable balance of payments.

Let us study these beneficial effects of large scale industries one by one :

(i) Increase in capital formation : With development of large scale industries, people get employment as a result of which their incomes increase. With this, savings increase, and opportunities for investment also increase. With increase in investment the rate of capital formation also increases.

(ii) Increase in national income : With **industrilisation**, there is greater utilisation of natural resources, as a result of which production increases. Large industries provide greater opportunities for research and development, so productivity also increases. Thus there is an increase in national income.

(iii) Development of agriculture and reduced pressure of population on land : With development of large industries, especially agro-based industries, there is greater demand for agricultural products like sugarcane, oilseeds, jute, cotton etc. which encourages production in agriculture. Also, agriculture gets an unpetus due to development of agricultural machinery like, tractors, agricultural machinery etc. Also due to industrialisation, there are increased employment opportunities outside agriculture which reduces pressure of population on land.

(iv) Economic stability : An economy that depends more on agriculture is highly unstable, due to the fact that agriculture is greatly dependent on nature. Industrialisation provides stability to the economy because here production is not affected by the vagaries of nature.

(v) Export promotion and import substitution: With industrialisation, there is increase in production. As a result the country can start exporting a greater quantity of goods, and also reduce imports of goods. This corrects the balance of payments and make the country self-dependent.

(vi) Development of human capital : Industrialisation leads to increased employment and incomes, better standard of living, and better facilities. This leads to increased productivity and an improvement in the human capital. Their way of thinking also changes, and they give up on negative ideas like fatalism etc.

Thus, large scale industries have a positive impact on the development of a country.

2.4.9 SUGGESTED READINGS :

(i) Datt and Sundharam Indian Economy (latest edition) : Gaurav Datt and Ashwani Mahajan

(ii) S.K. Misra and V.K. Puri: Indian Economy (latest edition).

2.4.10 QUESTIONS FOR PRACTICE:

1 What problems are faced by small scale industries?

2. Define a small scale industry.What role do they play in industrial development.

3. Write a brief note on role of large scale Industres.

LESSON NO. 2.5

ROLE OF PUBLIC AND PRIVATE SECTOR IN INDIA IN INDUSTRIAL DEVELOPMENT OF INDIA

Structure of the Lesson

2.5.1 Introduction
2.5.2 Growth of Public Sector in India
2.5.3 Working of Public Sector
2.5.4 Problem of Public Sector
2.5.5 New Policy Directions on Public Sector
2.5.6 The Private Sector in India
2.5.7 Role of Private Sector in India
2.5.8 Limitations of the Private Sector
2.5.9 Problems and Prospects of the Private Sector
2.5.10 Suggested Readings
2.5.11 Questions for Practice

2.5.1 INTRODUCTION

The entrepreneurial activity in India is as old as the organised economic activity itself. The entire period of British rule and even before it, we had traditions of economic growth, entrepreneurship and industrialisation. There is a wide-spread historical view that prior to nineteenth century, even India was a great manufacturing country. The beginning of modern organised industries can be traced back to the middle of the nineteenth century. During the decade 1859-60, cotton mill industry, predominantly with indigenous capital and enterprise and jute industry, with foreign capital and enterprise, were set up. Alongwith these two industries, coal mining also progressed fairly till the First World War. The development of railways in the beginning of the present century, also led to the establishment of some small engineering industries like General Electrical Engineering, Railway workshop etc. A notable event of the period was the establishment of the first steel plant in 1931 by Jamshedji Tata. Chemicals too made a beginning near about the beginning of the First World War. During the war such industries as leather and soap manufacturing etc., were also established.

Most of the industries in this period were established with the help of foreign capital under the system of managing agencies. The managing house became the suppliers of capital, know how and management, and constituted a form of business organisation. Most of them adapted to the country with practically negligible banking facilities, an apathetic government and lack of institutions for the supply of know how in modern industry. It was in the beginning of the wake of Swadeshi movement. The war gave further fillip to such Indian industries because of increased demands for their products. The Marwaris, Gujaratis, Parsis and Banias started flourishing during this period.

During the span of about two decades between the First and the Second War, there was a little acceleration in the industrialization of the country. Although the existing industries earned enormous profits during the First War, and the capital was searching for outlets in new ventures, the fiscal policy of the government did not allow much expansion. The policy of discrimination did not allow the free play of market forces. As a result the development of industries, though faster than before, continued to be characterized with unsatisfactory features. The industrial structure remained weak and lopsided.

