CHAPTER VIII

INDUSTRIES

I. Industrial Policy Before Independence

The faint beginning of industrial policy in India under the British Crown can be traced to the report of the Famine Commission of 1880. The Commission attributed the frequency of rural distress to the decline of local industries brought about by imports from abroad, and recommended a policy of encouragement to local manufacturers. However, no move was made in this direction. *Laissez-faire* remained the ruling philosophy, though it was more of a dogma than a complete fact. The bureaucratic mind accepted the dogma but was too pragmatic to accept wholly the norms of Government policy derived from Western economic thinking.

The desire to aid the merchant was an important factor in the drive in the 1860's to develop Indian public works. Investment in social overheads, State guaranteed investments in railway and irrigation schemes, extraordinary measures to extend the cultivation of raw cotton, remodelling of land regulations to suit European settlement and investment, expenditure of public funds to encourage European entrepreneurship — these were all examples of judicious interventionism. On the other hand, *laissez-faire* principles were invoked against the infant industries argument in the 1890's over tariff policy and intervention in food trade during famines; progressive taxation was avoided, and a positive role in industrial development was almost unthinkable,* though the State did set up a number of enterprises to meet its own requirements and, after 1908, undertook to enlarge its purchases of Indian manufactures.

Industrial development in the late 19th century was to a great extent a by-product of certain inter-related developments like improved transport and communications, growth of foreign trade and consequent accumulation of commercial fortunes. Railway building and maintenance had effects more far-reaching than opening up of the interior and exposing of agriculture to the winds of commerce. It released some of the latent potentialities for industrial advance.** The coal industry could grow and expand; the development of engineering firms was geared to railway needs. Railway workshops had to be founded

*Sabyasachi Bhattacharya: "Laissez Faire in India", *Indian Economic and Social History Review, January,* 1965.

**Sunil Kumar Sen: *Studies in Industrial Policy and Development of India.* This work is the exclusive source used here for industrial policy on non-tariff matters till 1913.

and these workshops subsequently developed as important centres of modern mechanical engineering. The development and extension of the railways posed the question of the founding of iron works under the agency of the State, and when the Tatas embarked upon steel manufacture, they depended, in the initial years, to a considerable extent, on Government orders for rails. With the extension of the railway system, there arose the demand for bridged and metalled communications.

The strengthening of the British army after the Mutiny led to construction of barracks, founding of ordnance and army clothing factories and harness and saddlery workshops. In the interests of expanding trade, Government had to devote attention to the extension and maintenance of ports, harbours and docks. There was considerable building activity, and the decentralization of powers to municipal administrations after 1870 and 1883-84 also generated a large demand for water, drainage and sewerage iron works.

Government became the largest single purchaser of iron and steel work and a big buyer of miscellaneous manufactures. The Railway, Military and Public Works Departments made Government a crucial factor in industrial development, handicapped as it was by the absence of fiscal protection and insufficient supply of *entrepreneurs*. In fact, some of the paper mills, woollen, leather, iron and engineering factories were founded in anticipation of Government demands. The ruling class chose to pursue a *laissez-faire* policy but, even within that, there grew up a policy of purchasing local manufactures.

Under the Government of India Act, 1858, the Governor General had to obtain the sanction of the Secretary of State regarding the policy of purchasing stores. India Office maintained a close scrutiny and control over stores purchase policy. From 1858 to 1875 stores were imported exclusively through the India Office and were paid for in sterling. Following silver depreciation, and rising pressure from Indian manufacturers, the rules were relaxed in 1876, 1880, 1883, 1909, 1912 and 1913.

During the second half of the 19th century, a public sector had come into existence. State railways were the biggest undertaking. The Government founded railway workshops, ordnance factories, canal workshops, postal workshops, harness and saddlery factories, cotton gin factories, army clothing factories and printing presses. The possibility of developing iron resources could not be ignored when railways were being constructed and extended. The State engaged in iron manufacture and coal mining. Government factories successfully undertook limited manufacture of iron, steel, building and engineering materials, coal, tools and plant, leather, chemicals and drugs, printing and lithographic materials, scientific instruments, woollen, cotton, linen and silk goods.

In contrast with the philosphy of *laissez-faire* in British India, the

Mysore State Govt. took an active role in the promotion of industrial developments. As, early as 1881, its Dewan disputed the law of comparative advantage and promised to give every attention to suggestions for industrial development. By then, the State had a already estblished a savings bank, financed 75 per cent of the cost of laying railways within the State, and created water supply and utility services. A hydro-electric plant was commissioned in 1902, which laid the foundation of future industrial development.*

The evaluation of industrial policy before independence can be divided in three periods, upto 1916, 1916-39 and 1939-46 and under three broad heads, *viz.*, purchases of Government requirements (described as stores in earlier years), State enterprises and controls, and tariffs. The policy with regard to finance and management is dealt with separately under appropriate headings.

Stores Purchase Policy: In the absence of fiscal protection or direct assistance, purchases of Government stores could have played a key role in industrial development. The acceptance of this role, leaving aside its implementation, took a long time.

In December 1862, the Secretary of State for India laid down that all articles manufactured in England should only be procured through the India Office. The question of purchases in India did not arise. The value of purchases went up to £1.54 m., in 1875-76. Purchase of stores in India was first permitted in December 1876, subject to the condition that "nothing except articles of Indian origin shall be purchased or ordered in India unless it can be paid for on delivery after approval there (in India) and that no advances shall be made to any agent or firm for such service." In October 1877, Local Governments and officers were called upon to "suggest and discuss" the steps to be taken to substitute Indian manufactures for European manufactures and to encourage local manufactures.

After the report of the Indian Famine Commission in 1880 and the growing financial problems of the Government following the depreciation of the rupee and a number of disastrous famines, the Secretary of State amplified the objectives of relaxing the Stores Rules: (1) reduction of bills drawn upon Government of India, (2) encouragement of the local purchase and payment for anything which the local market could supply and (3) fostering the development of local industry. In the same year, Government of India issued new Stores Rules laying down that articles of Indian manufacture should be substituted for European articles "whenever it is possible to do, even at some temporary increase of cost." From 1879 to 1883, Government adopted a number of resolutions recommending the substitution of Indian for European manufactures, approving

*Balakrishna: *Economic Development of Mysore.*

contracts for a term of years, listing the local firms which could supply specified and supplementary articles, and called for a careful scrutiny of indents for purchases abroad. As a result, purchases abroad fell slightly from £1.3 m., in 1881-82 to £1.1 m., in 1882-83.

Indigenous Articles: In January 1883, a major policy resolution was adopted: "The Government of India is desirous to give the utmost encouragement to every effort to substitute for articles now obtained from Europe, articles of bonafide local manufacture or of indigenous origin; and when articles of European and Indian manufacture do not differ materially in price and quality, the Government would always be disposed to give the preference to the latter; and the Governor General-in-Council desires to remind all officers of Government that there is no reason why articles manufactured in India should not be obtained locally, even though the raw materials necessary for their manufacture may have been originally imported from Europe. It is most desirable to bear in mind the distinction between articles of European manufacture and articles produced or worked up in India from imported material; the former should not, save in exceptional cases, be purchased in the local market, while the latter should by preference be purchased locally whenever the quality is sufficiently good and the price not higher than the cost of laying down the imported article. There are many articles which may not be immediately obtained in the local market but which can be made in the event of Government encouraging the manufacture."

With regard to iron and steel work, however, relaxation was slow in coming. Moreover, no special agency was maintained in India till as late as 1922 for the purchase and inspection of articles manufactured in India; the purchases were handled by officers of various departments. The value of stores manufactured and purchased in India by the Government of India rose from Rs. 39 lakhs in 1882-83 to Rs. 107 lakhs in 1891-92, Rs. 202 lakhs in 1904-05 but declined thereafter to Rs. 119 lakhs in 1907-08. The articles purchased (including those from Government establishments) included coal and coke, paper and paste-board, building and engineering materials, chemical products, drugs and medicines, cordage and rope, cotton, linen and silk goods, hardware and cutlery, leather and leather goods, paints and colours, oils, scientific instruments and apparatus, wood, woollens, tools, canvas, tin, iron and steel. The purchases of steel, machinery, agricultural implements, iron wire, steel wire, and glassware were insignificant.

Rigid rules were laid down for local purchases of imported stores. Their purchases were more or less restricted to emergency requirements because inspection was difficult and costly. Such purchases were Rs. 41 lakhs in 1882-83, Rs. 36 lakhs in 1891-92, Rs. 46 lakhs in 1904-05 and Rs. 56 lakhs in 1913-14. Local bodies and private demand, rather

than Government orders, enabled the mercantile houses to flourish in business.

Government spent £75 m. for import of stores from India Office between 1882-83 and 1913-14* against Rs. 338 m. spent in India during the same period. The objective of reducing payments in England for stores remained unfulfilled, mainly because the purchases for State railways continued to impose a heavy drain. The manufacture of iron work and machinery was the crux of the problem, as Lord Ripon, the then Governor General, had recognized in 1883. In 1913, Government expressed its satisfaction at having done all that could be done but noted the slow growth and inefficient standards of industrial enterprise in India.*

Even the limited support received through Government purchases proved invaluable. A committee appointed in 1902 to enquire into the paper industry and its supplies at alleged monopolistic prices to Government found that some of the mills could not have started or continued without Government and railway orders. In the case of woollen mills, Government purchases were 87 per cent of total sales in 1885 (mills were exclusively European), declining to 8 per cent in 1905, but the difficult years had been taken care of.

During the second half of the 19th century, India became a large and growing market for the products of the British iron and steel industry, which were imported through the India Stores Office. In 1863, the import duty on iron was reduced from 10 to 1 per cent and machinery was placed on the free list.

Bengal Iron and Tatas: After the failure of Heath's pioneer attempt in 1824 and the subsequent failure of the East Indian Iron Works between 1853 and 1876 due to shortage of capital and exhaustion of charcoal sources, and unwillingness of Government to accept any liabilities, the Bengal Iron Works at Barakar came up in 1876 but Government refused to pledge advance orders to them. The works were purchased by Government in 1881. In 1882, Ripon's Government "accepted as proved that India possesses the means of supplying all her wants in respect of cast iron, wrought iron and steel, and that such supply could be produced remuneratively on a strictly commercial basis." But the Secretary of State took a different view and the Government of India was prohibited from giving any preference to Indian manufacturers when entering into contracts for iron materials. In 1889, the Barakar Works were sold to Bengal Iron and Steel, a sterling company.

Though this Company ran into difficulties in the 1890's and its requests for financial assistance were repeatedly turned down, it was able to secure railway orders and a reduction in the royalties payable on coal.

*Sen: Op. cit., pp. 24—27.

In 1896, the Company was given a Government contract for the supply of 10,160 tonnes of pig iron and castings annually for 10 years at rates 5 per cent lower than similar materials could be obtained from time to time in England. This concession enabled the Company to do well and by 1901 its annual production of pig iron rose to 25,401 tonnes, of which 10,160 tonnes was supplied to State railways. This relaxation in the mid-nineties coincided with the recovery of the English iron trade from the long depression which had begun in the seventies, and the fact that one-third of the iron and one-half of the steel imported into India were from countries other than the U.K. The coincidence was not a pure accident.

In January 1903, a contract was signed between Government and Bengal Iron and Steel, under which Government agreed to give a subsidy of £1,500 per year (3 per cent on a capital of £50,000) for ten years to be reduced by Rs. 3 per tonne for every tonne of steel purchased by Government. The plant was erected in June 1904 and commissioned in November 1904. It was closed down in 1906 due to inadequacy of orders from Government, railways and private buyers. Its pig iron production continued but when the 1896 agreement expired in 1907, Government refused to renew it.

The Tatas were more fortunate than the sterling company. In 1902, Tata asked for an assurance from the Secretary of State that, "when making purchases, the Indian Government would be willing *ceteris paribus* to give preference to our manufactures over imported material, especially iron and steel". Viceroy Curzon replied in January 1903 expressing the Government's desire to give preference to local production provided the quality was not inferior to and the price not higher than similar supplies obtained through the India Office and that Tata's Company and other manufacturing firms in India would have to stand on the same level. Nevertheless, Tata received Government pledges almost straightway: a guarantee in 1905 to purchase 20,321 tonnes of steel rails annually for ten years, promise in 1906 to purchase as much as possible of pig iron, reduced railway freight rates for carriage of construction materials and plant, and the opening of a new railway line to connect the plant to iron ore mines. The managing agents were satisfied with "the very generous concessions" from Government. The good quality of Tata products helped in securing orders from private railways and engineering firms in Calcutta and Bombay also.

The total capacity of the two iron works, Bengal and Tata, remained, nevertheless, only a fraction of the total amount of iron and steel imported. A large part of the demand was met by mercantile houses (though their supplies were not always of the best quality), thereby promoting commerce, not industry.

Engineering Stores: The engineering industry survived in the initial

years mainly due to port, municipal and private, rather than Government, demand. The relaxation of Stores Rules in 1876 did not help the engineering industry at all, since engineering stores were to be procured exclusively through London. In 1887, in fact, the Secretary of State pointed out the dangers of depending upon local engineering purchases and, in 1888, further asked Government to issue instructions "with a view to limiting to the utmost the local purchase of building materials not produced in India." Local purchases declined from Rs. 3 lakhs in 1882-83 to Rs. 45 thousand in 1887-88. In 1891 some relaxation was made on grounds of economy, not protection, for less important manufactured articles of iron and steel made up in India from unfinished imported articles, but railway supplies were again excluded. From 1882-83 to 1898-99, the value of building and engineering materials, tools and plant, and machinery imported through London came to Rs. 437 lakhs and the materials of another Rs. 60 lakhs were procured from local agents of European suppliers.

Some relaxation in local purchases of engineering stores was effected in 1897 but initial equipment for railways and large engineering projects was again excluded. From 1899 to 1905, a series of relaxations were made: beginning with careful scrutiny of indents before transmission to London through the instance in 1901 that "wheels, axles, springs and drawgear should be indented from the India Office", to the Railway Board orders in 1905 that 25 per cent of all goods stock required for State railways, would be called for in India.

In 1906, the British Government admitted that "local industries must frequently lean to some extent, in the first instance, upon the support of the Government" and that "the system at present prescribed for the purchase of stores does not in practice result in the maximum amount of encouragement which the Government could legitimately give." The matter was referred to a Stores Committee which sharply criticized the stores purchase policy especially in relation to iron and steel and engineering industries. The Committee found that Indian manufacturers were hesitant because of lack of assurance and continuity of orders, that officials suffered from a fear of infringement of the very precisely defined conditions under which purchases could be made in India, and that orders placed locally were largely rush orders. Indian manufacturers were expected to supply an article equal in quality to that obtainable in England "but the work allotted to them was too small to attain a pitch of excellence which had been achieved elsewhere after years of practice." Most engineering products were disqualified because they were inevitably dependent upon imported materials like plates for wagons. In a scrutiny of indents worth £3.3 m., placed on the India Office in 1904-05, the Committee found that orders of £467,000 could have been placed locally.

In spite of insufficient and discontinuous orders from Government, Indian i.e., mostly British-owned, firms succeeded in increasing their business considerably after 1882-83, thanks to the expansion of jute, cotton and tea industries, port and municipal requirements and demand for bridges for railway companies. Firms in Bombay and Calcutta depended mainly on private demand, those in Madras and Upper India on Government.

Swadeshi Movement: In 1909, after some acrimonious debate between the Government of India and London and the launching of the Swadeshi movement, new Stores Rules were promulgated, in spite of a request for their suspension from the Secretary of State, who finally insisted on laying down that local purchases of electric power and lighting plant would not be permitted. The Rules prescribed that preference should be accorded to articles manufactured from imported materials and indents should be scrutinized before transmission to London. The purchase of wheels and axles and springs of rolling stock was not permitted; railway bridges of spans upto 45.75 metres only could be purchased.* The list of approved firms in India was progressively enlarged, from 14 in 1897 to 40 in 1913. These relaxations notwithstanding, there was no appreciable increase in orders for stores produced in India. The value of European stores (engineering and building materials, tools, machinery and plant) procured in India rose from Rs. 15 lakhs in 1908-09 to Rs. 36 lakhs in 1913-14, while purchases of Indian stores rose from Rs. 9 lakhs to Rs. 20 lakhs only.

State Enterprises: "In a previous age, Indian industries had flourished round the thrones of the rulers and had looked to them for support; and the tendency was always to expect from Government a more positive regulation of activity than has been usual in those countries where individualistic ideals have been dominant. With the wave of nationalism which marked the first decade of the 20th century, enthusiasm for industrial advance became general among the educated classes. The acceptance by Government of the role assigned to it was not easily secured; and it was not until after the outbreak of war that Government, as a whole, accepted responsibility for giving active assistance to industries."**

The inhibitions of *laissez-faire* were most obvious in the setting up of State enterprises though they did not prevent Government from establishing assorted works to meet part of its own requirements. The principal advantages which Government had were its capacity to hire and retain

*For the text of the Rules, see Sen: op. cit., Appendix A.

**Clow: *The State and Industry*, 1928.

high grade technicians and to generate its own demand for products. These advantages were barely utilized.

Iron-making was attempted in the 1850's and 60's and culminated in the acquisition of the Barakar Works against the opposition of the Secretary of State. From 1885 to 1889, when Barakar Works were in Government hands, local firms including Jessop and Martin petitioned against the unfair competition offered by the Works and requested that its production be confined to pig iron and cast iron sleepers for railways. In 1889, the Works were sold to Bengal Iron and Steel.

The number of railway workshops rose from 77 in 1901 to 96 in 1905 and persons employed therein from 60,000 to 79,000; they served as nuclei for the growth of mechanical engineering but few Indians received technical training in them.

There were already five ordnance factories in 1889, turning out a high standard of work; the Cossipore factory was the first to manufacture steel in India in 1905. The value of imported ordnance and miscellaneous military stores, nevertheless, came to nearly £10 m., between 1883-84 and 1913-14.

Pioneer factories were started in Tamil Nadu for aluminium, chrome tanning and weaving, and an Industries Department under the energetic Chatterton, a European civilian (later Controller of Munitions and a member of the Industrial Commission) was set up in 1906. Even these aroused the fury of local business; the Madras Chamber of Commerce unanimously and strongly opposed the flotation of industrial enterprises by Government.

Morley's infamous Despatch of 1910 cooled what little official ardour there was for State enterprises:

> "The policy which I am prepared to sanction is State funds may be expended upon familiarising the people with such improvements in the methods of production as modern science and the practice of European countries can suggest; further than this the State should not go and it must be left to private enterprise to demonstrate that these improvements can be adopted with commercial advantage."

Morley's Despatch was not the only discouraging factor. All the various interests were working at cross-purposes. British manufacturers opposed fiscal protection and relaxation of Stores Rules. European manufacturers in India urged relaxation of Stores Rules but opposed State enterprise and State control. Indian manufacturers were critical of *laissez-faire* and unanimously favoured protection, relaxation of Stores Rules, and pioneer (not permanent State) enterprises.

All that was done in pioneering enterprises, technical and industrial education and commercial and industrial information, was due rather to a few far-sighted individual officers than to any considered and general policy on the part of Government. On the eve of the war, four engineer-

ing colleges had been in existence for a generation but they produced civil engineers who were absorbed in Government and did little to foster industries. Technical schools were started in centres where there were no industries and no prospects of the development of industries; candidates too, were often lacking.

Tariff Policy: Fiscal protection could have played only a very limited role in industrial development during the late 19th century. Leaving aside the exceptional case of cotton mills (which got the reverse of protection but expanded and prospered nevertheless), protective tariffs would have in isolation done little to promote industries heavier than cotton under Indian ownership and management, without a definite policy for local purchases by Government of its requirements or for setting up of State-managed or State-financed and promoted enterprises, given the shortage of Indian capital and technical skill for mechanized enterprises. At best, protective tariffs on ferrous and engineering items, had they been imposed against the prevailing climate of opinion, might have brought about a somewhat larger influx of foreign capital into the industries concerned in order to pierce the tariff wall. Even that might have been worthwhile but it did not come about largely because returns from material-based industries, cotton and jute, which required minimum imported skill and large cheap domestic labour were attractive enough to absorb most of the capital inflow.

Under the East India Company, the task of abolishing inland duties was taken up seriously in 1835 and completed in 1844. Though import duties were levied by the different provinces, a fairly consistent tariff was evolved by the late forties. Generally, the duties on raw produce were 3½ per cent and on manufactured articles 3½ or 5 per cent; till 1848, these duties were doubled for goods imported in non-British ships. After 1848, the nationality of ships was ignored but, till 1859, the duty on non-British goods was double that on British goods. After 1859, revenue needs led to the abolition of differential rates, and the general rate of duty was raised from 5 to 10 per cent; the duty on cotton yarn was raised from 3½ to 5 per cent. From 1862 onwards, financial exigencies no longer demanded large revenue from import duties; the duty on cotton piece-goods was reduced to 5 per cent and on yarn to 3½ per cent. In 1864, the general rate was lowered to 7½ per cent.

Free trade as a matter of policy was ushered in from 1875, when Government found itself with surplus revenues. The general import duty rate was lowered from 7½ to 5 per cent, but the duties on piece-goods and yarn were left untouched, which raised a storm in Manchester. The Secretary of State directed Government to abolish the cotton duties as soon as its finances permitted. The cotton duties were partially lifted in 1878 and 1879, mainly from items which were being produced

in India. In proposing these changes, the Finance Member laid down the following principles governing tariff policy:

(a) "That no duty should exist which affords protection to native industry, and as a corollary, that no duty should be applied to any article which can be produced at home, without an equivalent duty of excise on the home production; and also that no duty should be levied except for purely fiscal purposes.

(b) "That as far as possible the raw materials of industry and articles contributing to production should be exempt from customs taxation.

(c) "That the duties should be applied only to articles which yield a revenue of sufficient importance to justify the interference with trade involved by that machinery of collection."

In 1882, Government concluded that it could do without customs revenues and that "the duties still existing caused an amount of friction, scrutiny and interference with trade quite incommensurate with the net revenue they produced." From 1882 to 1894, no import duties were levied, with the exception of duties on arms and ammunition for administrative reasons, liquor, opium and salt (which were complementary to excise policy), and a nominal revenue duty on petroleum which was imposed in 1888. Correspondingly all export duties, except on rice, were also abolished between 1860 and 1882.

The sacrifice of customs revenues which was supposed to bring the classical benefits of free trade to the poor toiling masses of rural India succeeded only in increasing their misery. Local industries declined rapidly—the only major exception was handlooms which expanded due to the greater availability of yarn—and land revenue grew more oppressive, particularly as silver depreciated and the rupee value of Home Charges mounted at an alarming pace. In 1894, import duties were levied again at the general rate of 5 per cent; railway materials and machinery were left free, and the rate was only 1 per cent on iron and steel; the Secretary of State declined to permit any duty on the chief import, namely, cotton piece-goods. By December of the same year, the revenue position necessitated the imposition of a 5 per cent duty on cotton piece-goods and yarn; this was balanced by the infamous countervailing excise of 5 per cent on yarn counts above 20s. The limitation of excise to yarn failed to satisfy Lancashire. Accordingly, in 1896, the import duty on piece-goods was lowered to 3½ per cent with an equivalent countervailing excise on Indian piece-goods, and cotton yarn was admitted free of duty. This level and structure of import duties remained practically unaltered till 1916.

On the eve of the First World War, the cotton mill industry (which was largely but not wholly under Indian ownership and management) could hardly be described as an infant. In 1913-14, India had 271 mills with

nearly 68 lakh spindles and 1 lakh looms. But there was no mill machinery industry. The explanation lay for the most part in the general absence of an engineering infra-structure, fairly consistent decline in the prices of British textile machinery from the 1890's through the 1870's and lack of skills. The industry depended to a considerable extent for its prosperity on sales of yarn at home and abroad which implied a corresponding emphasis on preparatory and spinning machinery, rather than weaving equipment. Since the former was more complex and novel than the latter, the difficulties in undertaking its manufacture were greater. As new Indian *entrepreneurs*, unfamiliar with textile technology, entered the industry in rapid succession, they placed orders for what they believed was the best equipment available. British machinery suppliers like Greaves and Cotton who went into manufacture had no reservations or doubts about their choice.

Industrial Policy 1916-39: The outbreak of the First World War brought about a considerable change for the better industrial policy thinking. The implementation of this change was rendered difficult during the war by the practical absence of engineering and chemical capacity and trained personnel, and later, in the twenties, by the appearance of severe international competition and consequent demoralization of Indian capital, and pressure from British manufacturers to retain the Indian market. Tariff policy, at first for revenue and then for protective purposes, acquired much greater importance during this period though Indian middle class opinion continued to regard it as halting and inadequate. Government store purchase policies also became more explicitly helpful to industrial development and acquired greater significance as private railway companies were progressively acquired by Government. The consistent decline in the prices of imported machinery after 1923 and piecemeal protection to individual industries, however, made entry into machinery industries unattractive. Barring sporadic attempts to finance some industrial units, most of which ended in failure, there was no policy for direct promotion of private projects or setting up of public enterprises to fill up gaps in the industrial structure. Vocal Indian opinion, when not preoccupied with fiscal protection, seldom went beyond muted demand for pioneer factories. Constitutional reforms divested the centre of responsibility for industry and vested it in provinces, which lacked the resources and perspective for sustained large-scale interest in industrial development.