During the Second World War, Indian industries received further boost. By this time, India had also entered the world market. Moreover, the chief exporters of India like Germany, Japan and England were busy in producing war material for their own uses. These circumstances gave another stride to the industry in India. As a result besides the growth of old industries, new industries producing rail wagons, diesel engines, pump sets, ships, sewing machines, tyres, machines tools etc. came on the scene. But this period also brought some difficulties. The most important difficulty was the shortage of capital stock. The old machines had worn out because of excessive use during war. Some of the industries during the year became useless after the war. But the price and profit situations were so favourable that business mortality almost ended. Black marketing, hoarding high profit expectations etc. are some of the evils which cropped up during this period.

The Partition of the country in 1947 affected the industries adversely. The country suffered on account of shortage of raw materials especially jute and cotton. Most of the cotton and jute producing areas were transferred to Pakistan. The capital market was also eroded. Millions of people, in the process of migration lost their wealth. The burden of refugee rehabilitation deprived the country of considerable resources which could be spent on the promotion of industries.

On the eve of independence, the industrial sector was very small as compared to the agricultural sector. According to conventional estimates (at 1948-1949 prices) out of the total national output of Rs. 8,850 crores in 1951, industry contributed output worth Rs. 1480 crores only. As against this agriculture contributed output worth Rs. 4,34 crores. of the total active population of more than ten crores in 1951, manufacturing employed only nine percent. As against this, agriculture gave employment of 70.6 percent. Even the pattern of industries was uneven. Consumer goods industries had a predominant place in the total industrial production.[1]

Thus we find that, though modern enterprise in India had taken roots during the last half of the 19th century, there was slow progress. India was industrially backward. The rate of growth of modern industry in India stepped up steadily in the years after 1900. From a century of industrialization (1850-1950), India emerged with a disappointing limited industrial sector. **Welfred Malenbaum** has rightly observed that while other countries were undergoing steady industrial expansion and diversification from the beginning of modern industry in the early and mid nineteenth century India had a beginning not until a century later, with the coming of independence.

To organize the resource of the country, including labour in an optimum manner, is the biggest need of industrialization of a country. The need for it grows continuously with the growth of industrialization. In a mixed economy like that of India the government has rightly undertaken the task of participation in industrial development in a big way. There are industrial units owned wholly or partly by the government. There are industrial units in the cooperative and joint sector also, and these units are wholly owned by the private entrepreneurs. Each category of industrial unit needs management skill suited to it and has its special problems.

In the private sector, the management is interested in the maximization of profits. All management skills in the private sector are used to achieve this single objective. In the private sector, management requirements are totally different. Profit maximization is not the sole or the major objective of public enterprises. Certain other objectives, like employment generation, may also have to be achieved. But it does not mean that the criterion of efficiency is not applied to the public sector. Irrespective of the objectives, resources have to be organized most efficiently, to minimize the costs. In the Joint Sector the management is required to mix the objectives (of profit maximization and providing employment) of private sector and public sector respectively, and fulfilling other social objectives.

The private sector these days has emerged from the managing agency system which combines in such important functions as sponsoring of new concerns, management in the development of industries in India but it has certain defects because of which it was abolished in April 1970. The requirements of a sound private enterprise, however, are the same which were incorporated in the managing agency system. A sound private enterprise should have decentralized administration, encourage new entrepreneurship, keep the finance and management separate and should meet the management requirements of small industries.

The public sector, on the other hand, comprises of departmental enterprises like railways, post and telegraph, transport and other public utilities, department undertakings like Integral Coach Factory, Chittranjan Locomotive Works etc. and industrial undertakings like Indian Drugs and Pharmaceuticals Ltd. The fundamental objective of public sector is efficiency in the field of production, cost and social ends. In running these enterprises the question that arises is how to steer clear of the requirements of the market and compulsions implied in the government surveillance. Public responsibility is a unique feature of public sector. Due to this check, this sector works freely in its day-to-day decision making regarding inputs, outputs, rates, stock and personnel affairs.

2.5.2 GROWTH OF PUBLIC SECTOR IN INDIA

Till 1947, there was virtually no public sector in the Indian economy. The only instances worth mentioning were Port Trusts, The Ordnance and Aircrafts Factories and a few State-managed undertakings like the salt and quinine factories etc. The idea that economic development should be promoted by the State by actually managing industrial concerns did not take root in India before 1947, even though the concepts of planning were much discussed by Congress Government in the Indian provinces as far back as 1937.

But now, public sector is playing a vital role in India, as in many countries of the world. In socialist system there is only the public sector which owns all the means of production. In capitalist countries also, public sector has become important, although it is subservient to the market mechanism. But in the developing countries, where the task of development is too big and cannot be entrusted to any one section of the society, public sector has become very important. In such economies the public sector gives a path of development to the private sector, provides the infrastructure, mobilizes resources and brings about social change.