In 1912, the Atkinson-Dawson Committee was appointed to enquire into the means of bringing technical institutions into closer touch with employers of labour and, in 1913, the Morison Committee reported to the Secretary of State on the system of State technical scholarships established in 1904. A real change of policy came about only in 1916 with the setting up of the Munitions Board and the appointment of the

Industrial Commission, both under a common chairman.

The functions of the Munitions Board which came into being in February 1917, were to control and develop Indian resources, with special reference to the needs created by the war, to regulate contracts, to limit and co-ordinate demands for articles not manufactured in India, and to apply the manufacturing resources of India to war purposes, with the special object of reducing demands on shipping. The Board was responsible for the supply of all articles except foodstuffs, medical stores and certain technical stores, to all armies in the East. At the peak of its operations, the Board was buying textiles at the rate of Rs. 2 crores a month and hides and leather worth Rs. 1 crore a month. Besides, it scrutinized all indents for stores and could divert purchases from Europe to India. Priority was generally refused when a suitable substitute could be purchased or arranged for manufacture in a short time. The opportunities so created were brought to the notice of manufacturers with the result that a large number of new branches of manufacture were started. Expert assistance was made available in many cases. Ordnance factories were greatly expanded, and attention was paid to the manufacture of accessories for various industries. The Industrial Commission was so impressed by the working of its twin that it hoped "that care will be taken to preserve such features of this organisation (the Munitions Board) as are properly adaptable to peace conditions."

The Industrial Commission was appointed in May 1916 to examine and report upon the possibilities of further industrial development in India, particularly

(a) whether new openings for the profitable employment of Indian capital in commerce and industry can be indicated;

(b) whether and, if so, in what manner Government can usefully give direct encouragement to industrial development—

  (i) by rendering technical advice more freely available,

  (ii) by the demonstration of the practical possibility on a commercial scale of particular industries,

  (iii) by affording, directly or indirectly, financial assistance to industrial enterprises, or

  (iv) by any other means which are not incompatible with the existing fiscal policy of the Government of India.

Questions of tariff policy were excluded from the scope of its enquiries. The Commission drew attention to the extraordinary extent to which the country, with its great industrial possibilities and requirements, was dependent upon outside sources of supply for raw materials and manufactured articles. It found the cause in the fact that export and import trade and a large railway network had been created without an iron and steel complex to support it. Only the obvious need of having repairs done on the spot had led to the establishment of numerous engineering

workshops, without any corresponding equipment for actual manufacture. The direction of industrial development had been predetermined by the existence of a large export trade in raw materials, and by the ease with which most classes of manufactured articles could be imported from abroad. The Commission attributed the import of boilers and prime movers to the absence of a complete system of engineering industries. Lack of familiarity with machinery accounted for the fact that the demand for agricultural machinery was limited to the products of a few small local manufacturers, supplemented by imports worth Rs. 2½ lakhs in 1913-14. India produced 3.048 m. tonnes of raw sugar and imported sugar worth Rs. 15 crores, but the value of sugar machinery imported was only Rs. 4½ lakhs. Similarly, oilseeds worth nearly Rs. 25 crores were exported but import of crushing and refining plant was only Rs. 3 lakhs. Paper imports cost Rs. 160 lakhs while import of paper mill machinery was only Rs. 3½ lakhs.

"These figures", the Commission said "are significant of the exiguity of the efforts hitherto made in India to replace imported articles by the manufacture of indigenous raw materials. On the other hand, the very large value of the imports of machinery for the textile industry is due to the entire absence of any engineering works capable of supplying her needs." It also pinpointed the dependence on imported technologists and engineers and the preference of capital for a safe profit from trade or such well established industries as jute and cotton to a doubtful return from such ventures as metallurgical and chemical manufactures. "The industries based on technical science have been disregarded, because profits in other ways have been easy and assured. The neglect of applied science is, perhaps, the most conspicuous among our administrative deficiencies." Another contributory cause has been absence of a stores purchase organization to counteract "the tendency of indenting officers to place on some recognised authority the responsibility for price and quality."

The Commission listed the main deficiencies as in metals, chemicals*, rubber, superior textiles, leather finishing and cement. The Commission warned that "until they (the recommended industries) are brought into existence on an adequate scale, Indian capitalists will, in times of peace, be deprived of a number of profitable enterprises whilst in the event of war which renders sea transport impossible, India's all-important existing industries will be exposed to the risk of stoppage, her consumers to great hardship, and her armed forces to the gravest possible danger." It recommended that Government should take special steps to facilitate the manufacture of such essential articles as magnetos, incandescent

*These deficiencies and the concerted measures required to overcome them were re-echoed in the Planning Commssion's *Notes on Perspective of Development*, 1960-61 to 1975-76, published in 1964.

lamps, ferro-tungsten, high speed steel graphite crucibles, porcelain insulators, chemical glass and certain heavy chemicals, rubber and vulcanite.

The Commission also recommended the creation of Scientific and Technical Service cadres, training facilities, and acquisition of lands for industrial enterprises. Regarding purchases of stores, it favoured the creation of an organization for purchase and inspection under Imperial and Provincial Departments of Industries, the meeting of all indents of Government and railways as far as possible in India, and the setting up of an agency for preparing specifications. As for cottage and small industries, it recommended familiarization with the principles of co-operative credit, small loans from Provincial Governments, facilities for marketing, technical training, and education in the use of new tools and designs.

Post-War Difficulties: In post-war years, constitutional reforms, deteriorations in economic conditions, attractions of protection and political opposition to the creation of new service cadres combined to distract attention from the Commission's recommendations.

The Commission's report was in favour of centralization, but the Reforms of 1919 led to decentralization. The general result was a separation of the spheres of influence of the Central and Provincial Governments in regard to development of industries. The adoption of a policy of protection was, at a somewhat later date, to place the Government of India in a position to assist industries substantially. It was also able to exercise some influence on the development of industries by means of its purchasing activity. In all other directions, its power to advance industrial progress was restricted. Provincial Governments, on the other hand, were unable to adopt protective policies and the comparatively small extent of their own requirements of stores made it difficult for them to make an impact with their purchases. They had to face serious financial difficulties and the two features which the Industrial Commission had regarded as the chief obstacles to progress, *viz.*, "the lack of a definite and accepted policy and the absence of an appropriate organisation of specialised experts" remained after the Reforms. "Much was achieved despite these difficulties" but, in the absence of a uniform all-India policy, the element "of co-ordination was necessarily weak and in consequence it was not always possible to secure the fullest results from the efforts which were made."* The idea that industry was to be a transferred subject but the administration would be in the hands of all-India services proved unpopular, especially since it was feared that the services would be exclusively European. The

*Clow: *The State and Industry.* This is the main source for policy during the twenties.

idea of industrial service cadres was finally abandoned in 1922.

The prospects of industrial development became considerably dimmer before most of the new Industries Departments in the provinces could be effective. Retrenchment after 1922 fell heavily on these Departments, since large industrialists did not need them and the smaller ones were not vocal. At the Centre, the Industrial Intelligence Section disappeared, inter-provincial conferences, publications and scholarships were discontinued. Fortunately, the stores branch was not disbanded as recommended by the Inchcape Committee on retrenchment.

A Stores Purchase Committee was appointed by the end of 1919 to recommend measures to enable Government to "obtain their requirements so far as possible in India." It recognized that the policy of purchasing Indian stores was defeated by the absence of an agency for purchase and inspection and recommended the setting up of a department to purchase and inspect certain stores, particularly oils and paints, leather, textiles and timber and engineering stores for all Central departments except military, railways and public works. Company railways, provinces and States, and municipalities could also employ the Department. The Committee was divided on the question of local purchase of imported goods; the majority was in favour of purchasing imported stores through resident middlemen but the minority was against it.

New rules were published in 1924. The preamble stated that "the policy of the Government of India is to make their purchases of stores for the public service in such a way as to encourage the industries of the country, so far as is consistent with economy and efficiency." Instead of the prices being "not unfavourable," the prices now were to be only reasonable. Subject to certain conditions, purchases of machinery manufactured abroad were permitted in India from branches of approved manufacturing firms. This formed an exception to the principle followed hitherto that Indian goods should be purchased in India and foreign goods in London. The Legislative Assembly passed a resolution calling for a system of rupee tenders for delivery in India, but this was not accepted till 1927 in principle. The new rules did not apply to the provinces.

In 1928, new rules were drafted giving preference, first, to articles produced in India from Indian materials, second, to articles wholly or partially manufactured in India from imported materials and, third, to articles held in stock in India. With certain exceptions, all stores were to be purchased in India and tenders were to be for supply in India against rupees.

In spite of the halving of its budget in 1922 by the Legislative Assembly, and the stoppage of its expansion recommended by the Inchcape Committee (which Government did not accept), the Indian Stores Department dealt with textiles and leather, engineering, hardware and miscel-

laneous articles. It also looked after intelligence, a metallurgical inspectorate at Jamshedpur, and the Alipore Test House and had inspecting offices at Calcutta, Kanpur, Bombay, Karachi and Madras. Its purchases, mainly textiles and leather, went up from Rs. 165 lakhs in 1922-23 to Rs. 373 lakhs in 1927-28, and stores inspected during the same period from Rs. 142 lakhs to Rs. 574 lakhs. But these represented only a fraction of the purchases of Government and railways.

State Enterprises: In the twenties, the Government continued to supply a large (though unquantified) part of its own needs. About 10 per cent of the factory population in the mid-twenties was employed in public factories and a considerable number of minors worked in Government-owned coal and salt mines. The Government of Madras, as before, took the lead in pioneering enterprises and its Industrial Institute conducted a number of experiments, both successful and unsuccessful; projects for ink, soap, fish canning and bone-meal succeeded while adhesives and fruit canning failed; the Institute also demonstrated the successful use of power-driven sugarcane crushing. In Bombay, fish trawling and oil extraction failed, mainly because the fish refused to co-operate; alleged interference with private enterprise led to the closure of a semi-commercial porcelain factory in the J.J. School of Art, Bihar and Orissa failed to set up a projected sugar factory, and its forays into blankets and matches proved unsuccessful. The Punjab model tannery made heavy losses and was closed down in 1927. In Uttar Pradesh the State turpentine factory did extremely well after the transfer of its majority control to private hands, while a bobbin factory had a chequered career even after such transfer. Clow's careful comment on the situation was: "It seems probable that, with the increase of industrial enterprise in India, the field for successful State pioneering factories has contracted and will contract further."

In 1927, the Railway Board was attacked for having ordered too many wagons and it became evident that orders for wagons would be small for some time. This was an industry which had received a guarantee from Government in 1918 of purchase of a specified number of wagons subject to conditions regarding price and quality. This undertaking was withdrawn in 1924 when the industry received protection but remained dependent upon Government. In the course of negotiations with two exclusive wagon manufacturing companies which had been formed as a result of the guarantee, one was taken over by Government.

Some of the progressive Princely States, however, seemed to have taken the recommendations of the Industrial Commission rather seriously. Mysore, Hyderabad, Gwalior, Baroda and many of the Kathiawar States actively financed several large industrial ventures in British India and some of them made special efforts to attract *entrepreneurs* with offers of assistance and concessions.

Mysore followed up its earlier pioneering efforts with the establishment of an iron and steel works based on charcoal in 1923, and factories for sandal-wood oil, buttons and experimental industries like power-driven crushing mills and jaggery manufacture. In addition to outright ownership, the State made loans, gave guarantees, provided research and technical assistance, and participated in the share capital of private enterprises. During 1917-22, according to the Mysore State Gazetteer, the State department of industry "stimulated private initiative and private effort in the installation of machinery for deep well pumping, in the more efficient utilisation of agricultural production by means of power-driven machinery, and the establishment of a number of small organised industries in various parts of the State". These enterprises lost very little money over the years prior to the depression. In the thirties, the State set up a sugar factory and a paper mill as Government companies, carried out preliminary surveys and investigations for a number of projects, and participated in the share capital of a silk factory and granted various kinds of concessions like free or cheap land, power and materials for a number of engineering enterprises.

Hyderabad started an Industrial Trust Fund in 1929 for aid to industries with a capital of Rs. 1 crore; for improvement and development of small and cottage industries, industrial experiments and demonstrations, and economic and industrial enquiries; and for the provision of grants in aid for research work and scholarships for industrial training. Its funds were also used for investment in leading public companies outside the State.

Baroda took some interest in industrial development within the State from the 1880's but most of the assisted enterprises failed. After these failures, the State confined its assistance to financial participation in banking and several well known public companies like Tata Chemicals, etc.

The larger and coastal States of Kathiawar also took a keen interest during the inter-war years in the setting up of cotton mills and various miscellaneous activities like pottery. This interest was more prestigious, than motivated by purely business or economic considerations, though many of these enterprises did well during the Second World War.

Protection: If the Reforms made it difficult or impossible for the Government of India to assist Indian industries by some methods, they were destined to provide the Central Legislature and the Central Government with a method of granting State assistance hitherto untried in India. India became fiscally autonomous in 1919. The Montagu-Chelmsford report said:

"Desiring industries which will give him Indian-made clothes to wear and Indian-made articles to use, the educated Indian looks to the example of other countries which have relied on tariffs, and seizes on

the admission of even free traders that for the nourishment of nascent industries a tariff is permissible. We do not know whether he pauses to reflect that these industries will be largely financed by foreign capital attracted by the tariff, although we have evidence that he has not learned to appreciate the advantages of foreign capital....So long as the people who refuse India protection are interested in manufactures with which India might compete, Indian opinion cannot bring itself to believe that the refusal is disinterested or dictated by care for the best interests of India."

The Fiscal Commission 1921-22 was unanimous in finding that the adoption of a policy of protection was in the best interests of India, but was divided on the extent and scope of protection. The majority favoured discriminating protection for industries subject to three main safeguards: (1) the industry should possess natural advantages, (2) without the help of protection it is not likely to develop at all or not so rapidly as is desirable, and (3) it will eventually be able to face world competition without protection. Claims for protection were to be examined by a Tariff Board independent of political influence. While recommending protection, the Tariff Board was to keep the following broad principles in mind:

(1) Industries that are subject to the law of increasing returns as well as those which are capable of supplying the entire home market should be regarded as possessing additional claims to protection.

(2) Even though the protection of a particular industry should involve injury to the interests of other related industries, the Tariff Board should not withhold protection from that industry, provided that such protection is calculated to result in an economic advantage to the country.

(3) While protection should ordinarily be granted to what are called infant industries, it may also be extended to industries that are in a state of temporary deterioration or atrophy and even to a strong and prosperous industry which might thereby be induced to develop a new branch.

(4) Tariff protection should not ordinarily be granted to new industries.

(5) The rate of protection should be neither too low nor too high, and should be determined primarily in the light of comparative costs.

(6) The Tariff Board should be directed to review periodically the protection given to different industries so as to indicate the desirability of the continuance, or modification, or withdrawal, of protection.

The Chairman and four members did not endorse these safeguards and desired that no safeguard be laid down other than "such discrimi-

nation as may be considered necessary by the Government of India and the Indian Legislature." They wanted the Tariff Board to be semi-political and semi-commercial. Among other main recommendations, the Commission also suggested the abolition of the cotton excise duty (on political grounds), levy of customs duty on Government imports (accepted in 1924), and restriction of Government monopolies or concessions of foreign capital to firms registered in India with rupee capital and having a reasonable proportion of Indian directors and willing to train Indian apprentices. The minority wished to impose these conditions by legislation on all foreign firms establishing industries behind the tariff wall.

The Commission also recommended that raw materials and machinery be ordinarily admitted free of duty and that semi-manufactured goods used in Indian industries be taxed as lightly as possible. Industries essential for national defence and for the development of which conditions in India are "not unfavourable" should "be adequately protected if necessary". Regarding Imperial preference, it suggested that no such general system be introduced but the question of preferential duties on a limited number of commodities could be considered by the Legislature on the recommendation of the Tariff Board. No such preference should diminish the protection required by industries or involve on balance any appreciable economic loss to India. Any preference to be given to U. K. should be granted as a free gift but, in the case of other Empire countries, preference should be granted only on the basis of mutually advantageous agreements. It unreservedly condemned the cotton excise duty and called for the regulation of excise policy solely in the interests of India.

Though Government was agitated over the harm that protection would do to the inarticulate agricultural masses, the necessity of raising revenue had already led to large increases in customs duties so that some industries were already enjoying a fair measure of protection. Annual revenue from import duties had gone up from Rs. 8 crores in the period 1909-10 to 1913-14 (average) to Rs. 12 crores in 1917-18 and Rs. 28 crores in 1921-22. As a proportion of total revenue, import duties rose from 12 per cent in pre-war years to 24 per cent in 1921-22. These increases had not been made uniformly nor had they been made solely with regard to consideration of revenue. To some extent, therefore, the new policy involved the substitution of a tariff scientifically designed to assist industries for one which was arbitrary and irregular in its effects on industries.

The Commission had recommended first priority for protecting the iron and steel industry which was facing severe competition from imports after enjoying the prosperity brought about by war orders. The first Tariff Board made a detailed investigation into the costs of Tata Iron & Steel and the effects of protection on steel-using industries and recom-

mended substantial increases in import duties on iron and steel in various forms and the grant of bounties on steel rails and fishplates and on railway wagons. The burden was estimated at Rs. 1.5 crores per year, over a third of which would be borne by the general consumer, the remainder by public bodies, railways and larger industries. The alternative was extinction of the industry and severe damage to industrial confidence, besides loss of employment of trained personnel and severe loss to the coal industry. When the recommendation came before a special session of the Legislature, members argued, for the first time, the pros and cons of protection, nationalization and advisability of confining protection to grant of bounties. The Assembly deleted the proposal for duty on agricultural implements, and approved protection for three years. Within two months, the company applied again for further duties because of dumping by Continental producers. In January 1925, the previous duties were left intact but the additional protection recommended was given in the form of bounties.

	Duty before April 1924	*Duty approved June* 1924 Rs. per ton	*Duty Proposed November* 1924
Galvanized sheets	30	45	78
Steel bars	14	40	75
Tinplate	40	60	104
Black sheets	17.5	30	52

The duties generally represented 50 to 75 per cent in *ad valorem* terms. Further proposals for bounties were approved in 1925. The cost of protection could not be estimated but the bounties totalled Rs 2.26 crores over the three years 1924-25 to 1926-27. In 1927, the Tariff Board gave the verdict that "the decline in steel prices and the expansion of the market indicate that the protective duties have not proved burdensome, that the trade of the country has not suffered, and that no serious hardship has been caused to the producer of steel or to the general public." The new duties agreed to in 1927 were generally lower, the bounties were discontinued, and the duties allowed preferential rates to British imports. The duties were levied for seven years by which time it was hoped that Tatas would be able to withstand British but not Continental competition. In 1931-32, Tata, Indian Iron and Mysore Iron, the three principal manufacturers of pig iron entered into an agreement to fix prices, regulate output and allocate markets.

The most publicized fiscal measure of the twenties was not the imposition but the removal of a duty as an article of faith. Tariff changes in 1917 and 1921 had made the import duty on cotton piece-goods substantially higher than the excise (though the duty exemption for mill

machinery and stores had been withdrawn) but this failed to make any impact upon business sentiment and organized political opinion. The Government proposal in 1922 to raise the duty on imported piece-goods (as part of the general revision in order to cover the revenue deficit) from 11 to 15 per cent was conditional upon raising the excise from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent, which the Legislature declined to accept. Consequently, no change was made either in import or excise duty but a 5 per cent duty was levied on imported twist and yarn (which had been on the free list since 1896) over the protests of handloom interests. In 1925, when Bombay millowners made the withdrawal of a proposed wage cut conditional upon repeal of excise duty and received the backing of the Provincial Government, the duty was suspended by an ordinance. The remission amounted to Rs. 2 crores and did not substantially help the industry, particularly in Bombay, which suffered at least as much from internal as external competition. The Bombay mills had frittered away their resources during the war boom by distributing Rs. 50 crores as dividend between 1915 and 1922, an average of 53 per cent on paid-up capital.

Encouraged by their triumph over excise, the Bombay and Ahmadabad millowners pressed home with a demand for protection against Japanese competition. The Tariff Board was divided in its recommendations on the subject in 1927 and initially Government confined the relief to restoring the duty exemption on mill machinery and stores. Within a few weeks, however, Government agreed to subordinate its concern for handlooms and granted blanket protection till 1930 to mill yarn of counts 40 and below against Japanese competition, which was actually concentrated in the count range 30 to 50 only. In 1928 and 1929, the piece-goods market became acutely competitive for Bombay and Ahmadabad and demands were made for protection to cover piece-goods as well. Government, too, was looking for revenue to cover its deficit and did not look kindly at Japanese imports which cut into the market for Lancashire. In 1930, after the receipt of the Hardy report, a combination of specific and *ad valorem* duties was levied on imported piece-goods with a slight preference for British goods. Dey* estimated that the new duties were equivalent to a dividend of 11 to 12 per cent on the then paid-up capital of the entire industry and that about one-half of the total sum paid by tax-payers went as bonus to producers. These rates were further enhanced twice in 1931, and raised steeply from 20 to 50 per cent on non-British goods in 1932. An industry which had grown vigorously and profitably for at least sixty years in spite of official apathy or antipathy, thus, came to depend upon protection, at least, partly because Bombay and, to a lesser extent, Ahmadabad mills were not able to withstand competition from other internal centres and which, there-

***The Indian Tariff Problem*, p. 90

fore, found Japanese supplies a convenient scapegoat for covering up their mismanagement of finance and labour. Evidence of mismanagement came soon with the break-up of the Currimbhoy Ebrahim group in 1933 and the transfer or liquidation of several other mills in Bombay shortly thereafter.

Protection to the sugar industry came about largely as a result of heavy revenue duties, but the industry developed only after the Tariff Board recommended their conversion into protective duties. The import duty on sugar was 5 per cent from 1894 to 1916 when it was raised to 10 per cent, and further to 15 per cent in 1921 and 25 per cent in 1922. Three years later, the duty was made specific and was raised fairly consistently for revenue reasons through 1931, when Dey* estimated it as equivalent to 190 per cent *ad valorem* at current prices. In spite of the heavy duty, imports nearly doubled over the twenties to about 9 lakh tonnes. The revenue from import duty rose from Rs. 53 lakhs in 1900-1901 to Rs. 870 lakhs in 1929-30, in which year Government encouraged the industry to seek protection. The Tariff Board recommended that the revenue duty (which stood at 120 per cent at the end of 1930-31) be transferred to the protective schedule for 15 years, the rate for the first 7 years to be 135 per cent and for the next 8 years 101 per cent. Government, without committing itself to the conversion, raised the rate of duty in 1931 to the level recommended by the Board. The policy underlying sugar protection was not designed primarily to help the sugar industry but to protect the interests of farmers growing sugarcane, the cultivation of which fetched the highest monetary return among all staple crops. In 1929-30, there were only 29 sugar factories producing 91,444 tonnes of white sugar. The import of sugar mill machinery in real terms increased thirty times between 1928 and 1933; sugar production was 5.69 lakh tonnes in 1932-33 and reached self-sufficiency in 1935-36 when there were 135 factories.

Protection to Other Industries: In 1924, the import duty on sulphur was abolished in order to help chemical manufacturers. The Tariff Board reported on paper in 1925 and concluded that sabai paper was not an infant industry; protection could be given only along with such non-tariff concessions as protection of process, patents and State guarantees for debenture issues. Government agreed to grant only protective duties for seven years but the industry was saved. Among other industries that received protection between 1923 and 1939 were printer's ink, matches, salt, heavy chemicals, sericulture, magnesium chloride, plywood and tea chests. Protection to heavy chemicals hardly served any purpose because the period of protection was only $1\frac{1}{2}$ years. Magnesium chloride and plywood received only a small measure of protection.

Among the industries that were denied protection were cement (in

**The Indian Tariff Problem*, pp 238-39.

1925, though the conversion of *ad valorem* duty into specific in 1926 enabled the industry to satisfy 95 per cent of demand by 1936), glass and worsted woollens (because their essential raw materials were not available locally), kerosene and coal. Another industry, locomotive manufacturing, was denied protection in 1924 on the ground that the home market was not large enough.

As viewed by the Second Fiscal Commission, the basic defect in the approach of the First Fiscal Commission was that "protection was not visualised as an instrument of general economic development but was viewed as a means of enabling particular industries to withstand foreign competition." The conditions laid down by it were, moreover, interpreted rather rigidly. The result was lop-sided development with a lack of attention to the development of basic and ancillary industries.