The public sector was given a concrete shape in 1948, for the first time, when the government announced its industrial policy. It was laid down that the manufacture of arms, management of railway transport should be the exclusive monopoly of the Central Government. In case of coal, iron and steel, aircrafts, ship buildings, telegraphs, telephone, wireless apparatus and mineral oils, all new concerns were to be started by state while existing undertakings in these fields were to be permitted to continue at least for ten years. Under this policy and the subsequent policies, the growth of public sector continued although with this sector, emphasis was shifted from time to time depending on the need of the economy.

For example, the public sector, cast in the frame work of Industrial Policy Resolution, 1948, aimed at greater production and equitable distribution. This had to be so because of shortages resulting in as an aftermath of the Second War and the partition of the country. The emphasis shifted with the 1956 Industrial Policy to heavy and the basic industries as part of the Mahalnobis strategy of the country's development. Such consideration as the need to provide a secure and strong base for the country, elimination of the drain on the country's resources in the form of remitted profits etc. to the foreign countries and to make good quickly the past neglect in such spheres as electric power, atomic energy, machine tools etc. weighed with the government in assigning specific development role to the public sector.

Having clinched the issues of objective of public sector in India, it has been growing continuously. Now, besides the industries producing commodities both capital and consumer, the public sector has covered some important services in financing and trading also. With the establishment of term lending institutions and nationalisation of 20 banks, the government controls a significant proportion of financial resources. With these agencies dealing with services, together with the control of significant products, the public sector has now achieved a very significant place in the economy. The following table reveals the growth of investment in the public sector.

Table 1
Growth of Investment in
Public Sector Enterprises (Central Govt.)

As on March 31	Total Investment (Rs. Crores)	No. of Enterprises
1951	29	5
1961	950	47
1980	18150	179
1990	99330	233
2001	274198	234
2010	579920	217
2014	992971	234
2016-17		331

The growth of public sector in India has been commendable. The public sector undertaking fared badly in 1970-1980 as a result of several constraints like non-availability of power, steel and non-ferrous metals, inadequate transport and port facilities, labour relations etc. The output of several public sector units improved in 1980-91 particularly the production of minerals and metals, coal, medium and light engineering and consumer goods. Some public sector enterprises like B.H.E.L., have emerged as major exporters also.

2.5.3 WORKING OF PUBLIC SECTOR

During a short history of about 50 years public sector in India has been able to implement the objectives of the country. It has made notable contributions to the various fields of Indian Economy. As has been stated earlier a clear and challenging role was assigned to the public sector only in 1956, when it was perceived as it stands today has achieved these objectives fully. Some of the achievements of public sector in India are :

1. It has served to create and develop basic and key industries such as coal, steel, electricity, fertilizers and machinery.
2. It has provided infrastructural facilities like transport, banking, ports etc.
3. The investments in public sector have encompassed almost all the sectors of the economy like communication, transport, irrigation, trade, finance, tourism etc.
4. The public sector has a full fledged monopoly in some specified areas of production.

5. It has maintained a reasonable return over investment.
6. It has created employment for millions of people.

Taken together, the pubic sector has fulfilled to a large extent the aims laid down in the Industrial Policy Resolution of 1956. It is spearheading and helping the economy to develop fast. In concrete terms, contributions of the public sector to economic development of the country are evident from the public sector investments during the plans. Thus it has helped the capital formation of the country. These investments also create a favourable climate for further economic development of the country.

Table No.2

	PUBLIC SECTOR INVESTMENT		
Plans	**Public Sector (Crores)**	**Total Investment (Crores)**	**Percentage**
First Plan	1,960	3,360	46.4
Second Plan	3,731	6,831	54.6
Third Plan	7,180	11,280	63.7
Fourth Plan	13,655	22,637	60.3
Firth Plan	36,703	63,751	57.6
Sixth Plan	84,000	1,58,210	52.9
Seventh Plan	1,54,213	3,22,366	47.8
Eighth Plan	3,61,000	7,98,000	45.3
Ninth Plan	7,26,000	21,71,000	33.4
2010-11	6,66,848	-	-
2016 (As on 31.3.16)	11,61,019	-	-
2017 (As on 31.3.17)	12,50,373	-	-

Out of these investments in public sector a large proportion has been assigned to the field of industrial development. The share of the public sector in the total investment in organised industry and minerals has also been quite large.