Effects of Protection: While protection did impose in some cases rather avoidably high costs on the consumer, mainly because it was not aimed at general industrial development, it succeeded to a considerable extent in safeguarding the existence and expansion of the protected industries and also developed some interest in allied industries. Between 1922 and 1939, the production of steel increased eightfold from 1.32 lakh tonnes to 10.57 lakh tonnes; the production of tinplate, wire, wire-nail, engineering and agricultural implements was also encouraged. Cloth production went up from 1554.5 million metres to 3658 million metres, matches from 16 to 22 million gross, paper and paperboard from 24,385 tonnes to 68,075 tonnes and cane sugar from 24,385 tonnes to 945,942 tonnes.

Employment in protected industries grew 47 per cent between 1923 and 1937 from 580,000 to 881,000, while in unprotected industries the increase was only 24 per cent from 8,70,000 to 10,51,000. None of the protected industries suffered any setback in production during the thirties when other industries were passing through difficult times. The area under cotton and sugarcane expanded considerably.

Going by the record of protected industries, the Second Fiscal Commission observed that "the policy of discriminating protection, within its limited scope, has achieved a fairly large measure of success and that, on balance, the direct and indirect advantages to the community of protection to these major industries offset the burden on the consumers."

External Capital: Industrial enterprises had been, since the mid-19th century, dependent to a considerable extent on the supply of capital from abroad and those responsible for providing the capital had naturally secured a large measure of control. At the same time, the demand for industrialization was closely associated with nationalistic aspirations. As industry developed, there were apprehensions that the power of foreign capitalists was increasing. The question was discussed at length by the First Fiscal Commission which was divided on the issue; it was referred

to an External Capital Committee in 1924, consisting of the Finance Member and members of the Legislature. The Committee concluded that external capital was a valuable factor in assisting economic development and that general measures discriminating against it or penalizing it by way of taxation or control would be definitely injurious both to the development of Indian resources and the interests of Indian investors. It also recommended that where investment carried with it the control of an undertaking, certain conditions (stated below) should be applied provided that discrimination was feasible. But it considered that, where a general concession was given, *e.g.*, by a tariff, it was impracticable to effect any discrimination. On behalf of Government, Sir Atul Chatterjee stated in the Assembly on March 2, 1922, that :

> "no concession should be given to any firms in regard to industries in India unless such firms have a rupee capital, unless such firms have a proportion at any rate of Indian directors, and unless such firms allow facilities for Indian apprentices to be trained in their works. This has been mentioned more than once, and I can only repeat this declaration."

The problems created by the setting up of foreign-controlled enterprises, both before and after the adoption of high revenue duties and discriminating protection, were highlighted in the thirties with the entry of international combines into the "new" industries and the frequent non-co-operation of such enterprises with the Tariff Board, in the enquiry into the woollen industry, for example.

Unbalanced and Inadequate Growth : In 1939, there were only 11,600 factories (each employing 20 persons and above) and the number of persons engaged in them was 17.5 lakhs. About one-half of these workers were in cotton and jute mills; engineering (including railway workshops), metals and chemicals together accounted for less than one-fifth, and Government factories employed about one-tenth. The 1931 Census disclosed that, over the preceding twenty years, the working population had expanded by 4 per cent but persons employed in industry had decreased from 17.5 million to 15.3 million or by nearly 13 per cent. The decline was marked in traditional handicrafts but the advance of modern factory industries failed to compensate for it. What were the reasons for this stagnation or arrested growth ?

What little data there are of income trends in the inter-war period indicate that per capita income hardly increased during the period; probably it declined. The total production and per hectere yields of food crops, especially rice, remained constant or declined in British India excluding Burma. The terms of trade were adverse to agriculture. Gold exports, representing dissavings, totalled Rs. 321 crores during the seven years 1931-37. Between 1928-29 and 1932-33, the value

of exports fell from Rs. 339 crores to Rs. 135 crores and of imports from Rs. 260 crores to Rs. 135 crores. Budgetary policy was orthodox: direct and indirect taxes were raised and expenditure was reduced. The total revenue expenditure of Central, Provincial and Local Governments declined from Rs. 365 crores in 1928-29 to Rs. 325 crores in 1934-35; capital expenditure of Central and Provincial Governments went down from Rs. 44 crores to Rs. 5 crores over the period. Aggregate public sector outlay in 1934-35 was Rs. 345 crores against Rs. 412 crores in 1928-29.* Decline in purchasing power and minimization of Government purchases dimmed the prospects of industrial development which came to be based largely on substitution of imported light consumer goods behind a tariff wall which helped to create and maintain a gap between the prices and costs of finished goods.

The tariff wall had a large window in the shape of Imperial preference during the thirties, and it was partial in the sense that it was extended piecemeal and never covered the import of machinery and stores on the ground that tariffs on them would raise industrial costs. Cotton, sugar, cement and steel expanded under the umbrella of protection, statutory or informal. Their expansion did not lead to any marked growth in engineering and chemicals. The growth of engineering industry was arrested by severe retrenchment in railway** and other public expenditure (the key element for the industry), and decline in coal and jute output. What demand there was for capital and intermediate goods (mainly from protected industries) was satisfied from imports which were substantially cheaper than in the early twenties; this demand was in any case subject to a ceiling set by the possibility of short term import substitution in terms of quantity and/or selected qualities. The cement glut in the thirties brought out the dangers of piercing this ceiling too rapidly.

Setting up of non-traditional industries required—understandably to a greater extent than in the planned fifties and sixties—foreign capital and skills, which were not forthcoming. British private capital was attracted to India when profits were fabulous in the jute industry during post-war years (Table I). The annual export of British capital to India increased from £14.7 millions (9% of total) in 1908-10 to £29 millions in 1921 and further to £ 36 millions in 1922 when it was about one-fourth of total British capital exports. The annual figured ropped to about £ 1 million between 1924 and 1926 and to less than £ 1 million in 1927. There was some revival of British investment in thet hirties but the new investment was almost wholly in consumer goods—and it came from international combines :

*K. Mukerji: *Levels of Economic Activity and Public Expenditure in India*, pp. 89-90.
**The capital at charge of Indian railways rose from Rs. 831 crores in 1928-29 to Rs. 880 crores in 1936-37 while working expenses were reduced during the period from Rs. 75 crores to Rs. 70 crores. (*Indian Railways: One Hundred Years*, 1853-1953).

"In some important cases, notably the manufacture of cigarettes, matches, rubber tyres, soap, paints, and certain chemicals, these industries are branches of important firms in the United Kingdom which have decided that it is to their advantage to meet the Indian demand from works situated inside the tariff wall, and also to be in a position to claim the status of Indian origin when tendering for the requirements of Government purchasing departments."*

As the depression took its toll of British prosperity and employment, the liberalization of policies that had been evident soon after the First World War became gradually diluted till, in the thirties, one missed any reference to the importance of basic industries and assurance of Government purchases which the Industrial Commission had stressed. Protection to politically influential industries sweetened the pill of imperial preference. No attempt was made to extract a *quid pro quo* from protected industries in the form of rationalization of management and location or to bring about backward linkage of production to intermediates and capital goods. It is fair to add, at the same time, that the few Indian business groups in existence were, on the one hand, debilitated by their misadventures and decline in profitability during the twenties and, on the other, their energy and resources were exhausted in the large expansion of sugar and cement and maintenance of cotton mills on an even keel. Not till the late thirties could the Tatas, for example, recover sufficiently from their post-war setbacks to go into chemicals and heavy engineering. Filling up of the structural gaps which the Industrial Commission had pinpointed required considerable Government initiative and assistance. Instead, Government was concerned exclusively with balancing its own budget.

The Second World War found India somewhat better prepared and equipped than during the First World War but, as compared with the level and variety of demands imposed on the economy, the situation was not very different. Cotton, jute and steel remained the principal items of war procurement, though large orders for ammunition shells gave engineering factories and railway workshops some useful experience of mass production.

The Second World War gave a considerable impetus to the development of industrial potential; its contribution to actual expansion was not equally great. In 1940, Government announced that industries started during the war would be adequately protected if they were organized on sound business lines. After an initial setback caused by stoppage of trade with enemy countries and disruption of shipping, an uptrend was established which lasted till 1945 and then petered out the very next year.

Those industries which were already in existence worked to full cap-

* *Report on Conditions on Prospects of United Kingdom Trade in India,* 1939. (Department of Overseas Trade, London.)

TABLE I

Dividends as Per Cent of Ordinary Capital

	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927
Banks	13.4	15.6	16.0	15.1	14.9	15.4	15.4	14.9	14.5	14.5
Jute Mills	141.5	125.4	109.7	34.8	38.2	39.0	56.8	44.7	36.3	54.2
Coal Companies	15.7	19.0	17.3	18.2	16.8	16.6	16.5	14.5	10.2	8.2
Tea Companies	19.8	13.6	1.3	11.4	20.0	35.0	36.7	21.7	22.6	34.7
Pressing Companies	—	—	13.8	12.9	12.0	11.3	12.0	14.7	14.5	15.5
Oil Companies	—	—	16.7	9.2	3.1	4.6	2.5	2.5	3.8	5.0
Insurance Companies	30.0	20.0	25.6	22.5	25.7	15.7	27.1	18.1	15.7	12.8
Real Property and *Zamindari*	—	—	5.0	32.5	32.5	17.5	3.3	2.3	2.3	2.3
Paper Mills	53.5	51.0	51.0	18.8	—	—	—	2.5	8.8	11.3
Cement, Lime, Pottery, etc.	32.9	30.5	55.5	54.9	55.0	16.4	6.9	7.6	6.1	7.8
Chemical Industries	11.5	14.0	11.3	12.8	8.8	7.5	6.2	5.9	6.0	7.2
Electric Light, Power and Telephone	8.8	8.5	7.5	6.8	6.4	5.9	5.6	5.7	6.5	6.6
Engineering and Metal Works	60.1	20.6	24.5	19.8	7.4	4.6	3.0	4.4	3.1	6.0
Flour Mills	—	47.4	46.8	39.5	35.7	18.9	17.1	21.4	19.6	16.4
Saw Mills and Timber	26.3	30.8	7.9	5.0	7.0	5.0	2.0	4.8	4.4	9.2
Sugar Refineries and Distilleries	16.3	15.5	20.3	22.4	14.3	10.6	15.7	9.0	10.3	11.0
Tramways, Steamer transit and Storage	11.5	13.6	11.7	11.6	9.1	8.2	6.3	7.2	7.8	9.7
Miscellaneous	24.8	19.4	19.0	3.4	10.7	10.2	10.8	9.4	6.5	6.4
South India Rubber	—	—	—	—	—	3.8	6.3	25.0	38.1	27.8
Cotton Mills	26.5	40.8	86.9	53.5	46.9	22.7	14.0	10.0	9.3	10.9
Light Railways	5.4	5.6	5.9	6.0	5.7	6.1	5.6	6.6	6.3	6.6

TABLE I (*Contd.*)

Dividends as Per Cent of Ordinary Capital

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
ks	13.0	12.2	11.0	10.9	11.4	11.4	7.6	8.8	8.9	—	—
Mills	4.19	22.1	12.8	10.7	15.6	20.7	14.2	14.1	9.2	5.2	7.1
Companies	8.8	8.5	6.9	4.7	3.6	3.9	5.0	5.3	5.0	6.7	7.4
Companies	9.5	5.5	2.7	2.3	9.2	7.8	8.6	10.0	12.6	11.4	—
sing Companies	11.3	8.8	11.0	7.7	8.5	8.1	7.6	6.1	4.9	3.2	2.9
Companies	9.1	8.7	6.7	7.3	4.8	7.5	3.6	2.6	11.8	10.2	7.5
rance Companies	13.6	17.1	18.6	17.7	17.7	17.3	17.8	15.1	16.1	14.8	nil
Property and *Zamindari*	5.0	5.0	5.0	7.8	9.8	4.3	2.5	5.5	2.4	2.6	1.7
r Mills	30.0	24.4	24.4	27.6	23.7	25.0	9.7	11.8	8.3	24.1	11.7
ent, Lime, Pottery, etc.	25.1	23.4	21.5	21.3	23.7	27.2	14.3	10.9	16.0	15.8	16.0
nical Industries	7.0	5.5	4.0	5.8	5.4	5.9	5.9	5.9	5.3	—	—
ric Light, Power and 'elephone	6.0	4.9	4.4	4.6	4.9	5.3	5.2	5.4	5.7	5.9	4.1
neering and Metal Vorks	6.0	3.8	2.9	3.6	3.0	1.3	5.4	6.8	14.0	23.6	34.3
r Mills	17.7	6.9	14.1	14.3	1.3	2.4	4.6	9.3	14.8	23.5	2.7
Mills and Timber	7.5	4.0	1.7	3.3	1.7	1.7	6.5	7.3	—	—	—
r Refineries and)istilleries	9.8	9.6	11.1	19.5	17.2	11.6	7.2	9.6	3.6	7.9	7.7
aways, Steamer transit nd Storage	9.2	7.6	5.2	4.7	5.0	5.7	6.1	5.8	9.1	8.9	6.3
ellaneous	5.5	4.9	3.9	3.6	3.6	4.3	5.0	6.6	7.6	7.8	4.4
h India Rubber	5.3	nil	nil	nil	nil	0.4	2.5	5.0	14.7	7.7	4.6
on Mills	11.4	10.0	9.6	8.8	6.7	8.5	9.8	7.4	9.2	—	—
t Railways	6.2	5.8	4.9	4.6	4.4	4.3	4.3	4.7	4.7	4.8	5.1

ce: Gopal, M. H. *The Theory of Excess Profits Taxation* (Mysore, 1947), pp. 96-7

acity often in more than one shift. New plants were added in several cases and a few basic industries were established in spite of the extreme difficulty of obtaining capital equipment. A rapid expansion of small-scale industries created new sources of supply; a variety of goods like cutlery, skewers, hand tools, taps, drains and camouflage nets and many other consumer and intermediary goods were manufactured. No precise information is available regarding the output of these small units, some of which disappeared soon after the war. The index of industrial production (1937=100) rose from 102.7 in 1939 to 120 in 1945. The major increases were under steel, chemicals, paper, paints and liquors (Table II), while jute, matches, sugar and wheat flour remained depressed. The production of major industries could not, on the whole, be said to have increased substantially though higher prices and profit margins did bring about unprecedented prosperity to industrial enterprises and their managements. Capital equipment was exposed to considerable wear and tear; maintenance and replacement were neglected. Coal and transport bottle-necks remained a serious threat to output expansion through the war.

Some of the important new industries that were set up during the war were (a) ferro-alloys like ferro-silicon and ferro-manganese, (b) non-ferrous metals and metal fabricating industries like aluminium, copper, copper-sheets, wires and cables, etc., (c) mechanical industries like diesel engines, pumps, bicycles, sewing machines, machine tools and cutting tools, (d) a few items of textile, tea and oil processing machinery, and (e) chemicals like sulphuric acid, caustic soda, chlorine, superphosphates, photographic chemicals and bichromates. Some of these new articles were produced in very small quantities.

Between 1939 and 1945, the volume of factory employment expanded from 18 lakhs to 31 lakhs while in Government factories it expanded from 132,000 to 419,000 (in 1944). The number of ordnance factories trebled and the number of employees increased from 15,000 to 100,000; the number of workshops capable of supplying engineering components rose from 600 to 1500. Output of guns and ammunition rose manifold (artillery equipment produced increased from 97 to 1,376). The monthly production of machine tools expanded from 100 in 1939 to 350-400 in 1945. By September 1941, 54 firms were licensed to manufacture machine tools and lathes, furnances, power blowers, sand blasting plant, etc. Over 280 new items of engineering stores were manufactured for the first time by 1941, ranging from small tools and machine tools to heavy calibre guns, torpedo boats and degaussing cables. Wire mesh, benzol, rubber goods, disinfectors, binoculars, lubricating oils, lead pipes and sheets, chloroform, carbonic acid, oxygen apparatus, stoves and heavy chemicals were produced for the first time. Aluminium alloy drop forgings and various high speed and stainless steels were produced for the air force.

TABLE II

Interim Index of Industrial Production

(1937 — 100)

—	*General Index*	*Cotton Textiles*	*Jute*	*Steel*	*Chemicals*	*Paper*	*Cement*	*Matches*	*Paints*	*Sugar*	*Wheat Flour*	*Distilleries and Breweries*	*Petrol*
1938	105.4	109.0	98.3	108.0	84.4	121.6	124.8	85.1	130.1	88.7	100.6	102.6	123.0
1939	102.7	104.3	92.4	125.0	103.9	135.1	152.9	87.0	147.1	62.5	100.0	100.0	120.5
1940	109.9	103.6	96.1	125.5	133.3	169.7	152.1	90.0	165.6	106.0	97.8	114.5	157.1
1941	117.8	114.8	92.4	131.1	153.2	185.4	185.8	76.4	241.9	108.2	114.0	140.5	174.9
1942	111.2	102.0	99.5	136.7	138.7	180.9	194.5	60.0	233.5	78.4	90.3	144.1	168.3
1943	117.0	117.0	84.4	141.5	138.6	179.2	188.4	68.8	251.3	95.3	70.3	176.0	200.0
1944	117.0	122.9	86.7	139.6	126.3	192.7	182.1	68.1	259.3	97.1	89.2	197.8	197.7
1945	120.0	120.0	84.4	142.9	134.1	196.5	196.5	90.2	232.4	85.5	103.5	220.4	164.8
1946	109.0	101.9	84.6	130.0	111.2	193.4	181.1	90.5	177.8	80.5	64.8	211.7	134.7

Source: *Report of the Second Fiscal Commision*, 1949-50, p. 21.

Power alcohol manufacture was taken up. The number of heavy automobile units assembled in Bombay rose from 11,000 in 1939 to 47,000 in 1942; armoured plate vehicles were produced in Jamshedpur, but their output was limited by the necessity of importing chassis.

Till the Japanese invasion of Burma and Assam, there was no serious attempt to develop aircraft, ship-building and automobile manufacture on the ground of certain "serious difficulties" which the invasion nevertheless, helped to overwhelm. An official technical training programme was introduced only in 1941 and then, too provided for the training spread over one year of 7,300 persons at all levels including semi-skilled workers. There was no policy for large-scale training of manpower and its utilization to the maximum advantage.

"Never within recent years," noted Tyson in 1942, "has there been any lack of capital in India or a reluctance to stake it on new and sometimes speculative projects". But the engineering industry was, not surprisingly, found to be organized on a jobbing and servicing basis; mobilizing it for mass production created problems, especially because there was a severe shortage of technicians, skilled labour and machine tools. Control of capital issues was introduced in 1943. There was no control over imports from sources other than enemy countries until May 1940; 117 commodities were under control by May 1941, but comprehensive import control was introduced only in June 1942, and the tendency even then was to cut down all imports in the same proportion. The value of machinery imported declined from Rs. 20 crores in 1939 to Rs. 11 crores in 1943. Before the American entry into the war which rendered the world supply position difficult, shipping imposed its limits.

As Prest pointed out "India was called upon to produce more manufactured goods and grow more food despite the wartime lack of raw materials, fertilizers and machinery which inevitably made these tasks even more difficult than they had been before. The major part of the industrial expansion was in a few industries, engineering, iron and steel, textiles and chemicals, most of which were highly localized. In 1939, 400 out of 800 engineering works, 37 out of 157 foundries and rolling mills, 17 out of 26 chemical works and nearly all coal mining were in the Bay of Bengal area. This meant that the local resources of skill and even unskilled labour were exhausted soon. The Japanese entry and evacuation and flight, together with demand for local military construction, aggravated the scarcity of labour. Many of the lacunae were the result of lack of foresight. "Government thought in the first year of the war that the maximum force for which India could supply equipment was 1 lakh, an Air Force of nine planes with Indian pilots was thought ambitious and the production of ships, automobiles and aircraft was dubbed impossible."

Government Purchases, World War II : Unlike the First World War, when the creation of the Munitions Board took more than two years, a Supply Department was set up as soon as the war broke out in September 1939. It was concerned as much with production as with purchases. The Department acted as the executive agency of, first, the War Supply Board and later, the War Resources Committee, which directed the industrial war, effort in collaboration with the Eastern Group Supply Council. The Director General of Supply was at first responsible for all supplies from ordnance factories and purchases from private industry, but some of his functions were later diverted to other directorates, principally the Directorate General of Munitions which looked after metals. The general method used by these agencies until 1941, was the peace-time one of competitive tendering, but later this disappeared and contracts were placed with industry on the basis of ascertained cost and profit margins. Competitive tendering was continued for small industries. Just before the war, the Chatfield Committee had recommended a capital expenditure of Rs. 7 crores on the expansion of existing ordnance factories at the expense of the British Government. These went into production by 1942. The Roger Mission of 1940-41 surveyed the whole field of industry and recommended capital expenditure in India by the British Government of Rs. 1,235 crores on expansion and rational integration of production.

From 1939-40 to 1944-45, total defence expenditure amounted to Rs. 2,738 crores, of which Rs. 1,389 crores was recoverable from the British Government. The value of contracts placed between 1938-39 and 1942-43 exceeded Rs. 560 crores, including a little more than Rs. 11 crores on small industries. Non-munitions industries also benefited from contracts. Between 1939 and 1945, the Supply Department absorbed, among other things, 3,566 million metres of cloth out of a total output of 23,774 million metres, 43 per cent of paper output, and the entire production of woollen mills. Textiles and engineering stores accounted for 43 per cent each of Supply Department purchases between 1939 and 1941. In the first year of the Eastern Group Council's existence, India supplied 60 per cent of total war demands in the region, 64 per cent after the fall of Hong Kong and Malaya.

Industrial Policy: As in the First World War, Government was eager to give assurances of various kinds of assistance for post-war industrial development. In June 1941, a high level Reconstruction Committee of the Viceroy's Executive Council was appointed to draw up plans for post-war reconstruction. Soon after the publication of the Bombay Plan in 1944, one of its signatories, Ardeshir Dalal, was appointed to head the newly created department of planning and development at the Centre. The department established a number of industrial panels

consisting of officials and non-officials and, on April 23, 1945 issued a statement of industrial policy. The declared objectives of industrial development were stated to be: to increase the national wealth by the maximum exploitation of the country's resources, to make the country better prepared for defence, and to provide a high and stable level of employment. The highlights of the policy statement were as under:

(1) About twenty major industries would be brought under the control of the Central Government.

(2) Basic industries of national importance, namely, aircraft, automobiles, tractors, chemicals and dyes, iron and steel, prime movers, electric machinery, machine tools, electro-chemicals and non-ferrous metals, could be nationalized if adequate private capital was not forthcoming since it was essential in the national interest to promote such industries. All other industries would be left to private enterprise under varying degrees of control. Coal would be handled as a special case.

(3) In order to regulate industrial development, the Government would have to take power to license industrial undertakings. Industrial workers would be enabled to secure fair wages and reasonable living conditions. Controls would be utilized to prevent excess profits and to ensure the quality of industrial products, etc.

(4) Government would have the primary responsibility for assisting industrial progress through the development of transport, power, and facilities for scientific and industrial research and technical education. Government might also assist industry by helping to raise capital by tariff and taxation policy and by the procurement of capital goods from abroad.

In 1945, Government realized the importance of assisting or protecting industries during the transitional stage pending the formulation of a long-term tariff policy. An interim Tariff Board was set up for two years to investigate the claims of various industries seeking protection or Government assistance. To qualify for such cover, an industry had to satisfy the Tariff Board that:

(a) it is established and conducted on sound business lines;

(b) having regard to the natural or economic advantages enjoyed by the industry and its actual or probable costs, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or State assistance; or

(c) it is an industry to which it is desirable in the national interest to grant protection or assistance and that the probable cost of such protection or assistance to the community is not excessive.

The criteria laid down were more liberal than in pre-war days; the power to make recommendations on matters other than protection

gave the Board considerable flexibility of inquiry and evaluation. Besides protection and other forms of assistance, the Board was empowered to:

(i) maintain a continuous watch over the progress of protected industries and advise Government on the modifications of protection or assistance required;
(ii) report to Government on factors which lead to higher costs of production in India as compared with other countries;
(iii) enquire into the cost of production of commodities and determine their wholesale retail or other prices;
(iv) advise Government on measures required to secure internal production on the most economical cost basis;
(v) recommend measures required for protection against dumping from abroad;
(vi) undertake studies on the effects of *ad valorem* and specific duties and tariff valuations on various articles and the effects of tariff concessions granted to other countries; and
(vii) report to Government as and when necessary on combinations, trusts, monopolies and other restrictions on trade which may tend to affect the industries enjoying protection by restricting production or maintaining or raising prices and to suggest ways and means of preventing such practices.

Most of these additional functions were not actually carried out. The main work of the Board consisted of investigating the claims of protection and inquiring into the cost of production of prices of articles like steel, etc. To anticipate slightly the developments which took place after 1946, the Tariff Board followed the method of equating domestic cost with the landed cost of equivalent imports to determine the quantum of protection and also allowed a margin of upto 20 per cent (generally 10 per cent) for consumer prejudice against the domestic product. In a few cases, subsidies and import restrictions were also recommended. Apart from these, it also made other recommendations covering:

(a) placing of Government orders,
(b) modification of capital structure of companies in applicant industries,
(c) safeguards for companies registered in India competing with foreign companies manufacturing in India,
(d) refund of duty on capital goods or raw materials required by the industry,
(e) increased employment and training of Indian nationals and assistance for technical training and employment of foreign experts,
(f) formation of manufacturers' associations and institution of joint sales organizations, and

(g) prescription of suitable standard specifications.

During the five years 1945-50, the interim Tariff Board conducted 90 inquiries, including 5 price inquiries against 51 carried out between 1923 and 1939, and Government announced its decisions in most cases within two months of the receipt of its recommendations. This was in striking contrast with the period of 3 to 24 months taken by Government to make its decisions between 1926 and 1937 after 5 to 18 months taken by the then Board to submit its report, quite apart from the delay in referring applications to the Board or outright rejections without reference to the Board.* The interim Board recommended protection for the first time to 38 industries and continuance of protection to 22 industries. Among the important industries which received protection during 1945-50 were aluminium, antimony, caustic soda, bleaching powder, soda ash, textile machinery, bicycles, electric motors, plastics, preserved fruits, sewing machines, sheet glass, starch, and calcium chloride.

Industries in Princely States: The leading progressive States planned and carried out a number of enterprises during and immediately after the war. In 1940, Mysore (Karnataka), in collaboration with the industrialist Walchand Hirachand, established Hindustan Aircraft but, soon after, the Government of India bought out Walchand and took it over as an aircraft repair shop. The State also established an industrial and testing laboratory, and took up a large part of the equity of several companies established for the manufacture of matches, radio and electrical equipment, lac and paints, chrome tanning, and chemicals and fertilizers. Departmental enterprises entered into the manufacture of vegetable oils, glass, enamel, electric bulbs, porcelain, and plywood. A survey in 1951 found that the State had invested a little more than Rs. 5 crores in departmental enterprises, Rs. 84 lakhs in joint ventures with private interests and advanced loans exceeding Rs. 30 lakhs to the latter. The Mysore Iron and Steel Works which had started in 1923 with a wood distillation plant and a 61-tonnes per day capacity charcoal blast furnace had changed over to the production of steel and cast iron pipes in 1936; two years later a cement unit was added and, in 1942, a ferro-silicon plant was added.

In Hyderabad, the mining areas under Singareni Collieries (established in 1920) were further developed. After the war, the State promoted and financed a large number of enterprises for the manufacture, among other things, of machine tools and forgings, cotton, sugar, heavy chemicals, sheet glass, glucose, starch, casein, plastics, metal products, etc. By 1949, there were 43 industrial concerns in which the Government held large blocks of shares.

**Report of the Second Fiscal Commission*, p. 1

The Travancore Government promoted and invested heavily in companies for the manufacture of fertilizers and chemicals, sugar, rubber, cement, rayon, electro-chemicals, titanium, and timber soon after the war. It also set up departmental enterprises for the production of soap, porcelain, bicycles and an assorted variety of other goods.

While many of these enterprises became the nuclei of growth and contributed to the industrialization of the regions, the arrangements for their management, finance and marketing were not always satisfactory. Nearly all of them enjoyed guaranteed markets and various other concessions like free or cheap land, power, etc., but these in turn imposed oligations of a constricting nature. Departmental enterprises were stifled by administrative control, while private managements were not always keen to give their best since their own equity was disproportionately small. There was no over-all policy to regulate promotion, assistance and supervision; each project was taken up or aided on an *ad hoc* basis. Most of these enterprises had to be drastically reorganized in the fifties. These mistakes notwithstanding, there is no doubt that assistance and concessions from Princely States played a key role in the promotion of industrial entrepreneurship in the South, and laid the foundation for the impressive and relatively broad-based progress witnessed later during the fifties and sixties.

Summing Up: Pre-independence industrial policy wavered between, on the one hand, a paternalistic urge which manifested itself, during peace-time, in sporadic and fitful essays in industrial demonstration, education and unviable small direct assistance and concessions, during the two war periods in hectic procurement and liberal promises of post-war generosity and, on the other, acceptance of orthodox non-interventionist economic dogmas. The influence of British manufacturers was strong, till 1914, in the determination of tariff policy and, later, in more sophisticated direction of the course of discriminating protection and Government and railway purchases. The feelings of the Indian entrepreneurial class were assuaged with protection to cotton, sugar and steel, in which the British hold over the Indian market was being severely eroded by imports from non-sterling countries. In so far as protection led to industrialization during the twenties and thirties, a growing new market for industrial machinery was created for the benefit of British manufacturers who continued to enjoy a practical monopoly of supply of major engineering items to the railways. The engineering industry, largely British-controlled then, built itself up for repair and job functions, to which assembling of imported components was added during and after the war.

Curiously enough, both the periods — 1870's to 1890's and the late 1920's to early 1930's — in which there were something like minor and

limited investment booms coincided with world-wide decline in machinery prices. This remarkable coincidence took away what little incentive there might have been to establish machinery manufacture. A representative of Tatas stated before the Tariff Board in 1932 that financial and technical conditions were such that private industrialists were not able or inclined to enter into heavy engineering and chemicals without the promise of substantial support from Government. For its part, Government was eager to cut down expenditure and purchase commitments; guarantees of Government purchases or inducement of domestic purchases of plant and machinery at higher than import prices were unthinkable. Government production of railway, cotton and jute equipment (which had a relatively large market) would have run foul of orthodox policies and British manufacturers; production of equipment for sugar, paper and cement was ruled out, among other reasons, by the small size of the market and the once-for-all nature of the investment in these import substitutive industries. While the policy of discriminating production and high revenue duties was partial and halting, the real failure was not just of what industrial policy there was but lay in the absence of an over-all economic policy designed to arrest the decline of general purchasing power and employment opportunities and thereby to create an environment of growth. Protection could only give a shot in the arm for partial and fragmented import substitution in the short run; it could not expand aggregate demand for industrial products and create prospects of indefinite expansion.

The Indian entrepreneurial class exhausted its energies during the inter-war years in the expansion of cotton, sugar and cement. Its horizons did not stretch any wider due to lack of capital, technical skill and know-how of selling unfamiliar goods. Except for the Princely States and rich zamindars, which constituted a rather narrow and unpredictable class of long-term investors, there were no institutions to provide long-term finance for projects requiring considerable capital and likely to take a long time to earn a return from goods with uncertain sales prospects. The twenties and thirties were decades of lost opportunities mainly because Government refused to take an active and direct part in industrial development and the entrepreneurial class was distracted by the temporary — and in the long run costly — advantages of protection for consumer goods.

The pace of industrial investment, as measured by imports of "machinery and millwork", was extremely slow even after allowing for decline in import prices. Such imports averaged Rs. 5 to 6 crores a year from 1904 to 1918, rose to nearly Rs. 22 crores (when prices were inflated) in the period 1919-20 to 1923-24 and fell to about Rs. 13 crores between 1929-30 and 1936-37 (Table III). The index of all import prices declined by 37 per cent between 1927-28 and 1936-37; even on the out-

side but unrealistic assumption that machinery prices declined in the same proportion, the investment in industry during the inter-war years could hardly be described as substantial.

TABLE III
Annual Imports of Machinery and Millwork 1899-1939

Period/year		*Amount* (Rs. lakhs)
1899-1900 to 1903-04	(av)	2,79
1904-05 to 1908-09	(av)	3,58
1909-10 to 1913-14	(av)	3,61
1914-15 to 1918-19	(av)	5,13
1919-20 to 1923-24	(av)	21,64
1924-25 to 1928-29	(av)	16,19
1929-30 to 1933-34	(av)	13,36
1934-35		12,64
1935-36		13,68
1936-37*		12,76
1937-38		17,14
1938-39		19,04

Source : Vera Anstey: *Economic Development of India* (4th ed.), p. 624.
*Excluding Burma.

The war squeezed out the last ounce of production from existing industrial capacity but gave little scope for expansion of capacity, particularly in areas crucial for future growth. Its main contribution lay in the building up of immense trading and industrial fortunes through price inflation and drastic curtailment of mass consumption, and in familiarizing a key section of the population with new material aspirations and goods. Barring some import of steel and a little equipment on the recommendation of the Roger Mission, no concerted effort was made to import machinery under U.S. Lend-Lease arrangements. The immediate problem for industry after the war was to make up the damage caused by excessive wear and tear and lack of maintenance. World-wide shortage of machinery and shipping, political disturbances and blocking of sterling balances made it difficult to launch any major industrial expansion soon after the war.

On the eve of independence, India was one of the top dozen industrial countries of the world, measured by the size of its industrial output. Most of this output consisted of cotton piece-goods and yarn, jute, steel, paper, cigarettes, cement, coal and sugar. There was practically no production of capital goods in 1946, India produced machine tools worth Rs. 91 lakhs, electric motors 46,000 h.p., power transformers 39,000 kva and 473 diesel engines (Table IV). Non-ferrous metals, electrical engineering, automobiles, tractors, prime movers and heavy chemicals were either non-existent or still in their infancy. The output of chemicals was nominal: sulphuric acid 60,963 tonnes (against 19,305 tonnes in 1919), and a few thousand tonnes of caustic soda, soda ash, chlorine

TABLE IV

Production of Major Industries 1946

Industry	*Unit*	*Production*
Consumer Goods:		
1. Cotton cloth	m. metres	3,574
2. Woollens	th. kg.	122
3. Sugar	th. tonnes	9.05
4. Cigarettes	m. no.	18,879*
5. Drugs (tinctures and galenicals)	th. litres	2,273*
6. Paper and paper board	th. tonnes	107.7
7. Matches	50 gross	412,000
8. Electric lamps	th. no.	6,31
9. Storage batteries	th. no.	27
10. Electric fans	th. no.	1,10
11. *Vanaspati*	th. tonnes	88.4
Integrated and Production Goods		
1. Cotton yarn	m. kg.	520
2. Chrome tanned hides	th. no.	10,87**
3. Vegetable tanned hides	th. no.	19,53**
4. Cement	th. tonnes	1567
5. Asbestos cement sheets	th. tonnes	77.2**
6. Conduit pipes	th. metres	520**
7. Steel ingots & castings	th. tonnes	1,314
8. Aluminium	tonnes	3,288
9. Antimony	tonnes	134
10. Copper	tonnes	6,311
11. Sulphuric acid	th. tonnes	61
12. Superphosphates	th. tonnes	5.1
13. Caustic soda	th. tonnes	3
14. Soda ash	th. tonnes	12.1
15. Chlorine liquid	tonnes	1,524
16. Bleaching powder	tonnes	2,032
17. Bichromates	tonnes	2,114
18. Industrial alcohol	th. litres	21,911*
19. Power alcohol	th. litres	13,274*
20. Dry cells	lakh no.	8,80
21. Belting	tonnes	625*
22. Refractories	th. tonnes	159
23. H.T. Insulators	th. no.	74*
24. L.T. Insulators	th. no.	14,30*
25. Sheet glass	th. sq. m.	515
26. Abrasives	th. reams	61
27. Jute mnf.	th. tonnes	1,106
28. Plywood	lakh sq. metres	30.87
29. Bare copper conductors	tonnes	5,974**
30. Winding wires	tonnes	335**
31. Rubber insulated cables	th. metres	18,395**
Capital Goods		
1. Machine tools	th. Rs.	91,25
2. Electric motors	th. h.p.	46
3. Power transformers	th. kva	39
4. Diesel engines	no.	473
Fuel and Power		
1. Coal	m. tonnes	29.5
2. Electricity	m. kwh.	4,935

Sources: 1. *Report of the Second Fiscal Commission*, Appendix V.
2. Vakil C.N. *Economic Consequences of Divided India.*

*1947 **1948

and bichromates. The partition fortunately left India with nearly the entire industry of undivided India (Table V). As compared with the country's resources and population, however, only the surface had been scratched. Per capita income was Rs. 200 and per capita consumption of electrical energy 9.2 kwh. Total industrial employment was 15 millions, of which 2.6 millions or less than 2 per cent of the total working population was employed in large scale factories. National income originating in factory establishments in 1948-49 (when national income was first officially estimated) was Rs. 550 crores, about 6 per cent of total national income, while small and cottage enterprises accounted for Rs. 870 crores, another 10 per cent of the national income.

TABLE V

Industrial Establishments and Employment in India, 1945

Industry	*India*		*Pakistan*		*Total*	
	No. of factories	*No. of workers* ('000)	*No. of factories*	*No. of workers* ('000)	*No. of factories*	*No. of workers* ('000)
1. Textile	1,656	1,194	46	32	1,702	1,226
2. Engineering	1,734	429	278	53	2,012	482
3. Minerals and metals	347	130	51	4	398	134
4. Food, drink and tobacco	3,749	360	467	30	4,216	390
5. Chemicals	1,009	115	56	5	1,065	120
6. Paper and printing	616	72	57	5	673	77
7. Wood, stone and glass	1,035	142	65	11	1,100	153
8. Hides and skins	294	39	8	2	302	41
9. Ginning and pressing	2,123	141	353	39	2,476	180
10. Miscellaneous	600	312	33	26	633	338
Total:	13,163	2,936	1,406	206	14,569	3,142

Source: Vakil C. N. : *Economic Consequences of Divided India,* pp. 286-87.

II. Industrial Policy since Independence

Industrial policy since independence has aimed at rapid growth of industry as a spearhead of all-round economic development through a vigorous and strategic expansion of public sector enterprises, unprecedented inducements for private investment and simultaneous efforts to bring about institutional changes and social reforms which would ultimately facilitate sustained industrial growth. The broad outlines of industrial policy and the demarcation between public and private sectors are stated at length in the Industrial Policy Statements of 1948 and 1956 but these provide no more than flexible guidelines for policy thinking and implementation. A comprehensive view of industrial policy has to include, besides the 1948 and 1956 statements, the programmes and priorities laid down in the Five-Year Plans, the considerable amount and variety of legislation enacted to create and strengthen the

desired institutional structure for planned development, and the administrative interpretation and implementation of all these. The last is not the least important. The texts of policy statements and laws are the results of balancing of various conflicting ideas and interests; they do not provide a comprehensive logical framework readliy applicable to individual situations and problems. The policy statements explicitly accept the need for exceptions and flexibility; the laws vest considerable discretion in executive agencies.

The major role of industry, especially heavy industry, in economic development, and active State participation in and direction of industrial growth were two common elements in all programmes of development, beginning with Visvesvaraya's pioneering essay in planning in the mid-thirties, through the Royist People's Plan, the Bombay Industrialists' Plan, the Gandhian Plan, the official post-war reconstruction schemes, the reports of the Congress National Planning Committee, and, finally the report of the Advisory Planning Board under the chairmanship of K.C. Neogy in 1946. The Government's immediate concern after independence, however, was to deal with the steep fall in production levels since the termination of the war owing to shortage of raw materials and transport, backlog of equipment replacement and labour unrest. An Industries Conference attended by representatives of Central and Provincial Governments, industrialists and labour was held in December 1947, and considered ways and means of (i) utilizing the existing capacity more fully and (ii) harnessing industry to the growing requirements of the people. On the recommendation of this Conference, Government drew up an immediate plan for the provision of essential capital goods and raw materials to thirty industries, including steel, cotton textiles, cement, superphosphates, paper, drugs, machine tools, motor car batteries, and electrical motors. A coal transport committee was established in Calcutta to expedite the movement of coal from coal-fields to industrial centres. A tripartite agreement, the fore-runner of several to come, was reached on a three-year industrial truce between labour and employers. The industrial policy statement which followed in April 1948, was based largely on the recommendations of this conference. A resolution on labour-capital relations, later accepted by Government, stated:

> "The system of remuneration to capital as well as labour must be so devised that, while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort, after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking."

The number of man days lost due to industrial disputes, which had

risen from 4 million in 1945 to 16.5 million in 1947, fell to 7.8 million the next year and further to 3.8 million in 1951. This achievement was greatly facilitated by the spate of arbitration awards raising wages and cost of living allowances and providing for profit sharing bonuses. Thanks to the better industrial climate and some improvement in the transport and raw material position, production in various key industries tended to revive.

1948 Statement: The Government Resolution on industrial policy, of April 6, 1948 (Appendix I) emphasized the need for the expansion of production as the pre-requisite for more equitable distribution. Within its limited resources and trained personnel, Government would expand its existing units and start new ones in other fields rather than acquire and run existing private units. In order to eliminate the uncertainties and fears engendered in the private sector by statements of various ministers, etc., Government declared that only atomic energy and railway transport would be State monopolies; in six industries, coal, iron and steel, aircraft manufacture, ship-building, communication equipment and mineral oils, all new undertakings would be under State auspices "except where, in the national interest, the State itself finds it necessary to secure the co-operation of private enterprise subject to such control and regulation as the Central Government may prescribe." Existing undertakings in these fields would be allowed "all facilities for efficient working and reasonable expansion" for ten years, after which the whole matter would be reviewed. Fair and equitable compensation would be paid in the event of nationalization. State enterprises will as a rule be managed through statutory corporations. "The rest of the industrial field will normally be open to private enterprise, *individual as well as co-operative*", but 18 specified industries of national importance or which require considerable investment or high degree of technical skill will be subject to Central regulation and control.

The resolution made no economic or technical distinction between cottage and small industries but promised all assistance, including protection against competition from large units, for their survival and expansion. Great stress was laid on co-operativization of these industries. "The present international situation is likely to lessen to a marked degree our chances of getting capital goods for large-scale industry, and the leeway must be made up by having recourse to small size industrial co-operatives throughout the country."

Government indicated its readiness to extend assistance to private or co-operative enterprise, in particular, by removing transport difficulties, facilitating the import of essential raw materials, imposing tariffs to prevent unfair foreign competition, and by reviewing the system of taxation to encourage saving and productive investment.

Looking back, the 1948 Statement appears to lack both vision and perspective. It was too concerned with soothing the fears of industries reeling under threats of nationalization and offering industrial labour a recognition of its rights as a partner in industry. The ten-year reprieve granted to existing private undertakings in basic industries led to more, not less, uncertainty and little was done by the State itself for some years to enter these industries. New State enterprises were confined to fertilizers, telephone cables, penicillin, machine tools, telephone instruments and steam locomotives. Private investment in steel was curbed till 1952 by prospective state entry and unremunerative prices and in cotton mills by restrictions on modernization of equipment in the name of protecting handlooms. A number of new private industries did, however, come up during the period: automatic looms, gramophone needles, aluminium powder, electric meters, miniature electric lamps, machine tools, piston rings, ball bearings, electric motors upto 70 h.p., electric transformers, scientific glassware, and machine-made glass ampoules.

State industrial enterprises, it was soon found (as the Damodar Valley Corporation got bogged down in organizational difficulties), could not work well as statutory corporations; they came to be registered as joint-stock companies. Large joint ventures with private enterprise in basic industries, which were expected to become fashionable after the flotation of Air India International in 1949 with Tata collaboration, went out of favour soon; Air India (along with domestic aviation), Hindustan Ship-building and Eastern Shipping were taken over wholly by Government after a short partnership with private interests which (Tata in Air India excepted) found the financial burdens onerous.*

The statement betrayed absence of clear understanding of the distinctive problems and prospects of small and cottage industries, and perception of the specific fields in which co-operativization could make headway. No plans were announced for long-term finance for setting up new industries or for modernization. The setting up of the Industrial Finance Corporation did mark a step forward in this direction but, for a number of years, it financed mainly the traditional industries. In 1948, neither Government nor businessmen nor economic experts had any clear idea of the wide variety of basic engineering and chemical industries, other than basic iron and steel, required for industrial development.

Second Fiscal Commission 1949-50: Government appointed the Second Fiscal Commission in April 1949 to examine afresh the question of protection in the general setting of industrial development. The Commission looked upon the process of industrialization as "basically a problem

*During the Third Plan, such joint ventures of the Centre with private interests were revived but almost wholly with foreign collaborators in oil-refining and explosives.

of the reorganization of the occupational pattern." Whether and how far it should take the form of cottage, small-scale and large-scale industries depended, in its view, upon:

a. the nature of the industry,
b. the technological character of the industry,
c. the relative proportions of capital and labour needed for the industry,
d. the extent to which decentralization in production in small units is economical on the basis of private and social costs, and
e. the rate at which it is desired to effect a change in the occupational pattern.

State initiative and assistance, it recommended, should play an important part in the promotion of cottage and small-scale industries. Where no conflict existed between these sectors, programmes of development should be framed in consultation with all the interests concerned. Where, however, there is competition between large-scale industries, on the one hand, and small and cottage industries, on the other, and it is established that the latter deserve support against competition from the former, Government should take necessary steps to safeguard the position of the latter in consultation with the interests affected till such time as they are able to stand on their legs.

The Commission recommended the following order of priorities for the *public sector:*

(i) essential defence industries;
(ii) industries connected with the development of natural resources *e.g.*, water power, key minerals like coal and petroleum;
(iii) public utility industries, *e.g.*, railways, power generation, etc.; and
(iv) heavy key and basic industries which, in the absence of private enterprise, the State may have to initiate and develop;

and for the *private sector:*

(i) increase of production in existing undertakings upto the maximum of their installed capacity;
(ii) expansion of existing industries upto the limits of effective demand in their market with special reference wherever possible to export markets;
(iii) establishment and development of industries which are complementary to existing industries in the public or private sector, *e.g.*, industries which manufacture the components of other industries or which carry the processes of production a stage nearer final consumption;
(iv) establishment of such industries as are related to existing

industries and may increase the external economies resulting from the establishment of a group of connected industries; and

(v) establishment of industries catering for a large market, internal or external, rather than those satisfying a limited or specific demand.

For the location of relatively 'foot-loose' industries, the Commission recommended reliance in the first instance upon negative measures to prevent further concentration in areas already congested, together with simultaneous positive steps to improve the attractiveness of areas which were socially more desirable for migration of new or existing industries. The Commission ended its general remarks on what it considered a realistic note:

"Having regard to the available capital resources and technical ability, we do not think that it is possible to achieve a more intensive pattern of large-scale industrialisation than that visualized (by the Commission) .. except through a measure of austerity or regimentation which, in the circumstances of this country, we consider it extremely difficult to enforce."

On tariff policy proper, the Commission was of the view that protection should be related to overall planning of economic development to avoid unequal distribution of the burdens of tariffs and un-co-ordinated growth of industries. It divided industries into three categories: (a) defence and other strategic industries, (b) basic and key industries, and (c) other industries. It recommended that industries in category (a) should be protected regardless of cost on national considerations. Regarding basic and key industries in the plan, the Tariff Commission to be set up with enlarged powers should decide the form and quantum of protection and lay down the terms and conditions for grant of protection or assistance and review from time to time the extent to which these conditions have been or were being complied with by the protected industries. For the third category, it laid down the following criteria:

"Having regard to the economic advantages enjoyed by the industry or available to it and its actual or probable cost of production, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or assistance and/or it is an industry to which it is desirable in the national interest to grant protection or assistance and, having regard to the direct and indirect advantages, the probable cost of such protection or assistance to the community is not excessive."

The Commission also gave liberal clarifications of certain specific issues:

1. Local availability of raw materials need not be a necessary condition for protection so long as there are other countervailing advantages.

2. The potential export market can be taken into account.
3. Ordinarily an industry should be able to satisfy the entire domestic demand but this need not be an overriding consideration in the short run.
4. Compensatory protection to industries using the products of protected industries should be considered on merits.
5. Protection to new and embryonic industries prior to their actual establishment should be considered in those industries which require heavy capital outlay or highly specialized personnel.
6. Excise duties on protected articles should be generally avoided.
7. Price fixation of raw materials for protected industries, wherever necessary, should be done by the Centre and not by States.

A portion of the revenues collected from protective duties should be set aside in a Development Fund, out of which subsidies in lieu of protective tariffs could be given to selected industries. Quantitative restrictions should be used sparingly and temporarily. Subsidies should be preferred to tariffs where domestic supply meets only a small portion of the domestic demand and where the commodities are essential raw materials. The obligations of protected industries should mainly be with regard to prices, production, quality of production, adoption of technological improvements, research, training of apprentices and higher grades of labour and avoidance of anti-social activities.

As for stores purchases, the Commission suggested a reasonable margin of preference for domestic goods so long as they conformed to standard specifications, and a higher margin of preference to the products of cottage and small industries.