The public sector has also performed well in the field of exports promotion and import substitution. Exports of metal ores, engineering goods etc. have earned a good amount of foreign exchange. In the sphere of substitution, public sector industries like iron and steel, chemical and fertilizer etc. have saved a lot of foreign exchange.

Besides these achievements, the public sector has created a large amount of employment. If we take all the public sector undertakings, the total employment generated in the sector till 1980 was about 20 million. It has also served the nation in providing shelter to the sick units and channelising the finance through financial institutions.

2.5.4 PROBLEMS OF PUBLIC SECTOR

With the growing size of the public sector in India it is contemplated to generate the bulk of new industrial employment and provide economic surpluses out of which further additional growth would be financed. If these enterprises are to succeed speedy decisions and willingness to assume responsibility is a must.

The problems of public sector in India are mainly concerning their management. The essence of public sector enterprises is in the evolution of suitable forms of control, directions and management and above all, building-up of sound traditions, appropriate method and new devices in the sphere of activity relatively untried by the state and different in aspect from ordinary government administration. Some of problems being faced by public sector are given below:

1. Forms of Organization in Public Sector

In India, we see three types of organizations in the public sector : departments undertaking, public limited companies and statutory corporation. Of the three forms, departmental undertakings are the least suited for commercial and industrial enterprises as these are the least autonomous.

The second form is quite popular in India. The Planning Commission suggested the corporation form of organization of public enterprises. While the company form ensures a good deal of flexibility to the working of the enterprise, the corporation form will be more suitable for public utilities and service. This form of organization brings another important problem to the foreground i.e. the controversy regarding autonomy and control. Autonomy for the enterprises implies freedom to the management in the day to day working of enterprise, whereas control means the right of the public authority (parliament in our case) to account for the working of the enterprises. The Parliament, under its constitutional powers, formulates, and implements general principles and policies with regard to the affairs of the enterprises.

With regard to the achievement of the twin objectives of control and autonomy the situation has remained confusing till recently. The situation improved since 1964 when a Parliament Committee on Public Enterprises was constituted to examine the working of an enterprise from the angle of sound business principles. Still, many enterprises are faced the problem of unavoidable clash between control and autonomy. This problem could perhaps be solved by taking certain measures like defining properly the spheres of Parliament's control, establishing health conventions and adopting a policy of task management. This will eliminate unnecessary and avoidable conflicts between the government and the management of public sector.

2. Efficiency

Efficiency of a commercial establishment can be judged in terms of its profitability. The public sector is expected to make profits and prove efficient because in this sector the initial cost is borne by the government. Secondly, the finances which they get through the government are cheaper. But in India, public sector has lagged behind this expectation. According to one study by National Council of Applied Economic Research, done in 1974, the public sector could provide internal finance for capital formation to the tune of only 28 percent as against 60 percent by the private sector. Till recently many public enterprises incurred losses. Sometimes, the performance of the public sector is defended on the plea that these enterprises are capital intensive, involve heavy initial cost and have large capacity which remains unfulfilled. Furthermore, it is argued that enterprises have certain social objectives and generally keep the prices of their products low.

These grounds are valid but they cannot exonerate the public sector fully. It is a fact that the management of the enterprises has to be toned up. There is a need for professionalisation. A greater utilization of existing capacity and reduction in costs have to be resorted to.

3. Pricing

Another very important problem of pubic sector is its pricing policy. The private sector, while fixing the prices, takes into account the price prevailing in the market for the product and the cost of production into account. But public sector, bound by the objective of social justice cannot believe in profit maximization. There are some products which are being sold at throw away prices irrespective of their cost of production. There cannot be any uniform base for fixing the prices in the public sector. To choose a right base for price fixation has been a problem in India.

In fixing the prices of goods, a rational view should be taken up and the long term interest of public enterprises should be kept in mind. Very low prices may hamper the expansion programme of future, whereas very high prices may erode the market base social objective.

Thus quite a lot remains to be done to solve the problems of public sector in India so that it can work smoothly and provide the necessary infrastructure for the growth of economy along with justifying the heavy investment made in this sector.

2.5.5 NEW POLICY DIRECTIONS ON PUBLIC SECTOR

The Industrial Policy Resolution of 1956 assigned a strategic role to the public sector. As a result, massive investments were made to build and expand the public sector. However, due to the reasons mentioned above, the overall general performance of the public sector has been poor. To improve its performance, the Govt. of India, in its Industrial Policy of 1991, took the following decisions :

(i) Whereas some reservation for the public sector is being retained, there would be no bar for area of exclusivity to be opened up to the private sector selectively. The public sector will also be allowed entry in areas not reserved for it.