Industries Act 1951: Licensing and regulation of important industries were the main instruments of centralized social and economic control envisaged in the 1948 Statement. Private opposition led to delay and changing of the title of the bill from 'Industries Control and Regulation' to 'Industries Development and Regulation'. The law finally enacted in 1951 applied initially to 37 industries listed in the first schedule. Its important provisions are:

1. All existing industrial undertakings in the scheduled industries have to be registered with Government within a prescribed period.
2. No new industrial unit can be established or substantial extensions to existing plants made for a fixed investment exceeding Rs. 5 lakhs without a license from the Central Government.
3. Government can order an investigation in respect of any scheduled industry or undertaking if, in its opinion, there has been or is likely to be an unjustifiable fall in the volume of production in the industry or undertaking or if there is a marked deterioration in

quality or an increase in price for which there is no justification; a similar investigation can also be ordered in respect of any industrial undertaking being managed in a manner likely to cause serious injury or damage to consumers.

4. In the event of an industry or undertaking not carrying out the directions issued after such an investigation, Government can take over its management.

These powers have to be exercised in consultation with a Central Advisory Council. Moreover, Development Councils were to be established for maintaining the necessary liaison between the public and private sectors, for ensuring that private industry conformed more and more to the planned pattern of development, and for building up a cadre of specialists in each industry. The more important of their functions are to:

(a) recommend targets for production, co-ordinate production programmes and review progress;
(b) suggest norms of efficiency and reduce costs;
(c) recommend measures for full utilization of capacity and improved working of less efficient units;
(d) assist in distribution of controlled materials and obtaining local supplies;
(e) promote scientific and industrial research and collect statistics;
(f) investigate possibilities of decentralization of processes and development of ancillary, small and cottage industries;
(g) promote training and retraining of personnel; and
(h) undertake enquiries for advising Government.

The Act was amended in 1953 to include more industries. By that year, 10 Development Councils had been set up for various industries.

The glow of exhortations to private industry to place itself under social discipline or face the consequences became progressively dimmer as the agricultural and price situation continued to grow worse from 1948 to 1951 and industrial production failed to increase sufficiently. As the First Plan was being drawn up in 1951, the overwhelming degree of attention required for agriculture, power, transport and utilization of existing industrial capacity led to a gradual change in emphasis from control of private enterprise to its harmonious but regulated growth as an integral part of overall development. The most tangible evidence of this change of attitude was provided by the agreements signed in 1951-52, after prolonged negotiations, with the three foreign oil companies which controlled the distribution of oil products, Standard Vacuum, Burmah-Shell and Caltex, for the setting up of petroleum refineries. Government promised to exempt them from certain provisions of the Industries Act, promised not to nationalize the refineries for 25 years, guaranteed availability of foreign exchange for annual remittance of profits in

foreign exchange, permitted them to import crude from areas of their choice, exempted imports of crude oil from customs duty, authorized the companies to sell products at prices equivalent to imported prices and decided to assess their machinery imports at a specially low rate of $5\frac{1}{2}$ per cent *ad valorem*. Many features of these agreements were to cause difficulties and call for frequent readjustments as the international oil market became steadily more competitive but their conclusion in 1951-52 implied that industrial policy was flexible enough to accommodate technically and economically useful exceptions.

First Five Year Plan: The philosophy of industrial policy in a mixed economy was elaborated in the First Plan:

"It is clear that in the transformation of the economy that is called for (under democratic planning) the State will have to play the crucial role .... a rapid expansion of the economic and social responsibilities of the State will alone be capable of satisfying the legitimate expectations of the people. This need not involve complete nationalisation of the means of production or elimination of private agencies in agriculture or business and industry. It does mean, however, a progressive widening of the public sector and a re-orientation of the private sector to the needs of a planned economy."

"The distinction between the public and the private sector is one of relative emphasis; private enterprise should have a public purpose and there is no such thing under present conditions as completely unregulated and free private enterprise. Private enterprise functions within the conditions created largely by the State .. The points of interaction between private and public enterprise are multiplying rapidly... the private and public sectors cannot be looked upon as anything like two separate entities: they are and must function as parts of a single organism."

For the duration of the First Five Year Plan, Government admitted that it had no alternative but to give the topmost priority to agriculture, including irrigation and power, largely because of the projects in hand, but also because, without a substantial increase in the production of food and raw materials needed for industry, it would be impossible to sustain a higher tempo of industrial investment. The high priority given to agricultural investment in the State programme limited the investment which the State itself could undertake in industries. Progress in this field was, therefore, to depend to a great extent on effort in the private sector, though in key and basic industries which came in the State sphere, long-term demands had to be anticipated and "in fact, supply must come first for demand itself to develop at the required rate."

In view of the high priority for agriculture and the limitation of resources even for essential defence industries, the following general

priorities were laid down in the First Plan:

(i) fuller utilization of capacity in producer goods industries like jute and plywood, and consumer goods industries like cotton textiles, sugar, soap, *vanaspati*, paints and varnishes;

(ii) expansion of capacity in capital and producer goods industries like iron and steel, aluminium, cement, fertilizers, heavy chemicals, machine tools, etc.;

(iii) completion of industrial units on which a part of the capital expenditure has already been incurred;

(iv) establishment of new plants which would lend strength to the industrial structure by rectifying, as far as resources permit, the existing lacunae and drawbacks, *e.g.*, manufacture of sulphur from gypsum, chemical pulp for rayon, etc.

Some of the policy questions that were later to assume greater importance were touched upon. Regarding the capital *vs.* consumer goods controversy, it was stated that a larger supply of consumer goods had to come mainly from fuller utilization of existing capacity which could be modernized and made more efficient. As for economies of scale in industrial projects (a rather premature issue at the time), the Plan recognized that some conflicts of considerations were bound to arise but licensing under the Industries Act "should ensure an impartial consideration of all the issues involved in a substantial expansion of existing units or establishment of new ones."

Public sector industrial investment during the First Plan was targeted at Rs. 101 crores, the bulk of it in projects directly under the Centre. The main components of the programme were an iron and steel project, completion and expansion of Sindri fertilizers, integral railway coach factory, expansion of Chittaranjan Locomotive Works, machine tools and ship-building, besides relatively lighter projects like penicillin, D.D.T., and newsprint. Actual investment was Rs. 57 crores. The targets of production and actual achievement are given in Table VI

It was recognized that in the formulation and assessment of the programmes in the private sector, "it is necessary to keep in mind the fact that, in an economy which is not completely centralized, Government can influence but not determine the actual course of investment. Nevertheless, the programmes of development, as now presented are in the nature of best judgements as to what is feasible and desirable." Against the targeted aggregate gross investment of Rs. 463 crores on new projects, replacement and modernization in the private sector, actual investment came to Rs. 340 crores (Table VII). In cotton textiles and power, investment exceeded the targets. Much of the investment was in existing units, to which extent there was no question of a more balanced regional allocation of industry.

TABLE VI

First Plan: Public Sector Production

			Target	Actual 1955—56
1.	Pig iron capacity	lakh tonnes	3.55	nil
2.	Finished steel capacity	lakh tonnes	1.0	0.35
3.	Locomotives	no.	92	125
4.	Integral coaches	no.	50	20
5.	Ships	th. GRT	20	13
6.	D.D.T.	tonnes	711	289
7.	Penicillin	m. mega units	4.8	6.6
8.	Ammonium sulphate	lakh tonnes	3.20	3.31
9.	Superphosphate	th. tonnes	16.76	nil
10.	Newsprint	th. tonnes	30.5	4.3
11.	Cables	km.	756	845
12.	Telephones	th. no.	50 (revised)	50
13.	Exchange lines	th. no.	35 (revised)	35
14.	Cement	lakh tonnes	2	1.80
15.	Lathes	no.	1,600 (revised 200)	77

TABLE VII

First Plan: Private Sector Investment **(Rs. Crores)**

		Target (net)	Actual (gross)
1.	Cotton textiles	9	80
2.	Petroleum refining	64	45
3.	Iron and steel	43	49
4.	Engineering	12	25
5.	Chemicals and plastics	14	15
6.	Cement and refractories	15	18
7.	Paper	5	11
8.	Sugar	neg.	15
9.	Power	16	32
10.	Jute	—	15
11.	Rayon and staple fibre	15	8
12.	Others	40	27
		233*	340

Note: Actuals include expenditure on modernization and rehabilitation. Target figures are for net investment only.

*Excludes Rs. 230 crores for replacement and modernization.

Village and Small Industries: The village industry programme in the First Plan was imbued with a spirit of nationalistic revivalism and village self-sufficiency. It was described as having a central place in the rural development programme and was based on the feeling that products of large-scale industry had increasingly limited the market for the products of several classes of rural artisans. In other words, these industries were considered as being the victims of competition from large industry. A Rs. 7 crore programme was drawn up for the development of such industries as oilseed crushing, soap-making, paddy husking, palm *gur*, *gur* and *khandsari*, leather, woollen blankets, hand-made paper, bee-keeping and cottage matches, besides the provision

of facilities for organization, finance, raw materials research, technical guidance, supply of equipment, and marketing assistance. Wherever a large-scale industry competed with a cottage industry (which was not clearly distinguished from a village industry as such), a common production programme was recommended to enable the latter to organize itself. While some criteria for such protection (*e.g.*, comparison of efficiency, scope for development through small-scale methods, employment potentials, social considerations, etc.) were laid down, and controls for this purpose over large industry were envisaged, no safeguards, time limits or inquiry procedures were laid down as pre-requisites on the analogy of protection against external competition. No priorities *inter se* were recommended for various industries. One or more of the following elements could enter into the framing of common production programmes:

(a) reservation of spheres of production;
(b) non-expansion of the capacity of a large-scale industry;
(c) imposition of a cess on large-scale industry;
(d) arrangement for the supply of raw materials, and
(e) co-ordination of research, training, etc.

All India and State Boards were set up for handlooms, *khadi* and village industries, sericulture and coir during the First Plan period. The production of certain varieties of cloth (mainly *dhotis* and *saris*) was reserved for handlooms, a cess was levied on all mill cloth to finance assistance to handlooms and *khadi*, mill printing of cloth was limited to the best year's production in the period 1949-54, and the expansion of large units' capacity for garment-making was restricted. All applications for substantial expansion of existing units or for the establishment of new large units in leather footwear and tanning industries were examined from the point of view of their effect on cottage and small units; an excise duty was also levied on large-scale leather footwear production. The excise rebate for cottage match units was enhanced. A differential excise was imposed on the washing soap industry and a subsidy given for *neem* and non-edible oils used in making soap. In certain other industries, including some types of agricultural implements, furniture-making, sports goods, slates and pencils, *bidi*, writing inks, chalks, crayons and candles, further expansion of co-operativization was, however, extremely poor except in the case of handlooms.

The main beneficiaries of this policy were handlooms (and even more powerlooms) and *khadi*. The production of handloom cloth was estimated to have increased from 678 million metres in 1950-51 to 1,325 million metres in 1955-56 (the latter was probably an over-estimate), while the value of *khadi* went up from Rs. 1.3 crores in 1950-51 to over Rs. 5 crores in 1955-56, when its production was 31 million metres.

As for small industries, *i.e.*, small-scale units using power and/or

functioning as ancillaries to large units, it was recognized that considerable development had taken place in this field without much direction or assistance from Government but this growth lacked some of the elements that make for efficiency and stability. Apart from providing Rs. 15 crores for their development (including handicrafts and handlooms), and seeking to encourage the development of ancillaries, reliance was placed upon State purchases. It was agreed that, where basic considerations like quality, delivery date, etc., were comparable, the products of cottage and small industries would receive preferential treatment. In those items in which cottage industry had advantages over large-scale industry or had established itself as a supplier on competitive terms, orders would be placed with cottage and small units to the fullest extent before placing any orders with large units. For other products, a price preference and suitable relaxation of specifications would be allowed on merits.

The impact of these measures on actual purchases was, however, rather small. The total value of purchases made from cottage and small industries by the Directorate General of Supplies and Disposals rose from Rs. 66 lakhs in 1952-53 to Rs. 105 lakhs in 1954-55. A number of emporia and sales depots for handloom, handicrafts and village industries were established during the Plan period. Total outly on village and small industries during the four years 1951-55 amounted to Rs. 15 crores.

First Plan—Summing Up: Industry was more of an appendage to rather than an important central part of the First Plan. Apart from this overriding consideration and a general recognition of the strategic role of industrialization, Government was only groping its way towards an understanding of industrial problems and the industrial needs of the community, as distinct from the acceptance of the idea of social control over the management, expansion and profits of private industry. Many of the implications of a mixed economy were as acceptable to private industry as to Government but there was no consciousness of the instruments required to integrate plan priorities with the working of the prices mechanism which continued to dominate the allocation of resources. This consciousness, though not the instruments themselves, was to come many years later. Meanwhile, Government relied on such broad measures as industrial licensing, uniform tax incentives and concessions for power, land, etc. Licensing under the Industries Act, it was soon found, belied the great expectations that were set by it, except in so far as, together with import restrictions, it created safe and sheltered markets.

The stepping up of machinery imports and private investment during the latter half of the Plan was not wholly due to un-blocking of sterling balances held in London and liberalization of import policy. It represented in large measure the response of Indian capital and enterprise

to larger Government expenditure in the aggregate, larger Government and railway purchases, together with faith in the continuity and growth of all these and of private investment and consumption. This faith proved to be amply justified.

TABLE VIII

First Plan: Major Industrial Targets and Achievements

Item	*Production* 1950-51	*Additonal Production by Plan-end*	
		Target	*Achievement*
1. Finished steel (lakh tonnes)	9.95	6.8	3.05
2. Pig iron (lakh tonnes)	15.95	12.8	2.23
3. Cement (lakh tonnes)	27.3	21.4	19.3
4. Aluminium (th. tonnes)	3.75	8.4	3.65
5. Ammonium sulphate (th. tonnes)	47.0	411.1	352.3
6. Superphosphate (th. tonnes)	55.9	127.1	16.25
7. Locomotives (no.)	3	170	176
8. Cotton yarn (m. kg.)	435	209	206
9. Mill cloth (m. metres)	3,400	898	1,165
10. Handloom cloth (m. metres)	741	814	584
11. Jute mnfs. (th. tonnes)	837	382	234
12. Bicycles (th. no.)	97	433	416
13. Sewing machines (th. no.)	33	59	78
14. Power alcohol (m. litres)	22.7	59	22.7
15. Sugar (th. tonnes).	1,118	406	772

1956 Statement: In December 1954, Parliament accepted a socialistic pattern of society as the objective of social and economic policy. In conformity with this objective, and the Directive Principles of State Policy embodied in the Constitution adopted in 1950, and the higher aspirations which were justified by the growth achieved during the First Plan, it was considered desirable to issue a new Industrial Policy Statement in April 1956 (Appendix III). The need to soothe private sector fears of nationalization was not altogether absent for (apart from the Reserve Bank which was nationalized in 1948), the Imperial Bank was taken over by the Reserve Bank in 1955 (seven years after the announcement of its proposed nationalization), and air transport and life insurance were nationalized in 1953 and early 1956, respectively.

The new policy was aimed at accelerating the rate of economic growth and speeding up industrialization, in particular, through the development of heavy industries and machine making industries, expansion of the public sector in industry and trade, and building up of a large and growing co-operative sector. The lists of industries in the 1948 resolution were elaborated and re-categorized in three schedules:

(A) Industries the future development of which will be the exclusive responsibility of the State. These included, apart from arma-

ments, atomic energy and transport, also iron and steel, heavy plant and machinery, coal and other mining, petroleum and power. All new units in these industries, except approved cases and expansion of existing private units, will be under State auspices or where collaboration with private interests is considered necessary, the State will ensure that it can guide and control the operations.

(B) Industries in which the State will increasingly establish new undertakings but in which private enterprise will also have the opportunity to operate on its own or with State participation, *e.g.*, aluminium, machine tools, ferro-alloys, basic and intermediate chemicals, essential drugs, fertilizers, synthetic rubber, road and sea transport.

(C) All remaining industries will ordinarily be developed through private, including co-operative, initiative but State enterprise will not be altogether excluded from this list.

Unlike the 1948 Statement, which was concerned primarily with the imposition of social discipline over the private sector, this resolution set out in somewhat great detail the positive role of the State in relation to the private sector. Besides ensuring the development of transport, power and other services, and providing appropriate fiscal and other concessions, the State also undertook to provide through institutions, as well as directly, financial aid to industries, especially to enterprises organized on co-operative lines for industrial and agricultural purposes. The idea of a ten-year reprieve before possible nationalization was dropped altogether. After reiterating the need for social and economic controls, the resolution explicitly promised freedom to expand and non-discrimination between public and private units in the same industry:

"The Government of India recognise that, it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them."

The Resolution further reiterated the policy of supporting cottage and small-scale industries on the grounds stated in the First Plan but, after narrating various measures for their protection and assistance, it emphasized the need to make these industries self-supporting and to bring about a technological transformation in them:

"....the aim of the State policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large-scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small-scale producer. For this it is essen-

tial that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment."

Industrial estates were conceived as one of the instruments for the development of cottage and small industries, preferably on a co-operative basis.

To anticipate some major developments which took place later during the Second and Third Plan periods, it may be stressed here that, notwithstanding the ups and downs of development after 1956 and varying interpretations of the Resolution in the framing and implementation of detailed policies, the broad framework and spirit of the Resolution have been implemented faithfully. In Schedule A, existing large coal, steel and power units have been permitted and assisted to expand; the question of their nationalization which was never seriously under consideration ceased to be a practical proposition after World Bank loans were granted to private units in these industries, *inter alia*, on an undertaking from Government that they would not be nationalized. Government has, at the same time, considerably stepped up its share in the output of these three industries. In copper and manganese, existing private units, many of them foreign controlled, have continued undisturbed. In all other major industries except ship-building (from which the private interest concerned was eager to retire for financial reasons), where there were no private units to deal with, all new units have been under State auspices. A joint Government-Stanvac oil exploration project in Bengal — which proved to be a failure — was the only exception and since then there has been no foreign equity participation in oil exploration. All new oil refineries are either fully Government-owned or are under Government majority control; in both cases, internal distribution of products is in the public sector.

As for Schedule B, in regard to which there has been some misunderstanding about alleged State withdrawal from certain industries, the Resolution clearly states that private enterprise will also have the opportunity to operate on its own. The private sector, in collaboration with foreign investors in several cases, has gone into aluminium, low grade machine tools, ferro-alloys, special steels, synthetic rubber, coal carbonization, chemical pulp, and essential drugs. A modicum of private interest in fertilizers, which aroused ideaological controversy for some time, almost petered out when the uncertainty of profits and foreign collaboration cast its gloom. In the field of basic and intermediate chemicals and essential drugs, Government received a project report in or about 1958 from a Russian team, which also offered financial and technical asssistance for the setting up of a comprehensive complex of plants. Western private influences had something to do with the emasculation of and considerable delay in this series of projects, but the

issues were not so simple as made out in certain quarters. The offer of Russian assistance did not cover all material, technical and financial aspects of the project; some of the processes offered involved either a breach of patent rights or the adoption of a relatively inferior technology; rapid changes in chemical technology due to the use of petro-chemicals, etc., created doubts about the feasibility of some aspects of the project; in some cases either the equipment or basic materials or both had to be imported from Western sources which were not willing to oblige; finally U.S.S.R. itself accepted certain international patent obligations.

Second Five Year Plan: The principal objectives of the Second Plan were:

(a) a sizeable increase in national income so as to raise the level of living in the country;
(b) rapid industrialization with particular emphasis on the development of basic and heavy industries;
(c) a large expansion of employment opportunities; and
(d) reduction of inequalities in income and wealth and a more even distribution of economic power.

The basic strategy of the Second Plan was stated lucidly in the Mahalanobis Draft Plan frame. The food and agricultural raw materials problem, it was believed, had approached towards a solution; the time was, therefore, ripe for a massive push to industrialization. To achieve the four-fold objectives of a high rate of growth (defined more in terms of investment than output or consumption), high employment potential, minimum foreign exchange cost over a period of time, and price stability, the Mahalanobis draft proposed concentration on the building up of heavy industry. The extra demand for consumer goods resulting from this investment was to be met in full by the expansion of cottage industries, which were assumed to have low capital and high labour requirements in relation to output. Largescale units in consumer goods industries should not expand except to the limit of their existing capacity because such expansion would (i) create a demand for foreign exchange for the import of the necessary equipment which would not be indigenously avilable (the new heavy industry would be building machines for machines), and (ii) create excess demand for consumer goods. This strategy was spelt out in the Plan itself as follows:

"....if industrialisation is to be rapid enough, the country must aim at developing basic industries and industries which make machines to make the machines needed for further development. This calls for substantial expansion in iron and steel, non-ferrous metals, coal, cement, heavy chemicals, and other industries of basic importance. The limitation is, of course, the scarcity of resources and the many urgent claims on them. Nevertheless, the criterion is not merely

immediate needs but the continuing and expanding needs in the coming years as development goes forward. India's known natural resources are relatively large, and in many of these fields, as in steel, for instance, she is likely to have a comparative cost advantage. It is desirable to aim at proceeding farthest in the direction of developing heavy and capital goods industries which conform to this criterion. "Investment in basic industries creates demands for consumer goods, but it does not enlarge the supply of consumer goods in the short run; nor does it directly absorb any large quantities of labour. A balanced pattern of industrialisation, therefore, requires a well-organised effort to utilise labour for increasing the supplies of much needed consumer goods in a manner which economises the use of capital. A society in which labour is plentiful in relation to capital has to develop the art and technique of using labour-intensive modes of production effectively — and to much social advantage — in diverse fields. Indeed, in the context of prevailing unemployment, the absorption of labour becomes an important objective in itself. In using labour-intensive methods, it may well be that the cost of product is somewhat higher. This entails a sacrifice which can be reduced through technical and organisational improvements. In any case, a measure of sacrifice in the matter of consumption is inevitable while the economy is being strengthened at the base. The sacrifice diminishes as more power, more transport, and better tools, machinery and equipment become available for increasing the productivity of consumer goods industries, and in the long run the community gets increasingly large returns. Meanwhile, the stress on utilisation of unutilised or under-utilised labour power alleviates the immediate problem of unemployment. Another point that may need stressing in this connection is that the use of labour-intensive methods often implies that a smaller proportion of the incomes generated is available for saving and re-investment. Steps must be taken to ensure that this does not happen on any significant scale.

"....conditions have to be created in which modern techniques can be adopted and introduced more and more in (small and cottage industries) and the transition should be orderly .. development along new lines has to be the keynote of policy. As national income increases, demands get diversified, and as power, transport and communications are developed, the scope for small enterprises of various kinds, which either cater for new consumer demands or function in a way complementary to large-scale industry, increases steadily. From the point of view of enlarging employment opportunities as well as of increasing production, these new lines of development have to be fostered energetically.

"The sector of village and small-scale industry has to be organised

more and more on co-operative lines so as to enable the small producer to secure the advantages of buying raw materials and selling his products on a large scale, of getting access to institutional credit and of utilising improved methods and techniques. An integral programme of production may in some cases work on the basis of differential taxation; in others, buying over of the product at stated prices and a state-sponsored or co-operative marketing arrangement may be needed."

The programme for expansion of industrial capacity was conceived in terms of the following priorities:

1. increased production of iron and steel and of heavy chemicals, including nitrogenous fertilizers, and development of heavy engineering and machine building industries;
2. expansion of capacity in respect of other developmental commodities and producer goods such as aluminium, cement, chemical and pulp, dye-stuffs, and phosphatic fertilizers and of essential drugs;
3. modernization and re-equipment of important national industries which have already come into existence, such as jute, cotton and sugar;
4. fuller utilization of existing installed capacity in industries where there are wide gaps between capacity and production; and
5. expansion of capacity for consumer goods keeping in view the requirements of common production programmes and the production targets for the decentralized sector of industry.

These priorities were justified at some length: (a) steel determines the tempo of progress as a whole and India has a comparative advantage in its production, (b) heavy engineering is a natural corollary to iron and steel and internal availability of machinery would remove the difficulties and uncertainties of dependence upon external aid, (c) fertilizers are essential for agricultural development, (d) cement ranks next only to iron and steel as a development commodity, and (e) modernization of equipment in cotton and jute is necessary for earning foreign exchange, but additional production in these industries should be achieved to the maximum extent possible through greater use of idle capacity to save capital resources.

The proposed outlay on village and small industries was raised substantially to Rs. 200 crores, of which Rs. 55 crores was specifically for small as distinct from cottage and village industries. The amount was distributed as shown in Table IX.

This amount was exclusive of the provision made for these industries under rehabilitation of displaced persons (Rs. 11 crores) and community development blocks (Rs. 1.5 lakhs each). The role of the Centre was restricted to all-India administrative, research and hire-purchase schemes

TABLE IX

Second Plan Outlay on Village and Small Industries

		(Rs. crores)	
1.	Handlooms	60	
2.	*Khadi*	17	
3.	Village industries	39	
4.	Handicrafts	9	
5.	Small industries	55	
6.	Sericulture and coir	6	
7.	General administration and research	15	
	Total:	200	(excluding working capital requirements)

costing in all Rs. 25 crores; the remaining amount of Rs. 175 crores was in the State sector. The problems of small industries, their urban or semi-urban location, use of machines, power and modern techniques, were viewed in a separate perspective for the first time. Their performance in training for entrepreneurship was strikingly demonstrated by the manufacture of bicycle and sewing machine parts in Ludhiana. A working definition for identifying them was laid down: all units or establishments having a total capital investment of less than Rs. 5 lakhs and employing less than 50 persons when using power or less than 100 persons when not using power. Facilities for their technical, financial and marketing assistance on a basis separate from village and cottage industries and handicrafts were recommended for the first time: Small Industries Service Institutes and industrial extension centres in each State, National Small Industries Corporation for hire-purchase of equipments and marketing assistance, and industrial estates to discourage further concentration of population in large urban centres were designed specifically for their development.

Planned regional diffusion of industrial activity had received little attenton in the First Plan. Only marginal deviations could be made from the compulsions of economic and technical considerations in the case of the larger industries, but the claims of relatively backward areas were nevertheless kept in view in the location of public sector projects, including steel plants. Regional patterns of development could be and were fostered for a wide range of consumer goods and processing industries. These included cotton textiles (especially spinning), sugar, light engineering such as bicycles, sewing machines, electric motors and radio receivers, re-rolling of steel and non-ferrous metals from billets and semis, moulded plastics, and processing of drugs in bulk. Cotton mills were licensed in Rajasthan, Orissa, Assam and Punjab by fixing State quotas and persuading applicants to locate in these States. New sugar factories (especially co-operatives financed by State Governments, Industrial Finance Corporation and State Bank) and distilleries

were encouraged in Andhra, Tamil Nadu, Karnataka and Maharashtra, steel re-rolling mills in Assam, Madhya Pradesh, Kerala and North Bihar, and factories for tyre and tubes, cables and electric lamps in Kerala. A synthetic rubber plant based on industrial alcohol was established in Uttar Pradesh. The decision to sell steel at a uniform price at all railheads was an important step forward in the wider dispersal of light engineering industries.

Industry claimed about 17 per cent of total public outlay in the Second Plan, as compared with 8 per cent in the First. In absolute terms, the allocation for large-scale industry was raised from Rs. 94 crores in the public sector and Rs. 233 crores in the private sector in the First Plan to Rs. 620 crores and Rs. 575 crores (latter include mining), respectively. Almost the entire public sector outlay, which actually came to Rs. 870 crores or 56 per cent of total investment in organized industry, was for development of basic industries, such as iron and steel, coal, fertilizers, heavy engineering and heavy electrical equipment. This helped to strengthen the public sector and "also to create conditions conducive to a rapid growth of medium and light industries in the private sector." The net output of factory establishments was to increase by 64 per cent and of capital goods by 150 per cent. Measured by the Index of Industrial Production (1956-100), the actual increase was about 40 per cent in the aggregate, 118 per cent for capital goods, 60 per cent for intermediate and producer goods (including mining and electricity), and 19 per cent for consumer goods.

TABLE X

Second Plan's Major Industrial Targets and Achievements

Item	*Unit*	*Production target*	*Actual production*
1. Steel finished	m. tonnes	4.37	2.23
2. Fertilizers : N	th. tonnes	294.6	111.8
P	th. tonnes	121.9	55.9
3. Textile machinery	Rs. crores	17.0	9.0
4. Cement machinery	Rs. crores	2.0	0.6
5. Paper machinery	Rs. crores	4.0	—
6. Aluminium	th. tonnes	25.4	18.8
7. Newsprint	th. tonnes	61.0	25.4
8. Chemical pulp	th. tonnes	30.5	—
9. Soda ash	th. tonnes	233.7	147.3
10. Caustic soda	th. tonnes	137.2	101.6
11. Dye-stuffs	m. kg.	10.0	5.2
12. Cement	m. tonnes	13.2	8.6

The main industrial targets of the Second Plan which were not achieved were those set for iron and steel, fertilizers, certain items of industrial machinery (*e.g.*, paper and cement plant machinery, heavy castings and forgings), aluminium, newsprint, raw films, chemical pulp, soda ash,

caustic soda, dye-stuffs and cement — and for most cottage and village industries which were to supply the additional consumer goods. The shortfalls were concentrated in those very industries which were crucial for future growth and price stability. Investment in most cases exceeded the targets (Table XI), largely due to price increases but partly also due to initial under-estimation of requirements, but production remained in arrears. There were specific reasons in each industry for under-fulfilment of production targets, in addition to the shortage of foreign exchange that began to be felt acutely after 1957.

TABLE XI

Second Plan : Investment In Industry

(Rs. crores)

	Plan estimate	*Actual investment*
1. Metallurgical industries	503	770
2. Engineering, light and heavy	150	175
3. Chemical	132	140
4. Cement, electric porcelain and refractories	93	60
5. Petroleum refining	10	30
6. Paper	54	40
7. Sugar	51	56
8. Textiles: (i) natural fibres	36	50
(ii) rayon	24	34
9. Others	42	115
10. Replacement and modernization	150	150
Total:	1,244	1,620

The Principal Deficiencies and Defects of Industrial Policy as Declared and Implemented: The private enthusiasm for industrial expansion that was aroused in the latter half of the First Plan received a fresh stimulus during the Second Plan from heavy deficit financing, relatively liberal import licensing, easier availability abroad of capital goods, and liberal distribution of industrial licenses. The wide-spread urge for industrialization and the material requisites of well-being was a favourable development but neither at the fiscal and specific level nor within the planning-cum-price mechanism, were there any means in operation for the direction of private investment in accordance with plan priorities. Barring the expansion of private steel and shipping brought about primarily by massive financial assistance and assurance of demand, rather than by price incentives, the official attitude in general was that, so long as a project was in the Plan, every industry and every industrial license granted had an equal priority. Tax concessions like development rebate, tax holiday, extra depreciation, etc., were available in identical measure to nearly all industries, instead of being graded or differentiated

according to priorities. There was, similarly, no grading or differentiation in the provision of finance, power, land, materials, water, etc. While it would be quite incorrect to say that the essential industries, being subject to price and other controls, lacked incentives to expand or could not mobilize capital — since they did in fact expand and raise large amounts of capital — there was no self-correcting or plannig mechanism for restricting investment or production in relatively less or non-essential industries as resources, especially foreign exchange, became more scarce than anticipated. This became quite clear after the foreign exchange crisis in 1958: adequate foreign exchange could not be found for power and import of components, spare parts and materials for essential users but imports of equipment for less essential industries were deemed to have high priority just because they were capital goods.

In the course of licensing industrial projects and later, foreign collaboration, sufficient attention was not given to the economics of optimum location and scale of production. The underlying belief was that economic concentration would be avoided by licensing a relatively large number of units in each industry, dispersed over a number of regions, each having a separate foreign collaboration from a different country as far as possible. Consequently, uneconomically small units proliferated, and burdened the economy with high capital (especially foreign exchange) costs and low utilization of capacity as the shortage of materials became more pronounced. Each collaborator tended to install a different kind of plant, spare parts of which had to be imported for a long time from the country of origin alone, and each made a separate charge for imparting his technology and skill. The country paid several times over for each such technology and skill, which could have been avoided with fewer but larger plants and a policy for the use and transfer of trained manpower. In the event, even an increase in the concentration of economic power was not avoided. In certain industries like cement, on the other hand, the policy of denying substantial expansion to large units tended to slow down the growth of output since those who received the licenses were in many cases unable to utilize them.

The Mahalanobis strategy could not be accepted in full, among other things, owing to the pressing demands for higher consumption — and consequent import of equipment for consumer goods production. Agricultural failures and higher food prices, and transport bottle-necks led to price inflation which, became, paradoxically, the only instrument, a crude and indiscriminate one, of restraining consumption, with almost no support from fiscal, monetary and direct policies. Even if these mishaps had been avoided, the strategy would not have worked so neatly as its author postulated for some of its assumptions proved to be unrealistic or premature. One of the major premises of this strategy was that cottage industries were capital-saving. This proved incorrect for

it was found in the case of the *Ambar Charkha*, to take only one example, that it required more labour as well as more capital per unit of output as compared with mill spinning and the product was not entirely suitable for handloom weaving. In spite of rebates, subsidies, freight concessions, etc., the products of cottage industries (handlooms excepted) were not acceptable to consumers on grounds of both price and quality. Given the existing technology, there was a limit beyond which the total output of each cottage industry could not increase. The organizational effort required for improved technology and marketing was also seriously under-estimated. And, to top it all, the official predilections in favour of *khadi* tended to distract attention from the promotion of intrinsically more promising industries like footwear, coir, *bidi*, handicrafts, and small establishments using power.

The public sector was expected to and did play a crucial and strategic role in raising investment and filling gaps in the industrial structure: three steel plants, lignite, ship building, fertilizers, heavy electricals, machine tools, antibiotics, cables, railway locomotives and coaches, besides large expansion in coal, railways and power, all these started the process of changing the face of the country. But the costs of nearly all of them exceeded by far the Plan estimates, and fulfilment of production targets was inordinately delayed, thereby upsetting the foreign exchange budget and the production programmes of interrelated industries. Equally serious was the failure of the public sector to develop in good time a large technical and managerial cadre and sufficient trained labour to supply its manpower requirements and, wherever necessary, to provide the necessary guidance to the private sector. The development of such a cadre was an important part of the Industrial Policy Resolution.

While the plan progressed — and more than 80 per cent of its physical targets were achieved — many of the fundamental questions of industrial planning in a mixed economy were not answered; they were, in fact, not raised at all in the context of planning as such. What level and structure of direct business taxation would ensure private investment in accordance with priorities and also offset the disincentive to efficiency and cost reduction brought about by a high statutory rate of income tax? Should a scarcity premium be attached (by means of notional or shadow pricing or through the actual price mechanism) to the use of foreign exchange, domestic capital and essential commodities and, if so, what should be the mechanism for charging this premium in accordance with changing situations and requirements? Granted the objectives, strategy and targets for individual industries, what are the non-market or quasi-market criteria for determining the priorities between them *inter se*? Finally, how is the administration of policy to combine negative fiats with positive directions?

Third Five Year Plan: On the eve of the Third Plan, national income (at 1960-61 prices) had gone up over the decade of planning by 42 per cent to Rs. 14,500 crores and per capita income by 16 per cent to Rs. 330. Industrial production was 94 per cent higher than in 1950-51. The share of public sector industries in the net output of organized manufacturing industries had gone up from 1.5 per cent to 8.4 per cent and much of this increase had taken place in key industries like steel, coal mining and heavy chemicals. Besides the building up of a metallurigical and chemical base for future industrialization, considerable progress had been made in industries manufacturing consumer durables, in small industries and in the modernization and re-equipment of older industries like cotton, jute and sugar, part of it from indigenously manufactured equipment.

Far-reaching gains had been secured in the industrial field but these were insufficient to make any great impact on the general condition of the mass of the population or to alter radically the structure of the economy. Over the decade, national income originating in industry at current prices rose from Rs. 1,460 crores to Rs. 2440 crores, but as a proportion of the total, the increase was from 16 to 19 per cent only, and from 6 to 9 per cent, if factory establishments alone are taken into account. Employment in manufacturing industries rose only 17 per cent but the crude index of productivity went up by 49 per cent.

The principal objective relating to industry in the Third Plan was "to expand basic industries like steel, chemicals, fuel and power, and establish machine-building capacity, so that the requirements of further industrialisation can be met within a period of ten years or so mainly from the country's own resources." Industrial production was to increase by 70 per cent over the five years (at a compound annual rate of 11 per cent) against 30 per cent for national income as a whole. About 29 per cent of total investment, public and private, against 27 per cent in the Second Plan, was allocated to industry and minerals. Total investment in industry of the public sector was targeted to increase from Rs. 960 crores (including Rs. 90 crores actual in village and small industries) to Rs. 1,245 crores (including Rs. 150 crores for village and small industries). In the private sector, the targeted increase was from Rs. 850 crores (village and small industries Rs. 175 crores) to Rs. 1,475 crores, of which Rs. 150 crores were for replacement and modernization and Rs. 275 crores for village and small industries. Proposed aggregate investment in large-scale industry, thus, amounted to Rs. 2,720 crores and in village and small industries to Rs. 425 crores.

Of basic importance in the Third Plan was the programme for the expansion of capital and producer goods industries with special emphasis on machine building, and development of managerial skill, technical know-how and designing capacity. In this programme, the public

sector was assigned a key role but the private sector was also expected to play an important part. The share of the public sector in the net output of organized manufacturing industries would rise from 8 per cent to 25 per cent and the bulk of this would comprise capital and producer goods in the fields of metallurgy, industrial machinery, machine tools, fertilizers, basic chemicals and intermediates, essential drugs and petroleum refining. The emphasis was on industries which would help to make the economy self-sustaining, and reduce as rapidly as possible the need for external assistance to purchase these goods and also permit a broadening of the export base. The production of consumer goods was also to be expanded substantially, mainly in the private sector.

The industrial plan for the period 1961-66 was governed by the overriding need to lay the foundation for further rapid industrialization over the next 15 years; at the same time, provision was made to the extent possible for meeting the demand for other manufactured goods over the next five years. Power and fuels, it was anticipated, were likely to be inhibiting factors in the first half of the Third Plan, which might entail forgoing the adoption of industrial processes which make a heavy demand on electric power, notwithstanding their attractiveness. (This fear proved misplaced largely because industrial production failed to achieve the projected growth rate.)

Without departing from the 1956 Resolution, the Third Plan laid much greater emphasis than before on the "supplementary and complementary" nature of the public and private sectors. Specific attention was drawn to the entry of the private sector into nitrogenous fertilizers "in a bigger way than in the past." In pig iron, it was proposed to allow private plants with a maximum capacity of 1.016 lakh tonnes (raised to 3.048 lakh tonnes in 1964 on reconsideration of economies of scale and production requirements) as compared with 15,241 tonnes permitted till then. Programmes for the manufacture of dye-stuffs, plastics and drugs in the private sector were envisaged to be largely complementary to the programme for manufacture of primary aromatic compounds as by-products at steel works and of organic intermediates to be undertaken in the public sector. Similarly, public manufacture of bulk drugs was to be complemented by subsequent processing in the private sector. This change in what may be described as interpretation or implementation of industrial policy resulted, in large measure, from the pace of industrial growth and diversification, both achieved and proposed, and acceptance in general terms by both the sectors of their relative places in integrated development.

Among the general considerations for fixing industrial priorities, the Plan emphasized (i) greater and more intensive utilization of existing capacity through multi-shift operation and/or installation of balancing equipment, (ii) expansion of existing plants in preference to establish-

ment of new units in the interests of quicker completion and bringing down of the investment cost of output, and (iii) accent on those projects which would earn or save foreign exchange and discouragement of those heavily dependant upon import of raw materials. Subject to these, the following priorities were laid down for programmes and projects:

1. Completion of Second Plan projects which were under implementation or were deferred in 1957-58 due to foreign exchange difficulties.

2. Expansion and diversification of the capacity of heavy engineering and machine building industries, castings and forgings, alloy tools and special steels, iron and steel and ferro-alloys and increasing the output of fertilizers and petroleum products.

3. Increased production of major basic raw materials and producer goods like aluminium, mineral oils, dissolving pulp, basic organic and inorganic chemicals and intermediates, including petro-chemicals.

4. Increased production from domestic industries of commodities required to meet basic consumer needs like essential drugs, paper, cloth, sugar, vegetable oils and housing materials.

The Plan did not fail to take into account the growing concentration of economic power in the private sector as a result of the rapid growth of large business groups which had been able to make disproportionate use of the greater and wider opportunities for investment.* "Against the background of the goal of a socialist pattern of society," it stated, "steps would be taken to safeguard against the concentration of development in the hands of a few *entrepreneurs* "leading to complete or partial monopolies."

In the Third as in the Second Plan, care was taken, subject to economic and technical considerations, to disperse the location of new major public projects as well as expansion of existing ones. The claims of under-developed regions have also been kept in view in the licensing of private industrial projects. The progress, programmes and production targets of a number of industries have been examined from time to time with a view to securing the location of new capacity on a zonal basis. Special attention has been paid in the allocation not merely of cotton mills and light engineering industries but also of new industries like aluminium, cellulose acetate, artificial fibres, chemical processing, fertilizers and rubber tyres and tubes, to industrially backward States like Rajasthan, Uttar Pradesh., Assam and Kerala. It has been accepted as a matter of policy that each major public project should act as a nucleus

*In a statement laid before Parliament, it was implicitly admitted by Government that during the calendar years 1960 and 1961, at any rate, licensing policy had, in effect, operated to the advantage of large business groups. (*Company News and Notes*, May 16, 1963, p. 45). This was inevitable to some extent because in the private sector these groups alone had the capacity to undertake large new projects, but such exclusive ability has been tending to get diluted of late.

growth through the establishment of industrial estates in its neighbourhood and that fully developed industrial areas with necessary infrastructure are provided in selected centres in each State.

Village and Small Industries: The main objectives laid down in the village and small industries programme in the Third Plan were:

(i) to improve the productivity of the worker and reduce production costs by placing relatively greater emphasis on positive forms of assistance such as improvement of skill, supply of technical advice, better equipment and credit, etc;

(ii) to reduce progressively the role of subsidies, sales rebates and sheltered markets;

(iii) to promote the growth of industries in rural areas and small towns;

(iv) to promote the development of small-scale industries as ancillaries to large industries; and

(v) to organize artisans and craftsmen on co-operative lines.

There has thus been a clear shift in policy away from the negative and protective attitudes of earlier years in favour of a positive, intrinsically economic programme for placing village and small industries on a sound productive basis. It is clearly recognized that small industries combine the advantages of modern technology and the use of power with those of increased employment and greater opportunity for small *entrepreneurs* as well as for co-operatives. Programmes have been drawn up for the extension of Government guarantees for bank credits to small industries, enlargement of the hire-purchase scheme of the National Small Industries Corporation, larger Government purchases from small and cottage industries, and for the setting up of 300 new industrial estates against 120 sanctioned (and 60 commissioned) during the Second Plan. Regarding industrial estates, there is still an official belief that they could be the instrument for dispersion of industries away from congested areas. The record of industrial estates actually in operation, however, indicates clearly that most of the successful estates are those which are located close to large industrial centres.

This shift in policy is confirmed by the minor increase in the outlay allocated for traditional village and cottage industries and the greater concentration proposed on small industries and industrial estates: (Table XII).

Government purchases of the products of small-scale industries have increased considerably since 1951 (Table XIII). About 70 items are reserved for exclusive purchase from this sector.

Fiscal and Allied Developments: As foreign exchange difficulties became more serious, returns from investments in public enterprises were found small and getting delayed, and it was realized that planning

TABLE XII

Outlay on Village and Small Industries : Second and Third Plans

(Rs. crores)

	Second Plan Actual	*Third Plan*
1. Handlooms	30	34
2. Powerlooms in handloom sector	2	4
3. *Khadi* & village industries	82	92
4. Sericulture	3	7
5. Coir	2	3
6. Handicrafts	5	9
7. Small industries	44	85
8. Industrial estates	12	30
Total	180	264

TABLE XIII

Government Purchases of Small Industry Products

(Rs. crores)

	Total	*Annual average*
First Plan period 1951-56	7	1.4
Second Plan period 1956-61	21	4.2
Third Plan period (1961-Dec. 1964)	92	25.5

and the price mechanism were not inherently antithetical but could usefully supplement each other, a number of changes in policy and policy administration were effected from 1963 onwards. Some of these concerned licensing procedures, quicker utilization of foreign aid, and removal of price and distribution controls on certain essential commodities like steel and chemicals had, therefore, a direct bearing on industrial policy. Other changes related to tax concessions, export incentives, import duties, monetary policy and large-scale financial assistance and had, at first sight, only an indirect relationship with industrial policy but were, in fact, of fundamental significance for directing private investment — and for that matter disciplining the managements of public enterprises, too — into consistency with plan priorities and the realities of pricing of scarce inputs.

Much of the licensing, estimated at about 80 per cent of the total for the Third Plan period, was completed almost *en bloc* in or about 1960. Measures were taken from 1962 to start weeding out the dormant licenses, and to list the industries in which no further licenses would be given. At the same time, on the recommendation of the Swaminathan Committee, a list of priority industries was drawn up for prompt clearance of licensing and foreign exchange formalities. There was, however, no laying down of priorities within this list or assurance of full and prompt

satisfaction of exchange requirements for equipment and materials to the industrial units concerned; in some cases, *e.g.*, alloy steel, a high priority in licensing was not matched by expeditious approval of liberal terms of foreign collaboration which were in fact allowed to some low priority industries. The period of validity of licenses for maintenance imports was extended to facilitate continuity of supplies.

The report of the Raj Committee on steel prices and distribution marked a basic change in the attitudes towards controls on the prices and distribution of scarce essential commodities. The committee expressed itself firmly in favour of using the price mechanism for rationing and rationalizing demand and as an incentive for regulating the pace of investment and pattern of production, and restricting distribution controls to the prior satisfaction of priority demands. Price and distribution controls on structural steel were lifted in 1964 and on pig iron in August 1965, and were replaced by increased excise duties to keep down demand.

From January 1963, the raising of the bank rate and subsequent tightening up of credit policies ushered in a policy of dearer money — and higher price of capital, whether borrowed or equity. The setting up of the Industrial Development Bank of India with the promise that this institution would see high priority projects through to completion was expected to cushion high priority investments against the quantitative impact of restrictive monetary policies. The raising of import duties in 1964 and again twice in 1965 as an alternative to devaluation should give a stimulus to import substitution in equipment and materials; their impact on profitability has been cushioned by substantial raising of the rate of development rebate over the entire period of the Fourth Plan for the essential industries listed in the Finance Acts of 1964 and 1965. The absence of any deliberate link between this list of essential industries and that operative for licensing purposes remains a lacuna.

For the first time since the ushering in of planning, the structure of taxation of industry, both direct and of excise duties, now contains differentiated and graded rates on a long-term basis for income tax, development rebate, and credits for additional exports and production. So far as the fiscal and long-term financial aspects of planned industrial policy are concerned, steps have been taken in the direction of integrating market criteria and plan priorities.

Evaluation of Policy: Post-independence industrial policy marks a clear break from pre-independence days, though the conscious adoption of a mixed economy represents a continuity of British (and pre-British) tradition. A public sector existed at the time of independence. In British India it was practically confined to major public utilities and

supply of a part of Government requirements of defence and industrial goods. A few Princely States like Mysore, Travancore, Hyderabad and some small states in Uttar Pradesh, Saurashtra and Madhya Pradesh had ventured directly or indirectly into the production of a limited variety of consumer and producer goods. This species of public sector was not part of any overall programme of industrial development; it was largely the result of various *ad hoc* and vaguely strategic considerations. The Industrial Policy Statements of 1948 and 1956 demarcated the roles of the public and private sectors and also promised official blessings for co-operativization and cottage and small industries. Industry, especially factory industry, has yet to acquire a dominant position in the economy, in terms of both output and employment, but it has climbed to a plateau from which further ascent is assured.

The plan emphasis on heavy industry since 1956 is based on a strategy of development which suits the country's requirements. No feasible alternative has been at the expense of agriculture in the sense that financial or physical resources which could or should have been devoted to agricultural development have been diverted to industry. A substantially higher rate of growth in industrial production, especially of capital and producer goods, as compared with agriculture, is fundamental to the process of development for reasons which are primarily empirical, not ideological.

The annual rate of growth of population increased from 1.33 per cent in 1941-51 to 2.16 per cent in 1951-61, and has risen further since then. The projected rate of increase of national income has, therefore, to be stepped up adequately to raise per capita income in the short run as well as to provide the sinews of faster growth in future. This could be brought about by concentrating on the production of consumer goods, which would raise the standard of living immediately, but this strategy is self-defeating because it does not provide the resources and equipment for sustained growth from within. Given the magnitude of India's requirements, foreign exchange is and will remain the most scarce input in the near future. Exclusive emphasis on consumer goods and neglect of heavy industry would necessitate continued import of even agricultural inputs like fertilizers and agricultural machinery and involve subsequently a demand for foreign exchange for the import of equipment to manufacture these items; even for purely industrial inputs the dependence upon aid would be prolonged, and most industry would continue to remain material-based. The principal deficit items in the economy are metals, machinery and chemicals and it is only when these are progressively manufactured the dependence upon aid can be reduced substantially.