(ii) Chronically sick public enterprises will be referred to BIFR (Board for Industrial and Financial Reconstruction).

(iii) To raise resources, a part of government's share-holding in the pubic sector would be offered to mutual funds, financial institutions, general public and workers.

(iv) Boards of public sector companies would be made more professional and given greater powers.

(v) Greater thrust would be laid on improvement through the Memoranda of Understanding (MOU) system through which managements would be granted greater autonomy and will be held accountable.

In pursuance of the above policy, the government brought out a monograph on the performance of the Central Public Sector Enterprises and decide to refer the chronically sick enterprises to the BIFR. It has also been opening out certain important and strategic areas to the private sector.

The Govt. has also been making an effort to shed the load of excess workers in the public sector by offering a package for Voluntary Retirement Scheme (VRS).

The most important step has been the programme of disinvestments of public sector enterprises in order to raise resources. Upto March 1999, the Committee on Disinvestment of shares (1992), submitted 9 reports to the Govt. covering 45 public sector undertaking (PSUs). Varying degrees of disinvestment ranging between 1 to 49 percent of shareholdings have been undertaken in 38 PSUs. Disinvestment in 2011-12 was Rs. 1.145 crores.

The Govt. has entered into Memoranda of Understanding (MOU) with a number of PSUs to bring about a balance between autonomy and accountability. For the first time, an attempt has been made to free them from the administrative control of Ministers and permit them to operate autonomously in a competitive environment. So far, 108 public sector enterprises had signed MOU's.

Thus, public sector these days does not occupy a position superior to the private sector.

2.5.6 THE PRIVATE SECTOR IN INDIA

The distinction between the public sector and the private sector and, in recent years the joint sector also, has become increasingly significant since the passing of the Industrial Policy Resolution in 1948 and 1956, making India a mixed economy. These industrial policy resolutions clearly demarcated the scope and role of the public and private sectors : (a) the fields exclusively reserved with the public sector (b) fields in which public and private sectors can continue to exist but future development would be in the public alone, and (c) fields exclusively reserved for the private sector.

In a broad way, the public sector is entrusted with the responsibility of developing heavy and basic industries, social and economic infrastructure while the private sector is broadly given the right to develop consumer goods industries. While banks and financial institutions, railways, civil aviation, power generation and distribution, etc. are in the public sector, the private sector in India embraces the whole of agriculture and allied activities, plantations, mining, internal trade, both retail and wholesale, much of the international trade, road freight traffic, etc. However, as the most organised of the private sector is the corporate industrial sector, the private sector has indeed come to mean, in popular parlance, the corporate industries sector.

Shyama Prasad Mukherji and Jawaharlal Nehru, the two architects of the Industrial Policy Resolutions of 1948 and 1956 clearly made the above distinction between the public and private sectors on the assumption that:

(a) a large-scale investment in the public sector was necessary to initiate and accelerate the process of economic development;

(b) a high level of public investment in infrastructure and basic and key industries was a precondition for development and expansion of the private sector; and

(c) the growth and profitability of many private enterprises would depend upon public activity and on the expansion in public sector investment.

The protagonists of the mixed economy structure for India generally held that private movement was more interested in quick-yielding industries and in large profits in as short a period as possible. Naturally the private sector was considered most suitable to consumer goods industries which involve little risk, and short gestation periods. On the other hand, public investment being autonomous, was considered most suitable to low-profit yielding, long gestation and heavy investment sectors. The infrastructure industries were thus reserved for the public sector.

Growth of the private sector vis-a-vis public sector

At the time of independence, almost the entire products and trade were in the hands of the public sector and the public sector was insignificant being confined to irrigation, power, railways, ports, posts and telegraphs and ordinance establishments. After 1951, the public sector was expanded rapidly both by the Central and the States and it has become significant in many fields in terms of investment, total turnover, capital formation, contribution to export effort, import substitution, etc. Even then, the private sector has continued to be dominant in all spheres, accounting for 80 percent of the gross domestic product and over 90 percent of the total employment.

Table 3

GROWTH OF THE PRIVATE CORPORATE SECTOR IN INDIA

	1957	1971	2000	31st Jan 2018
No. of companies	29,357	30,322	542308	1072275
a) Government	74	314	1257	528
b) Non-government	29,283	30,008	541051	107729

As the private sector is generally equated with the private corporate sector in a narrow sense, it is convenient and useful to study the growth of the private corporate sector and compare it with the growth of the public sector.