An industrial licence is necessary under the Industries (Development and Regulation) Act 1951 for setting up new or additional industrial

capacity in scheduled industries covered by the Act. The exemption limit for fixed investment was Rs. 5 lakhs till the Third Plan when it was raised to Rs.10 lakhs, and further to Rs. 25 lakhs in 1964. The ostensible purposes of industrial licensing are: (a) to limit industrial capacity within the target set by the plans; and (b) to direct investment in industries according to plan priorities. The policy of industrial licensing has gone through various phases. From 1951 to 1958, licensing tended to be restricted within the plan targets, mainly because the tempo of industrial development was not very rapid and the demand for licences was not overwhelming; imports were allowed reasonably freely and new industrial projects had to face competition from imported goods, unless they obtained tariff protection. The second phase lasted from 1958 to 1961, when the foreign exchange crisis first had its effect. Imports, especially of materials and components, were restricted and Government decided to liberalize the issue of licences, whenever a case for import substitution was made. Licences were issued far in excess (in some cases 25 per cent but normally 10 per cent) of capacity targets in several industries. For example, in paper. spun pipe, steel tube, and many other industries, the licences issued by the end of 1960 were far in excess of the capacity targets set for 1965-66, on the ground that many licensees often failed to establish capacity. The effect of this policy was to make investment plans more akin to those in a free market economy but without being subjected to market discipline. In the third phase, beginning with 1962, industrial licensing again became strict, mainly owing to the growing stringency of foreign exchange, and revocation of licences was initiated. The number of licences issued was 1,363 per year during 1959-61, 1,104 in 1962, 976 in 1963 and 782 in 1964. There were 315 revocations in 1962, 204 in 1963 and 202 in 1964.

Generous and *en bloc* licensing during the period 1958-1961 for Second and Third Plan capacity targets, together with restrictive import licensing which reduced statutory protection to insignificance (Appendix IV for the list of protected industries as of March 1963), imposed great strains on foreign exchange resources and the order books of domestic machinery manufacturers. No explicit criteria have been laid down to guide licensing policies, except for the banned, restricted and priority lists published since 1962. Some conclusions can, however, be drawn from the decisions made:

1. In some industries where economies of scale operate, certain minimum size is laid down, *e.g.*, paper in the First and Second Plan Industrial Programmes, but in most other industries where also economies of scale operate, there has been no much insistence.
2. Since regional decentralization is favoured, applications for location in backward areas receive preferential treatment.

3. Licences are issued to new *entrepreneurs* in preference to existing business houses in order to broaden the entrepreneurial base.
4. To reduce monopoly power, licences are given to those applicants, including some from large business houses, who do not have any establishment in a particular industry, *e.g.*, Birla in cement and aluminium.
5. Government has fostered consortia for the manufacture of complete industrial plants, *e.g.*, cement, sugar and paper but the licences are issued for specific plant manufacturing only, not for general fabrication, so that, even if their capacity is versatile and idle, they cannot change over to the manufacture of other plant.
6. To reduce the strain on foreign exchange, licensees have been required in some cases to manufacture the required components or intermediates, *e.g.*, pulp for paper, compressors for refrigerators and air-conditioners, intermediates for chemicals and pharmaceuticals, glass tubes for incandescent lamps, plastic materials for polystyrene, apart from the more generalized version of this applied to automobiles, machine tools, etc. This has led in many cases to uneconomical vertical integration and development of captive supplies at the expense of the final consumer.
7. Export obligations have been imposed on certain licensees as a condition for the release of foreign exchange for the import of plant and raw materials, and to cover the liabilities arising out of foreign collaboration.

The impact of licensing on the pace and pattern of growth has been, as observed earlier, uneven and quite often unrelated to priorities. Though investment opportunities have been far larger than the nternal and external resources available, no criteria have been laid down for undertaking the manufacture of specified items according to their suitability for economic manufacture. Consequently, in many industries, the cost of manufacture has been avoidably higher than international levels. Quite often, when an item comes to be domestically manufactured, users can continue to live off their old stocks, as happened in the case of polystyrene in 1958, PVC in 1962, synthetic rubber and ball-bearings in 1964-65. Over-licensing and *en bloc* Plan licensing, instead of phased issues, have tended to slow down the actual utilization of licences due to fears of over-production. Instead of the normally expected plan criteria of maximum value added or maximum net foreign exchange saved or maximum employment provided, there have been, by and large, only *ad hoc* decisions taken "on the merits of each proposal," which inevitably lead to delays.

To return to the course of licensing policy between 1966 and 1968, Government exempted a number of industries from the licensing provisions of the Act. The exempted industries were those which did not

involve any substantial import of components or raw materials. At the same time, industries in respect of which protection to cottage and small industries was important, were not delicensed.

In 1966, Government made an announcement of policy designed to facilitate further utilization of installed capacity. Licenced or registered industrial undertakings were told they were free to diversify their production upto 25 per cent of the licenced or registered capacity without formally obtaining an industrial licence. But this was subject to certain conditions: no additional plant and machinery was installed except minor balancing equipment obtained indigenously; no additional foreign exchange expenditure was involved; and the items into which production was diversified were not reserved for the small scale sector. In a clarification in December 1967, Government said if the industries which had diversified their production, were priority industries, even imports of raw materials could be allowed for the purpose. In diversifying production, however, there should be no additional demand for indigenous raw materials.

In the early sixties, a number of studies were conducted which revealed that there had been a growing tendency towards concentration of economic power in the hands of the captains of industry in the process of industrial development. The background to these studies was the reference made by the then Prime Minister, Jawaharlal Nehru in the Lok Sabha on August 22, 1960, moving that the Third Five Year Plan draft outline be taken into consideration, he said, "It is said that the National Income over the First and Second Plans has gone up by 42 per cent. A legitimate query is made: where has this gone? To some extent of course, you can see where it has gone. I sometimes do address large gatherings in the villages and I can see that they are better fed and better clothed, they build brick houses .. Nevertheless, this does not apply to everybody in India. Some people have hardly benefited. Some people may even be facing various difficulties. The fact remains, however, that this advance in our National Income, in our per capita income has taken place; and I think it is desirable that we should enquire more deeply as to where this has gone and appoint some expert committee to enquire into how exactly this additional income that has come to the country or per capita has spread."

Accordingly, a committee headed by P. C. Mahalanobis was appointed in October 1960. One of its terms of reference was "to ascertain the extent to which the operation of the economic system has resulted in concentration of wealth and means of production".

In its Report submitted in February 1964, the Committee, among other things observed "that the working of the planned economy has contributed to the growth of big companies in Indian industry. The growth of the private sector in industry and especially of the big com-

panies has been facilitated by the financial assistance rendered by public institutions like the Industrial Finance Corporation, the National Industrial Development Corporation, etc." The Committee referred to various other measures including tax incentives and pointed out that big enterprises were evidently in a better position to take advantage of such facilities. In the use of bank credit, for industrial expansion, the main beneficiaries have been the big and medium enterprises. The Committee's conclusion was: "Despite all the countervailing measures taken .. concentration of economic power in the private sector is more than what could be justified as necessary on functional grounds." The Committee pointedly said that industrial licensing was an important instrument for preventing the emergence of industrial monopolies "though this objective has to be constantly balanced against the equally imperative need of promoting efficiency and productivity." The Committee drew attention to its own limitations and emphasized the importance of collecting "more comprehensive and detailed information regarding the many aspects and ramifications of economic power and controls in the private sector" in order to formulate an appropriate policy.

Government, therefore, appointed the Monopolies Inquiry Commission headed by K.C. Das Gupta, a judge of the Supreme Court in April 1964. It was asked "to enquire into the existence and effect of concentration of economic power in private hands."

The Commission, distinguishing between "productwise concentration" and "countrywise concentration", pointed out that "the planned economy which the Government decided to accept for the country as the quickest way to achieve industrialisation on the right lines has proved to be a potent factor for further concentration." An important reason for concentration, in the opinion of the Commission was that "big business was at an advantage in securing the licences for starting new industries or for expanding the existing capacity. We are convinced that the system of controls in the shape of industrial licensing, however necessary from other points of view, has restricted the freedom of entry into industry and so helped to produce concentration." The Commission also spoke of the advantage which business had over small people in obtaining assistance from banks and other financial institutions as another helpful factor in the growth of concentration.

At the instance of the Planning Commission, Prof. R. K. Hazari reviewed the operation of the industrial licensing system over the First and Second Plan periods and made an Interim Report in December 1966. One of his conclusions was that the large and medium business groups enjoyed a higher ratio of approval in licensing applications as compared to others and that their share in the investment applied for and approved had tended to rise over the decade. This was specially true about certain

business houses and he named the House of Birlas as the most important of them. During a debate on this Report in the Rajya Sabha in May 1967, the Minister for Industrial Development announced that a committee would be appointed to go into the basic question of the functioning of licensing system and any advantage obtained through it by some of the larger industrial houses.

The Committee headed by S. Dutt and appointed in July 1967, was given a four-point terms of reference. It was asked to enquire into the working of the industrial licensing system to ascertain whether the larger industrial houses had in fact secured undue advantages over others, whether they were disproportionately large and whether there was sufficient justification for it. The second point was the extent to which the licences issued were in conformity with the Government's Industry Policy Resolution 1956. Thirdly, the Committee was asked to inquire whether the basic policies of the public financial institutions had resulted in any undue preference to the larger industrial houses.

The Industrial Licensing Policy Inquiry Committee, as it was called, in its report submitted in July 1969, covered the period between 1956 and 1966 and to the extent necessary developments subsequent to 1966 and during the First Plan. Meanwhile, the Administrative Reforms Commission and the Planning Commission also went into various aspects of industrial licensing policy and recommended certain important changes. Taking these into account as also the recommendations of the Dutt Committee (which spread over a very wide canvas) Government announced a modified Licensing Policy in February 1970. The new policy aims at accelerating the pace of industrial development but avoiding concentration of economic power and providing adequate opportunities and scope for medium and small *entrepreneurs*. It represents an effective and pragmatic compromise between the necessity for greater liberalization on the one hand so as to encourage small and medium *entrepreneurs* and on the other, the need for regulation and control of certain special categories of undertakings such as the larger industrial houses, foreign concerns etc.

The exemption limit for licensing has been raised from Rs. 25 lakhs to Rs. 1 crore. There is provison for substantial expansion without a licence by a maximum of Rs. 1 crore subject to certain conditions. Certain classified industries are not eligible for this exemption: (1) certain special products for which licensing is considered always necessary, products reserved for the small sector and items in the 'core' sector, which have been planned to meet the essential needs of the economy; (2) the larger industrial houses and companies with foreign majority participation where growth and expansion need to be channelled in suitable directions; and (3) exemptions have to be related to certain criteria, particularly foreign exchange. Viewed in this context, the new

licensing policy seeks to provide a framework for accelerated industrial growth consistent with social justice and overall socio-economic objectives.

The broad features of this modified licensing policy are:

1. There is a list of 'core' industries consisting of basic, critical and strategic industries in the economy. Detailed industry plans would be drawn up for them and essential inputs provided on a priority basis. A list of broad groups of industries has been drawn up for inclusion in the 'core' sector for the Fourth Plan. These are:

(1) Agro industries and inputs:
- (a) Fertilizers — Nitrogenous and Phosphatic
- (b) Tractors and power tillers, pesticides (basic chemicals only)
- (c) Rock Phosphate and pyrites

(2) Iron and Steel:
- (a) Iron ore
- (b) Pig iron and steel
- (c) Alloy and special steels

(3) Non-Ferrous Metals

(4) Petroleum:
- (a) Oil exploration and production
- (b) Petroleum refining
- (c) Selected petro chemicals:
  - (i) Integrated petro-chemical complexes
  - (ii) D.M.T.
  - (iii) Caprolactum
  - (iv) Acrilonitric
  - (v) Synthetic rubber

(5) Coking coal

(6) Heavy Industrial machinery:
- (i) Paper machinery
- (ii) Chemical machinery
- (iii) Specialized machine tools
- (iv) Rubber machinery
- (v) Printing machinery

(7) Ship-building and dredgers

(8) Newsprint

(9) Electronics:

Selected electronic components which are deemed to be in the 'core' sector are:
- (i) Resistance, fixed and variable.
- (ii) Condensers or capacitors, fixed and variable.
- (iii) Semi-conductors, including diodes, thick film, thin film and integrated circuits.
- (iv) Connectors, switches and relays.

(v) Transmitting and receiving tubes including cathode-ray tubes.
(vi) Sophisticated micro-wave components and antennas.
(vii) Ferrites and magnets.
(viii) Thirmisters and varisters.

2. In addition to the 'core' sector, all new investment propositions of over Rs. 5 crores will be considered to be in the 'heavy investment' sector. Except for industries reserved for the public sector, undertakings belonging to the larger industrial houses together with foreign concerns and subsidiaries or branches of foreign companies would be expected to participate in and contribute to the establishment of industries in the 'core' and 'heavy investment' sectors.

3. In the 'middle' sector involving investments ranging from Rs. 1 crore to Rs. 5 crores, licences will be given liberally to undertakings outside the larger industrial houses. Applications with foreign exchange implications will, however, be subject to careful scrutiny. Applications from the larger business houses or from enterprises controlled by them and branches or subsidiaries of foreign companies would be considered for expansion where it is found necessary to develop a minimum economic level which would ensure greater cost efficiency or if the industries are established in industrially under-developed areas. The larger industrial houses and foreign companies would also be licensed in the middle sector if a substantial export commitment of 60 per cent or more of the new or additional production is given. The obligation will have to be achieved in 3 years. A similar obligation minimum of 75 per cent has been laid down for the small scale sector as well.

4. New undertakings or substantial expansion of units requiring investment of Rs. 1 crore or less will not need a licence under the Industries (Development and Regulation) Act. This exemption is, however, available only to undertakings or categories of undertakings which have existing assets of less than Rs. 5 crores and which (a) do not belong to the larger industrial houses, (b) do not need Rs. 10 lakhs or more than 10 per cent by way of foreign exchange for import of machinery and equipment, whichever is less, and do not require foreign exchange except for the marginal import of raw materials, components and the like, (c) are not foreign companies or branches or subsidiaries of foreign companies (such companies being those where more than 50 per cent of paid-up capital is in the hands of non-Indians or non-residents), and (d) are not included in the category of dominant undertakings.

5. The existing policy of reservation for the small scale sector will be maintained and its area extended. In respect of agro industries, preference will be given to co-operatives.

6. The 'joint' sector concept recommended by the Industrial Licensing Policy Inquiry Committee has been accepted. In future, it is in-

tended that there would be greater participation in management, particularly at policy levels, by public financial institutions in the case of major projects involving substantial assistance from them. These financial institutions would be able to exercise option for converting bonus into equity either wholly or partly within a specified time.

7. The role of the public sector has been reoriented to cover major production gaps likely to develop in the economy, particularly in short gestation and quick yielding projects, including consumer industries and intermediates.

8. The new licensing policy lays great stress on the development of export oriented industries. It is recognized as part of Government policy that industrial capacity has to be consciously built up in those fields in which India has a comparative advantage and where favourable trends are emerging in the international markets.

III. Growth of Industries since Independence

Large Scale Industries: Industrial progress in the first two Five-Year Plans (1951-61) has been described as the beginning of an industrial revolution in India. Growth and diversification of industry were quite remarkable and particularly rapid during the Second Plan period. Measured by the index of industrial production (1956—100) output grew at an annual average rate of 6.3 per cent between 1951 and 1955 and 8.3 per cent during 1955-60. The average rate for the next four years (1960-64) was 8.6 per cent. With 1956 as base, production of capital goods rose from 45 in 1951 to 264 in 1964, that of intermediate goods (including fuel and power) from 71 to 212 while consumer goods, which have a weightage of as much as 53 per cent, rose from 79 to 136 only. In overall terms, organized industrial production had practically doubled during the decade. The index of industrial production had risen from 100 in 1950-51 to 194 in 1960-61,

In this ten-year period, three new steel mills, each with about a million tonne capacity were completed in the public sector and two existing steel works in the private sector had been doubled so as to bring their ingot capacity to two and one million tonnes, respectively.

The foundations had been laid of heavy electrical and heavy machine tool industries, heavy machine building and other heavy engineering equipment. Production of machinery for the cement and paper industries had begun for the first time. There were spectacular increases on a wide front in the field of chemical industries leading not only to larger units and greatly increased production of basic chemicals such as nitrogenous fertilizers, caustic soda, soda ash and sulphuric acid, but also to the manufactures of several new products as for example: urea, ammonium phosphate, penicillin, synthetic fibres, industrial explosives, polythalyne, newsprint and dye-stuffs. The production of many other

industries increased substantially. Of these may be mentioned bicycles, sewing machines, telephones, electrical goods and appliances, textile and sugar machinery, petroleum, non-metallic minerals, footwear, etc.

In spite of these far-reaching gains and impressive growth, the achievements have not been adequate enough to make any great impacts on the general condition of the masses of the population or radically to alter the structure of the economy. Compared with the targets set, there have been some large shortfalls. The combined output of steel by the three new public sector steel plants was only 0.6 million tonnes in 1960-61 as against the target of 2 million tonnes. Similarly in the private sector Tata Steel Mill the actual output of saleable steel for the Second Plan period was only 4.5 million tonnes as against 5.2 million tonnes forecast by the Tariff Commission. In the field of fertilizers there were delays in the completion of the projects followed by teething troubles. Delays occured in the Electrical Plant at Bhopal mainly due to foreign exchange difficulties. The Heavy Machinery, the Mining Machinery and the Foundry Forge Projects were far behind schedule in the initial stages of construction. These and other projects showed that the gestation period, especially in heavy engineering industries, was generally longer than expected.

The main industrial targets which have not been achieved were those set for iron and steel, fertilizers, certain items of industrial machinery such as paper and cement plant machinery, heavy castings and forgings, aluminium, newsprint, raw fibres, chemical pulp, soda ash, caustic soda, dye-stuffs and cement. The shortfalls were in those very industries which were of crucial importance and whose economies of benefits were taken into account at the beginning of the Third Five Year Plan (Table XIV).

TABLE XIV

Production Targets for 1960-61 and Performance

	Unit	*Production Targets*	*Production Actually*
1. Finished steel	million tonnes	4.3	2.2
2. Nitrogeneous fertilizers	000 tonnes	295.0	112.0
3. Phosphatic fertilizers	000 tonnes	122.0	56.0
4. Textile machinery	Rs. crores	17.0	9.0
5. Cement machinery	Rs. crores	2.0	0.6
6. Paper machinery	Rs. crores	4.0	—
7. Aluminium	000 tonnes	25.0	18.5
8. Newsprint	000 tonnes	61.0	25.0
9. Chemical pulp	000 tonnes	30.0	—
10. Soda ash	000 tonnes	234.0	147.0
11. Caustic soda	000 tonnes	137.0	100.0
12. Dye-stuffs	million	22.0	11.5
13. Cement	million tonnes	13.0*	8.5

*Revised to 10—11 million tonnes in May 1958.

Most of the other targets of capacity and production were approximately fulfilled and in some cases exceeded as, for example, power driven pumps, diesel engines, electric motors, ACSR cables, electric fans, radio receiving sets and sugar.

The Planning Commission reported that, broadly speaking, industrial advance had been in keeping with the avowed object of enabling the economy to reach, as soon as possible, the stage of self sustaining growth, for, despite the shortfalls, notable progress had been achieved in the capital goods industries.

Set-back in Growth: A period of eight years comprising the Third Plan and three Annual Plans impressed a markedly uneven industrial growth. In the first four years, conditions were relatively favourable but the following three years were a period of considerable stress and strain in the economy. The growth rate declined first slowly and then steeply till it reached a stage of virtual stagnation. The index of industrial production (1960 as base) stood at 8.2 per cent in 1961-62, 9.6 per cent in 1962-63, 9.2 per cent in 1963-64 and 8.8 per cent in 1964-65. Deterioration set in thereafter and the index fell to 5.3 per cent in 1965-66, 0.2 per cent in 1966-67, and 0.5 per cent in 1967-68. The set-back, among other causes, was due to low rates of growth in textiles and food industries on the one hand and metals and machinery industries on the other. In many of these industries, there was a fall in absolute output. In 1968-69, however, there was a sharp recovery and industrial production recorded a rise of 6.2 per cent.

Of the several causes that led to the decline from 1964-65, the most important were the dislocation caused by the India-Pakistan conflict in 1965 and two successive draughts. Many industries were severely affected by the shortage of raw materials and components because of the stoppage of external aid in 1965. Although aid was resumed later on and the import policy for raw materials liberalized after devaluation, new factors added to the difficulties. The two bad agricultural years led to considerable decline in savings, investments and purchasing power. Agricultural raw materials for industrial production were in short supply.

On the other hand, completion of projects added to capacity. But subdued demand accumulated the unutilized capacity in many industries, especially in the capital goods industries. Although imported raw material position was easy, depressed demand prevented full exploitation of industrial potential. The inflationary environment and the increase in the cost of projects as a result of devaluation led to serious problems. To some extent, the position was relieved by a determined effort to find markets abroad.

Agricultural production improved in 1967-68 and consequently industrial production and investment showed an upward trend. The improve-

ment in agriculture was maintained in 1968-69 and capacity utilization in many industries also improved. Production in some industries like machine tools and cables remained at comparatively low levels but the better utilization of capacity in them is dependent on the increase in the tempo of investment.

Despite these set-backs, there has been much contribution to a diversified industrial structure. Substantial capacity has been created in many new lines. Several large projects initiated earlier, have gone into production and this has helped in the expansion of capacity, through indigenous effort in vital sectors like iron and steel, mining and power generation. Virtual self-sufficiency has been achieved in the supply of equipment and rolling stock for rail and road transport and communication. There has been appreciable increase in the production capacity of steel and non-ferrous metals. Capacity is being expanded in petroleum, fertilizer and petro-chemical industries. In many industries, it would be possible by a fuller utilization of existing capacity to achieve higher levels of production in the Fourth Plan. Design and engineering capabilities have been expanded. Process technology has been either acquired or developed to enable the planning, designing and construction of industrial projects with maximum indigenous efforts in fields like fertilizers, rayon and dissolving pulp.

The industrial policy over the years has undoubtedly fostered growth and has created a strong and sophisticated industrial base. At the same time certain inherent shortcomings and difficulties have surfaced. Experience has shown that it was not possible to ensure adequate phasing of targets of production laid down in the Plans and to review them periodically for adjustments as changing situations required. Consequently in certain industries capacity in excess of requirements was created while in some others capacity fell short of needs. The bunching of licensing and inadequate implementation led to imbalances in some sectors of industry. In some cases, though licences were issued to the full extent of requirements and sometimes even more, actual manufacturing capacity that was created fell far short. Detailed controls put considerable strain on administrative machinery and also delayed implementation and did not always secure the desired objectives. The private sector displayed inadequate cost consciousness and had no appreciation of the imperative of reducing costs because of the existence of a sellers' market in India.

Recent Industrial Production Trends: In 1970-71, the economy generally maintained its overall momentum of growth. In certain areas, the economy showed an encouraging improvement over the previous years' performance. In other areas, however, there were signs of certain disturbing trends emerging.

The national income in real terms grew at an estimated rate of 5 to

5.5 per cent for the second successive year strictly in line with the Fourth Plan target. To a large extent, this rise was due to a 6 per cent growth rate achieved in agriculture, and in turn, to an 8 per cent growth rate in foodgrains production (109.5 million tonnes). Wholesale prices continued to be under pressure throughout the year and reached an increase of 3.1 per cent during 1970-71, slightly lower than 4 per cent recorded during the previous year. This stabilizing trend was reflected in a welcome decline of 2.4 per cent in the prices of foodgrains and of 5.1 per cent in the prices of industrial raw materials.

Exports during the year registered an 8.3 per cent increase as against 4.1 per cent in 1969-70. Imports, however, increased by 2.9 per cent during the year as against a steep decline of 17.1 per cent in the previous year.

The general index of industrial production at 180.8 for the year 1970 reveals a rise of 4.8 per cent over the previous year as compared with 7.1 per cent rise in the 1969 over that of 1968. It would appear that industrial revival that succeeded the recession years of 1966-68 has since been followed by a deaccelerating industrial trend in 1970.

The index of industrial production in 1970 by groups and sub-groups shows that apart from "electricity generated" which showed a rise of 11 per cent and "mining and quarrying" which managed to maintain its production levels, the major group "manufacturing" showed a growth rate of 4.4 per cent.

The major growth leaders in the group "manufacturing" recorded an increase of between 12 and 19 per cent. These are manufacturers of aluminium, copper, food, miscellaneous and electrical machinery.

Industrial groups that have maintained a reasonably healthy growth rate, between 4 and 10 per cent include jute textiles, chemical manufacture, non-metallic minerals, paper products, beverages and tobacco, petroleum refinery products, non-electric machinery, written textiles and metal products.

Areas where production levels have either declined or have just been maintained include iron and steel, cotton textiles, footwear, wood and cork products, leather and fur products, rubber products and transport equipment.*

**Note:* While 'textile manufacture' has been assigned a weight of 27 per cent in the index of industrial production, the item 'cotton textiles' carries a weight of 21 per cent. As a result, comparative stagnation in the production of cotton textiles tends to pull down the entire general index.

Similarly, the item "iron and steel" carries a weight of 6 per cent in the general index and a percentage decline of 6.9 per cent in production has affected the production of a number of steel based industries.