Table 3 brings out clearly the growth of the corporate sector in India . The public sector companies occupy an important place in terms of the amount of paid up capital, even though the number of government companies is small. Even in terms of number of companies the rate of growth of public sector companies has been faster than that of the private sector companies. Between 1957 and Jan 2018, the number of government companies had decreased from 74 to 1,240. On the other hand, during the same period, the number of non-government companies had increased from 29,283 to 1071729.

That paid-up capital of government companies increased from 70 crores in 1957 to Rs. 88,966 crores by March 1999. During the same period, the paid-up capital of private sector companies increased from Rs. 1,010 crores to Rs. 1,40,267 crores. The share of Government companies in total paid-up capital of all companies rose from 6.8% in 1957 to 38.8 in 1999. This indicated the growing importance of government companies.

The statewise distribution of private sector companies revealed that, Maharashtra topped the list followed by West Bengal, Tamil Nadhu, Gujarat, Karnataka and Andhra Pradesh. The largest industrial activity among the private sector corporate units in terms of paid-up capital was processing and manufacture of metal and metal products followed by chemicals, textiles, leather products, manufacture of foodstuffs, other processing and manufacture, commerce, agriculture and allied industries, construction and utilities etc.

2.5.7 ROLE OF PRIVATE SECTOR IN INDIA

In western countries and in Japan, private enterprises were responsible for rapid economic development. But communist countries relied solely on public enterprises as initiators and prime movers behind rapid industrialisation. India attempted to combine the advantages of both capitalist and socialist lines of development and in the Industrial Policy Resolutions of 1948 and 1956, the Government allotted a specific role to the private sector in the field of industries. The Government has appreciated the dynamism of the profit motivation and personal initiative of the private sector and how the private sector can introduce new processes, new varieties, new goods etc. and how it can revolutionise the sector to develop and expand in certain spheres of the economy.

Private sector: General economic development

Even before Independence, the private sector was responsible for the setting up and expansion of such industries as cotton and jute textiles, sugar, paper, edible oil, etc. From the beginning of this century, the Tatas were in the forefront of the iron steel industry. Protection given by the Government during the 1930's and the Second World War (1939-45) stimulated industrial development. But the greatest stimulant was given to industrialisation by the national government after independence. The private sector was given sufficient scope to produce intermediate goods and machines also, and as a consequence a whole range of industries producing chemicals, paints, plastics, machine tools, ferrous and non-ferrous metals, rubber, etc. have come up. India has become self-sufficient in many consumer goods. the private sector has become so capable as to help other third world countries in their economic development.

Private sector in agriculture. The dominant sector in India is agriculture which consists of agriculture proper and other allied activities such as dairying, animal husbandry, poultry etc. This sector which is completely managed by private enterprise contributes nearly 32 percent of the domestic GNP and provides employment to nearly 67 percent of the working population. From this point of view, though the private sector may be dominant in the case of agriculture but is not run on a commercial basis and much of it is in the hands of small and marginal farmers. Accordingly, the size and the extent of the private sector in agriculture does not show characteristics of concentration and monopoly power as are found in the corporate sector.

Private sector in trading. Trading, both wholesale and retail, has always been in the private sector because the trading services can be best rendered by private businessman. The Government is least suited to render these services. However, under conditions of scarcity, the private businessmen have the tendency to resort to hoarding and exploitation of the consumers. The Government has attempted to control and regulate private trade through controls on price, on the movement of goods between regions, on storage, etc. In the field of international trade, however, the Government has a commanding position through the State Trading Corporation (STC) and its associate organisation like the Minerals and Metals Trading Corporation (MMTC). By and large, the private sector dominates the trading sector in the country.

Private Sector in the Indian economy. The importance of the private sector in the Indian economy can be assessed in terms of its contribution to national income and employment. According to the available statistics the private sector is dominant in agriculture, forestry, fishing, small-scale industry, retail trade, construction, transport other than railways. etc.

This is the position even after five decades of economic planning and consistent efforts to give a boost to the economy through creating a vibrant public sector. The dominance of the private sector is over-whelming and as such, the Indian economy cannot really be called a mixed economy; much less a socialist economy.

Private sector and small-scale and cottage industries. Small and cottage industries in India are in the private sector and they have an important role to play in industrial development. They are labour-intensive. Besides, they ensure a more equitable distribution of income and wealth and help in the effective mobilisation of human and physical capital. Even though private ownership and management of the small and cottage industrial units has inherent advantages because of the profit motive and personal initiative, the small sector has traditionally suffered from such disabilities as lack of machinery, raw materials, credit facilities etc. The Government has come in a big way to help the small sector directly in the form of technical advice, purchase of machinery on a concessional hire-purchase basis, priority in the allocation of raw materials, provision of credit etc. Indirect measures to help the small sector consist of reservation of certain items for exclusive production in this sector, freedom from licensing procedures, preferences to small entrepreneurs, etc. There is tremendous scope for the expansion of the small sector in the country. The really important fact that needs to be emphasized here is that the small and cottage units would continue to remain and prosper in the private sector.

2.5.8 LIMITATIONS OF THE PRIVATE SECTOR

The private sector has been assigned an important role in India and it has exhibited its inherent strength and superiority in the last five decades. However, it has manifested some weaknesses. In fact, the strength of the private sector-the profit motive and personal initiative-also constitute its weakness. In their lust for profit, most private enterprises have adopted undesirable practices which have gone against the consumers on the one side and thwarted the growth of medium and small-scale industrial units on the other. Besides, many of the leading business and industrial houses have become monopolistic and got concentration of wealth and economic power in their hands. Finally private sector units, both large and small, have been subject to frequent industrial disputes and industrial sickness, forcing the Government sometimes to take them over. Some of the important weaknesses and limitations of the private corporate sector are :

a) Emphasis on non-priority industries: An important criticism of the private corporate sector is that it has helped in the expansion of consumer goods industries having low priority, such as man made fibers, perfumes and cosmetics, air conditioners and refrigerators, T.V. etc. These goods were meant to satisfy the consumption needs of elitist groups because they yielded quick profits. The growth of consumer goods industries of low priority on the one and the relatively sluggish growth of essential consumer goods industries on the other was responsible for a distorted output structure in the country. In a sense, not only the long-term requirements of the economy have been ignored but the economic development of the country in the socially desirable channels has been hampered.

It is possible to argue that the private sector was responsible for the development of non-priority industries, for the distorted output structure and for the wastage of economic resources. But to some extent, the Government too was responsible for this sorry state of affairs. For one thing condemning the private sector to restrict itself to consumer goods industries and keeping the key and basic industries with itself, the Government is directly responsible for rapid increase in the production of non-essential consumer goods and slow and indifferent growth of essential goods. Through its policy of licensing, the Government could have prevented the establishment and expansion of consumer goods of low priority. After allowing the private sector to produce goods of low priority, the Government cannot absolve itself of the responsibility of directing private sector in socially desirable areas of production.

b) Emergence of monopoly power and concentration: With the operation of the planning process since 1951 and with the rapid expansion of the economy, some of the business and industrial houses were able to take advantage of all the facilities provided by the Government and acquire monopolistic power. They were able to use the licensing system to prevent rivals from entering the sectors in which they were interested, and through the use of unfair and restrictive trade practices, they had succeeded in eliminating their rivals. They have also acquired phenomenal wealth and economic power and 20 big industrial houses have emerged. This trend has, however, accelerated after the introduction of economic reforms in 1991. Not only the Indian business houses, but even the foreign business firms have accumulated economic power.

c) Industrial disputes: The private sector is plagued by poor industrial relations and the valuable man-days lost due to strikes and lockouts since Independence have been enormous. Industrial disputes are but natural in the private enterprises since the interests of capitalist owners and those of the workers are diametrically opposite. While the private capitalists are interested in the maximisation of profits, workers are interested in maximisation of wages and allowances, hours of work, bonus, leave privileges, the recognition of unions, victimisation of workers, retrenchment, etc. The country has suffered heavily in terms of loss of production on account of industrial disputes. There is conclusive evidence available that industrial relations in the private sector are much worse than those in the public sector. Lockouts are a phenomenon exclusively confined to the private sector. Similarly, the frequency and duration of lockouts is greater in the private sector.

d) Industrial Sickness: A common feature of the private sector is the growing industrial sickness in many lines of industrial and business activity. Engineering industry, cotton and jute textiles were prone to industrial sickness, but these days almost all industries-large, medium and small units-face this problem. Inefficient and corrupt management, market fluctuations and failure to evolve correct marketing strategy, poor labour relations, and finally wrong government policies-all these are responsible for growing industrial sickness in the country.

The basic limitation of the private sector is that it has not been given a significant role in economic development. Assuming that the private sector could not mobilise enough resources and that the public sector alone was best qualified to run the commanding heights, the Government entrusted the capital goods and basic industries to the public sector and made it the prime mover of economic development. Naturally, the private sector has to be satisfied with the secondary role assigned to it.

SELF CHECK EXERCISE

1. What do you mean by Industrial Sickness?

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2.5.9 PROBLEMS AND PROSPECTS OF THE PRIVATE SECTOR

There is an inherent contradiction in the attitude and policy of the Government as regards the private sector. The Government has continuously emphasised the important role assigned to the private sector in the mixed economy of India and the steps it had taken to encourage the private sector. At the same time, the Government had taken various measures, both direct and indirect, which do not help the private sector to develop freely and rapidly but which actually restrict and hamper its growth. We may highlight here some of the problems of the private sector.

Procedural delays: In all the developing countries, and India is no exception, there are too many regulations imposed by the Government on the private sector which lead to too many procedural delays. It is estimated on an average, it takes 7 years from the conceptual stage to the production stage for any significant investment to take place in India. "Decisions which used to be taken at one time at a low level of Government bureaucracy are now concentrated in the hands of the top bureaucracy or with the ministers and in some cases even with the capital. There is no delegation of decision authority and in fact, even the smallest decisions are taken at the top level, resulting in avoidable delay, cost escalation and higher burden on the consumers.

Unrealistic controls : The Government is influenced by contradictory motives as for instance, the protection of the consumer (price controls) and the prevention of concentration of wealth and income (capacity restraint). The price controls imposed by the Government on many of the goods do not give proper incentive for additional production. Actually, the Government should encourage competition among the rival firms and increased production would automatically bring down the prices. On the other hand, price controls under conditions of shortage tend to perpetuate shortage, rise of black markets and possible shifting of investment from controlled items to the production of non-controlled items. In this connection, the system of dual pricing has been found to be much better than unrealistic price controls.

At one time, licensing of capacity was meant to bring about organised growth and prevent monopolistic tendencies. In practice, however, it had emerged as something unique in the whole world. While attempt was made to increase capacity to create more employment and produce more, India was the only country in the world which penalised increase in production. Capacity restraint was indeed anti-investment and anti-consumer. Since Mr. Rajiv Gandhi came to power in 1985, there was a welcome trend of regularising excess capacity in scheduled industries, removal of restrictions on creation of new capacities, and abolition of unnecessary controls.

Reservation for the small sector; The Government has generally worked on the assumption that small industries are in conflict with large ones which always stifle the growth of the small and cottage sector. Accordingly, the Government has attempted to help the small sector in many ways. One method is to provide excise exemption, impose a lower rate of excise duties for goods produced in the small sector. Another method is to reserve certain products for the small sector and prevent the large sector from producing such goods. As a result of such measures, the complementarily of the two sectors in the process of growth has been lost. While it may not be desirable to continue reservations or differential excise duties for all times to come, it is vitally necessary that the small scale units be saved from the unfair competition of large units. For this purpose, modernization of the techniques of production used by the small units should be effected as a top priority. Such a policy will reconcile the benefits of growth and employment generation.

Problems of finance and credit: The public sector enterprises normally depends upon budgetary resources for their expansion, though they also raise considerable funds from the market. The large private sector corporate units do not normally find much difficulty in raising funds from the banks, the public sector financial institutions and from the market through convertible and non-convertible debentures has become quite popular. But the problem has been rather acute for the small units which find it difficult to raise funds for expansion.

PROSPECTS

The Government assigned a secondary role to the private sector for a long time but from Sixth Plan (1980-85) onwards gave greater importance to the private sector. The private sector too has shown sufficient buoyancy and has registered a fast rate of growth by raising increasing amount of funds in the capital market and setting up a series of joint ventures in other countries. However, as the Sixth Plan itself expressed clearly, "in a large number of areas, our capabilities are almost 20 years behind those in the advanced nations and also behind those established recently in developing countries." To overcome these, the Government has been taking a series of measures to give a boost to the private sector; as for example, allowing automatic expansion of capacity to a large number of industries, special facilities for the setting up of export-oriented units, example from MRTC restrictions on industries producing for export, easy industrial licenses for new units located in "zero industry' districts, quick and sympathetic processing of licence applications, liberalisation of import and pricing policies, etc.

The Industrial Policy of 1991 has further liberalised the economy in favour of the private sector by removing the asset limit on MRTP Companies and thus has freed large business houses to undertake investments. In short, a greater role for the private sector is envisaged in the new Industrial Policy by removing the barriers and controls and following a more liberalised approach.

2.5.10 Suggested Readings :

1. Datt and Sundharam Indian Economy :- Gaurav Datt and Ashwani Mahajan.
2. Indian Economy : S.K. Misra and V.K. Puri.

   (Please use latest editions of these books)

2.5.11 Questions For Practice :-

1. Examine the role of private sector in India.What problems are faced by it?
2. Define public sector. Discuss its problems