In the case of items such as "footwear" and "rubber products", the relative stagnation or decline in producton could be ascribed to statistical reasons. Some of the industrial units borne on the registers of DGTD have been transferred to those of the small scale sector.

Remedial Measures: Several steps have been taken to improve the rate of industrial production. Licensing of capacity, both for setting up new capacity and for expansion of existing units, has been accelerated. Procedure has been streamlined to permit consideration of future applications. The total number of industrial licences and letters of intent (as stated earlier) has gone up. In addition, the facility to set up industrial units without industrial licensing for units upto Rs. 1 crore of investment (as also expansion schemes involving upto Rs. 1 crore per unit with capital of less than Rs. 5 crores) subject to certain constraints of foreign exchange is expected to lead to the creation of additional capacity and thus lead to rapid growth of industrial production.

The pace of licensing of import of capital goods has also been speeded up as the figures below will show:

TABLE XV

Value of Import Licence

	(Rs. crores)
1964—65	303.39
1965—66	170.22
1966—67	412.46
1967—68	164.67
1968—69	83.83
1969—70	73.20
1970—71	127.09

Further, licensing of import of industrial raw materials has been significantly stepped up. The total volume of import licensing has gone up by 27 per cent in 1969-70 as compared to 1968-69. During 1970-71, import licencing increased by a further 35.5 per cent. The policy on import of steel has been specially liberalized to meet the shortage.

In the small scale sector, the policy of licensing of imported raw materials has been particularly liberalized. Entitlement of non-ferrous metals, for example, was increased by 50 per cent across the board in 1970-71. Also small scale units have been allowed an increased entitlement by 25 per cent of import of all categories of mild steel. The

growth of the total volume of import licensing for the small scale sector is given in the table below:

TABLE XVI

Import Licences for Small Scale Sector, 1964-71

	(Rs. in crores)
1964—65	17.64
1965—66	4.40
1966—67	74.09
1967—68	49.77
1968—69	36.72
1969—70	65.57
1970—71	83.26

These figures are exclusive of release to the small scale sector through canalizing agencies like the State Trading Corporation, the Minerals and Metals Trading Corporation and Hindustan Steel.

Small Scale Industries: There was some development of modern small scale industries, especially in engineering, during the Second World War but, after the cessation of hostilities, the units could not adapt themselves to the changed needs. Some degree of revival took place during the First Plan period: manufacture of sewing machines, bicycles and storage batteries was taken up and capacity was expanded in certain other items like agricultural machinery, leather tanning, radio receivers, bifurcated rivets, furniture, small tools, sports goods, etc., in which the expansion of large industry was restricted partly as a measure of policy. Development was more rapid during the Second Plan, when many units came to produce articles requiring a high degree of technical skill like plastics and some chemicals. Production of radio amplifiers, transistor radios, radio components, tape recorders, simple optical lenses, etc., was taken up. As small scale industry took increasingly to import substitution, there was even a demand for foreign collaboration in such items as minor electrical apparatus, electronic instruments, water meters, engine valves, textile accessories, clock-work, toys, tungsten carbide dies and non-engineering items like glass fibre, adhesives, glass tubes, laminating processes, etc. Government approved phased common production programmes in some industries like refrigerators, water coolers, air conditioners, photo flash bulbs, clocks and watches, and scientific instruments.

The maximum growth of small scale industries has taken place largely over the last decade. They comprise enterprises with an investment of Rs. 7.5 lakhs in machinery and equipment. They use modern equipment and techniques of production and management. Not only have small scale industries grown in numbers, the products of many of them conform to standards and specifications prescribed by the Defence

Services, railways and several large scale industries. A number of small scale units supply parts and components to large industries engaged in the manufacture of machine tools, bicycles, automobiles, coach building and other railway equipments, and electronic and electrical appliances and machinery. Products of some of these industries are exported. Several new items, parts and components requiring high technology and precision are made in this sector thus minimizing their imports.

Small scale industries have been assigned a vital role in our development strategy for three main reasons which have assumed social and economic importance in recent years. Firstly, this sector can provide employment opportunities for surplus labour force at a relatively smaller capital cost. Secondly, small scale industries are useful and effective for mobilizing untapped scarce resources of capital and entrepreneurial skill. Thirdly, these industries are expected to ensure the diffusion of productive industrial activity in order to (a) accord concentration of industry leading to flow of population to metropolitan cities causing socio-economic and political maladies of concentration, (b) create employment opportunities in areas where large additions to labour force accrue year after year and foster balanced development of all parts of the country and (c) promote progressive rural economy through the establishment of economic and functional links between the rural or semi-urban areas and the cities.

In 1960-61, there were 36,109 small scale industrial establishments in the country (Table XVII). As the decade progressed they increased more than five times and in 1969-70 they stood at nearly two lakh units: machines valued at over Rs. 40 crores were supplied on hire-purchase terms in 1969-70 (Table XVIII). As at the end of March 1970, ten thousand parties were given hire-purchase facilities — indigenous machinery worth Rs. 16.6 crores and imported Rs. 23.6 crores. More than 19,000 small scale units have been listed for exclusive purchase by Government of 166 items made by the small scale sector. Between 1956 and 1959 the number of such reserved items was barely 16 (Table XIX). The value of contracts given to the small scale sector by the Directorate General of Supply and Disposal at the end of March 1970 was made Rs. 182 crores spread over fifteen years. In addition the railways purchases made for Rs. 16 crores.

As at the end of March 1970, the Small Scale Sector (both factory and non-factory) gave employment to 63 lakh people for a gross output valued at Rs. 3,670 crores and an investment of Rs. 450 crores.

By the end of March 1970, there were 389 industrial estates all over the country. In 1960-61 there were only 66. Of the 389 industrial estates 303 were functioning and they contained 5,413 work-sheds. Their output in the year 1969-70 was worth Rs. 100 crores and employed over 96 thousand people.

TABLE XVII

Registered Small Scale Units

Year	*No. of Units*
1961	36,109
1962	52,241
1963	74,857
1964	92,583
1965	1,06,883
1966	1,21,619
1967	1,36,273
1968	1,61,865
1969	1,78,210
1970	1,93,131
1971 (31.3.71)	2,14,004

TABLE XVIII

Hire-purchase Assistance State/Territory-wise as on 31. 3. 1970

(Rs. crores)

1.	Southern Region	14.45	2.	Western Region	9.64
	Tamil Nadu	5.32		Maharashtra	6.54
	Andhra Pradesh	2.03		Gujarat	1.71
	Kerala	2.30		Madhya Pradesh	1.28
	Mysore	4.75		Goa	0.11
	Pondicherry	0.05			
3.	Eastern Region	5.92	4.	Northern Region	10.19
	West Bengal	4.73		Delhi	3.20
	Bihar	0.55		Uttar Pradesh	3.70
	Assam	0.39		Punjab	2.07
	Orissa	0.22		Jammu and Kashmir	0.18
	Manipur	0.02		Rajasthan	0.74
	Tripura	0.01		Haryana	0.20

Grand Total 1 + 2 + 3 + 4 : Rs. 40.20 crores.

TABLE XIX

Items for Exclusive Purchase by Government from Small Scale Sector

Year	*No. of Units*
1956—59	16
1959—61	27
1961—62	46
1962—63	63
1963—64	70
1964—66	72
1966—67	84
1967—68	110
1968—69	122
1969—70	146
1970—71	166

The spectacular progress of small scale industries is a tribute to the initiative and grit of the newly rising class of *entrepreneurs* from hitherto trading and agricultural interests and the systematic and positive efforts of Government to encourage them. Their growth has been greatly assisted by the availability of financial assistance from the National Small Industries Corporation, the State Bank of India, the fourteen nationalized banks, State Financial Corporations and State Governments.

The NSIC scheme for hire-purchase of machinery was introduced in 1956 and came into operation in 1957-58. Under the scheme NSIC supplies, plant and equipment against a small earnest money deposit, the balance being recovered in instalments spread over a period of 7 to 10 years on a lower rate of interest than the prevalent bank or market rate. The formalities of assessing the creditworthiness of the applicant and asking him to provide sureties are dispensed with.

Another important sphere of activity of NSIC is the training of artisans and skilled workers at its Prototype Production and Training Centres where they are provided with free hostel accommodation and are paid stipends for the duration of their training. More than 4,000 trainees have so far passed out of these training centres after rigorous in-plant training in several engineering trades.

A special scheme has been in force for over a year to encourage exports in the small scale sector. Manufacturing units exporting more than 10 per cent of their production are eligible for priority issue of licences and for preferred sources of supply for import of raw materials and components. Under this scheme, 447 units qualified for preferential treatment in the year 1970-71. They had produced goods worth Rs. 66.47 crores and the value of their exports was Rs. 22.25 crores during the previous year. Of this export total, as much as one quarter was contributed by 10 units. Twenty-nine units had exported their entire production during the year. These industries are tabulated below:

TABLE XX

Industry	*Number of Units*
Curry powder, pickles, pine-apple juice and jam	1
Woollen hosiery and knitwear	3
Readymade garments	3
Printed books, periodicals, journals, etc.	1
Drugs and pharmaceuticals, medicines etc.	1
Agarbatties and *dhoop*	4
Brass utensils, brass artware and sports cups	8
Agricultural machinery and implements	1
Car radios, aerials, amplifiers, etc.	1
Automobile parts and accessories	2
Surgical instruments and equipments	1
Plastic products, plastic bangles, imitation jewellery etc.	1
Sports goods	2

In the final analysis, 69 units out of the total 447 units exported over 80% of their production, 86 units between 50 and 80 per cent and the remaining 292 units betwen 10 and 50%.

Auxiliary Industries: The auxiliary programme has gained momentum in recent years as feeders for the larger units. They need sophisticated plant and machinery to meet the requirements of the units they serve. In view of this, the upper limit of investment for auxiliaries has been fixed at Rs. 10 lakhs for plant and machinery. In 1970-71 there were 10,000 such units supplying parts and components regularly to about 200 large industries. The total investment in these small auxiliary industries is estimated at Rs. 300 crores and the value of their products at Rs. 32 crores in 1970-71. There were about 600 auxiliaries feeding the automobile industry alone. About 980 types of end products required for 16 large industrial groups are covered by auxiliaries.

In addition, nearly 280 units were engaged in production for feeding 21 public sector undertakings and the value of their output was Rs. 7.35 crores. Fifty-one units were effectively functioning in one centre of Hindustan Machine Tools supplying 50 per cent of components. In terms of import substitution the output of auxiliary industries was valued at Rs. 1.32 crores. Auxiliaries have provided employment to about one hundred thousand persons. The centres of concentration of auxiliary units are in Bangalore, Bombay, Delhi, Ranchi and Madras and scattered in other parts of the country.

There are roughly 1,000 large scale units in the private sector and 60 established in the public sector which still remain to be tapped by auxiliary industries in the small scale sector.

Groups of Industries Supplied by Auxiliary Units

1. Industrial machinery.
2. Agricultural and earth-moving machinery.
3. Machine tools.
4. Industrial, scientific and mathematical instruments (mechanical).
5. Locomotives and rolling stock, ships and aircrafts.
6. Bicycles.
7. Boilers and steam generating plants.
8. Steam engines, turbine and internal combustion engines.
9. Automobiles.
10. Commercial office and house-hold equipment.
11. Electrical machinery, equipment and appliances.
12. Tele-communication equipment.
13. Industrial instruments (electrical).
14. Radio and electronic equipment.
15. Air conditioners and cold storage equipment including refrigerators.
16. Minerals, oil and petroleum industry.

Industrial Co-operatives: Cottage and small industries in the co-operatives sector have been given an important place in the overall scheme of industrial development. They get various types of assistance by way of imported and scarce indigenous raw materials, finance for block and working capital and participation of State Governments in their share capital.

The number of co-operatives in the industrial sector in 1970 was estimated at 51,000 with a membership of 37 lakhs and a working capital of about Rs. 370 crores. One hundred and sixty-five were in the medium and large industrial sector — 68 textile mills, 84 sugar factories, 6 vegetable oil and *vanaspati* factories, 4 milk product institutions and 3 manufacturing other food articles.

Of the total, 47,970 were industrial co-operatives organized by artisans, craftsmen, workers, etc. These institutions either undertook production and sale activities or offered supply, sale and other services to their members. Membership of such societies totalled 31.86 lakhs and the number of employed were 8.10 lakhs. These societies had a working capital of Rs. 164.81 crores. During the year ended June 30, 1969, sales totalled Rs. 143.24 crores. Thirteen thousand three hundred and fourteen societies were working at a profit which amounted to Rs. 3.68 crores.

The National Federation of Industrial Co-operatives, registered in March 1966, helps in buying and selling raw materials, components, parts and equipments for the use of industrial co-operatives and marketing of products. The Federation had (1969) a barter deal with the U.S.S.R. for the import of 5,000 tonnes of Sunflower Seed Oil worth Rs. 1.13 crores. In return, woollen and nylon knitwears have been cxported. Musical instruments are exported to U.K.

Khadi **and Village Industries:** Since the beginning of planned development in India, village industries have been given a central place in rural programmes. The First Plan says that the development of village industries should be as much a matter of State action, as the increase of agricultural production. One cannot be separated from the other. It argues that products of large scale industries have increasingly limited the market for several classes of rural artisans. Their occupations now give them only partial employment, so that they tend to join the ranks of agricultural workers. The Frst Plan estimated an expenditure roughly of Rs. 7.25 crores on selected village industry schemes which would give employment for over 16 lakh persons including, full-time and part-time workers and students. The Plan envisaged a Khadi and Village Industries Board which would take on these programmes in consultation with State Governments and organizations engaged in this field.

In drawing up the Second Plan, considerable thought was given to the idea of decentralized spinning in rural homes providing adequate quantities of quality yarn for handlooms which were otherwise depending on mill yarn. Also this would considerably increase the scope for rural employment. The Khadi and Village Industries Board launched a pilot scheme on the basis of the Ambar Charkha, a three unit spinning set consisting of a carding machine, a drawing machine and a four-spindle spinning wheel costing in all about Rs. 100. With this longer programme in view the Board drew up a tentative programme for the manufacture and introduction of 25 lakh multi-spindle *charkhas* over a period of five years offering prospects of part-time and full-time employment to about 50 lakh persons. The expectation that the Ambar Charkha might play a larger part in the future development of *khadi* was not entirely fulfilled for two reasons: work on the new *charkha* was new to the spinners who had been accustomed to the traditional wheel and in the initial stages, the Ambar Charkha in quality was not upto the mark. Meanwhile the *khadi* and Village Industries Board was replaced by the Commission created by an Act of Parliament in 1956.

The Third Plan programme to introduce 3 lakh Ambar Charkhas did not materialize and only 15,534 were introduced in the first two years of the Plan. There was no significant increase in the number in subsequent years. The reason was that the Commission was engaged in designing and developing an improved model of *charkha*.

The total production of all varieties of *khadi*, including woollen and silk, increased from 538 lakh square metres in 960-61 to 849 lakh square metres in 1965-66 but declined to 600 lakh square metres in 1968-69. In the following year, 1969-70, it went up again to 622 lakh square metres. Its value was Rs. 2,564 lakhs as against Rs. 2,338 lakhs the previous year. The *khadi* industry provides employment for about 11 lakh persons of which more than 9 lakhs are spinners.

The village industries employ 9 lakh persons including part-time workers. Production in 1969-70 was valued at Rs. 78 crores showing a slight fall of Rs. 3.50 crores of the value of production of the previous year. The sales in 1969-70 were, however, showed an edge over those of 1968-69.

The Khadi and Village Industries Commission has been spreading out its activities in the hill border areas and in places with large population belonging to the weaker sections of society. The main objective is to strengthen and stabilize their economy. The programme consists of popularization of improved equipment and implements in place of traditional ones, supply of essential consumer commodities through the development of *khadi* and village industries and organization of institutions/co-operatives of local people and artisans and training and

organizing markets for the surplus production after meeting local needs.

Pioneering work has been done in some vulnerable areas like the Rajasthan international border, Himalayan border areas of Pithorgarh, Uttar Kashi and Himachal Pradesh, and certain pockets in Kutch, Manipur and Tripura, N.E.F.A. and Nagaland.

As a result, a number of institutions consisting of local people and artisans has been set up; and they are progressively prepared to take up development work on a planned basis. Similarly, in the hill areas and tribal belts of Madhya Pradesh, Gujarat and Uttar Pradesh and the Andaman and Nicobar Islands, the results have been encouraging.

Handlooms and Powerlooms: The share of handlooms and powerlooms in total cloth output has increased considerably since 1948 and its contribution at present is half the entire production. Their total number in this decentralized sector was 1,409,068 in 1969 as against 1,323,618 in 1961. There is a heavy concentration of handlooms in Andhra Pradesh and Tamil Nadu.

Production in 1969, rose to 4,430 million metres from 2,942 million metres in 1961 and 1,300 million metres in 1951. (Table XXI) *Dhotis, sarees* and towelling cloth account for more than 50 per cent of handloom output. More than two-thirds of their demand for yarn is for counts above 20s.

TABLE XXI

Composition of Cloth Outputs

(Million Metres)

Year	*Total Cloth Output*	*Handlooms and Powerlooms*
1948	5,100	1,151
1951	5,051	1,300
1961	7,657	2,942
1969	8,613	4,430

The figures include output of cloth — both cotton and non-cotton. Non-cotton cloth includes man-made fabrics besides woollen, worsted and wearable fabrics.

Indian export of handloom goods during 1970-71 was over Rs. 25.62 crores. Non-traditional markets alone purchased goods of the value of more then Rs. 16 crores. Handloom products are exported to more than 100 countries.

Rural And Urban Household Industry: For the first time, an attempt was made in the Indian Census of 1961 to collect economic data on the basis of households in addition to the information collected about each individual citizen. In a predominantly agricultural country, most of the population is in the rural areas where much of the produce is consumed by the population. Information purely on the basis of individuals tends to go slightly out of focus, it was explained, unless such information was supplemented by data on the economic activities of the household as an entity.

Earlier, in 1958-59, the National Sample Survey, in one of the rounds, had collected some data on household industries. It had found that 135,000 households were engaged in unregistered manufacturing activity.

The data collected in the 1961 Census, based on 20 per cent sample revealed that there were 16,750,585 households in the country. Of these, 13,707,407 were rural households and the rest urban. Households engaged neither in cultivation nor in industry numbered 6,318,108 and more than half of them were rural. Rural households engaged in cultivation only were 8,554,821 and this formed an overwhelming majority of a total of 8,792,764. Similarly households engaged in industry only were 592,400 out of a total of 788,703. The rest were urban households. A total of 851,010 households were engaged both in cultivation and industry. Of this 831,010 were rural households and a bare 20,000 urban.

TABLE XXII

Workers Engaged in Household industry

(All Industries)

	Households	*Family Workers*		*Hired Workers*
		Men	*Women*	
Rural	1,423,410	2,209,828	1,372,733	238,095
Urban	216,303	272,245	147,814	39,363
Total	1,639,713	2,482,073	1,520,547	277,458

Households, both rural and urban, were engaged in 367 industries classified into 20 major groups. These are: (1) field produce and plantation crops; (2) forestry and logging; (3) fishing; (4) livestock and hunting; (5) mining and quarrying; (6) food-stuffs; (7) beverages; (8) tobacco products; (9) textiles — cotton, jute, woollen, silk and mis-

TABLE XXIII

Number of Persons Engaged Only in Household Industries Classified by Major Groups

	Households	*Households engaged according to number of persons working*					
		1 *Person*	2 *Persons*	3—5 *Persons*	6—10 *Persons*	*More than* 10 *Persons*	*Unspecified*
All Industries Grand Total	788,703	384,160	236,054	147,472	15,782	1,702	3,533
Rural	592,400	288,149	182,278	108,089	9,965	933	2,986
Urban	196,303	96,011	53,776	39,383	5,817	769	547
I. Agriculture, livestock, forestry, fishing & hunting							
Total	83,763	44,798	23,414	13,743	1,220	93	495
Rural	74,489	39,886	20,839	12,144	1,093	70	457
Urban	9,274	4,912	2,575	1,599	127	23	38
II. Mining and quarrying							
Total	865	379	263	203	18	1	1
Rural	764	336	231	179	16	1	1
Urban	101	43	32	24	2	—	--
III. Manufacturing food-stuffs, textiles, wood and wooden products							
Total	704,075	338,983	212,377	133,526	14,544	1,608	3,037
Rural	517,147	247,927	161,208	95,766	8,856	862	2,528
Urban	186,928	91,056	51,169	37,760	5,688	746	509

cellaneous; (10) manufacture of wood and wooden products; (11) paper and paper products; (12) printing and publishing; (13) leather and leather goods; (14) rubber, petroleum and coal products; (15) chemicals and chemical products; (16) non-metallic mineral products other than petroleum and coal; (17) basic metals and their products except machinery and transport equipments; (18) machinery (all kinds other than transport) and electrical equipments; (19) transport equipments; (20) miscellaneous manufacturing industries.

IV. Growth of Corporate Sector

Joint Stock companies came into existence in 1845 when an act was passed to incorporate the Assam Company with an authorized capital of Rs. 50 lakhs. The Companies Act followed in 1850, but the principle of limited liability was introduced only in 1857. Banking and insurance companies received the privilege of limited liability three years later. The growth of the corporate sector was, however, very slow till the boom after the First World War. In 1900, there were only 1,340 companies with a paid-up capital of Rs. 34.70 crores (Table XXIV). Of these, 152 were cotton mills with a share capital of Rs. 11.67 crores, and 129 were tea plantations with a share capital of Rs. 3.25 crores (there were, besides, a number of sterling tea companies but data for these are not available readily in a comparable form). There were also 21 jute mill companies with a share capital of Rs. 2.68 crores.

By 1919, the total number of companies rose to 2,789 and their share capital crossed the Rs. 100 crores mark for the first time to reach the figure of Rs. 106.6 crores. The industry-wise distribution remained broadly unchanged, except for the growth of coal mines and rice and flour mills. Thereafter, growth was rapid (by contemporary standards) upto 1925; the number of companies in that year reached 5,204 and their share capital amounted to Rs. 275.5 crores, in spite of the winding up (liquidation) of 1,836 companies with a share capital of Rs. 39 crores during the period, mainly in 1922-25. In the ensuing slump that lasted through 1938, the number of companies increased consistently (except for a decline between 1937 and 1938) but their share capital remained sluggish. There were 10,657 companies in 1938, more than twice the number in 1925, but their share capital was Rs. 279 crores only.* This sluggishness notwithstanding there was some growth in banking and insurance, cotton, jute, coal and inland navigation; thanks to protection, the number of sugar companies increased from 20 in 1919 to 172

*Liquidations were a prominent feature from 1917-18 through 1930-31 during which period the paid-up capital of companies that went into liquidation exceeded in every year the paid-up capital of new companies registered.

in 1939 and their share capital expanded from Rs. 82 lakhs to Rs. 11.18 crores; interest came to be evinced in paper and rubber plantations also.

The corporate sector has not looked back since then. By 1947, there were 21,853 companies with a share capital of Rs. 479 crores which, on the eve of the First Five Year Plan in 1951, rose to 28,432 companies and Rs. 775 crores, respectively. At the end of March 1956, which marked the end of indifferent and decentralized administration of the Companies Act, the number of companies stood at 29,874 and their share capital aggregated Rs. 1,024 crores. Proliferation of bogus entities during the Second World War and unsettled conditions of the late forties led to considerable seepage of water into the corporate sector. Out of nearly 13,000 companies which 'ceased to work' (as defined by the Company Law Administration) between April 1956 and March 1962, more than one-half were struck off by Registrars of Companies for non-fulfilment of various statutory obligations. Between 1965 and 1970, 3,455 companies ceased to work. At the end of March 1970, there were 28,948 companies with a paid-up capital of Rs. 3,754.7 crores. While traditional industries like cotton, jute, sugar, etc., retain their importance, engineering and chemicals are assuming greater significance. Moreover, there is an increasing tendency towards diversification within the large companies.

Following British law and practice, companies in India are either public or private. The latter have a minimum of two shareholders and a maximum of fifty; their shares cannot be offered to the public nor are the shares freely transferable; under the Companies Act, 1956, are exempt from restrictions regarding appointment and remuneration of managerial personnel, etc., applicable to public companies but they must insert 'private' after their name. Public companies must have a minimum of seven shareholders; their shares can be offered to the public but there is no statutory obligation upon them to do so by prospectus or otherwise.

More than three-fourths of the companies registered in India are private. At the end of March 1970, the total number of non-Government companies was 28948 with a total paid-up capital of Rs. 3,754.7 crores. Of these 6172 were public companies whose paid-up capital was Rs. 1,658.8 crores. Private companies numbered 22,776 whose total paid-up capital was Rs. 2,095.9 crores (Table XXVI). Their relative importance in share capital is not equally impressive and would have been even less so but for the fortuitous registration of most Government companies as private companies. Curiously enough, the predominance of private companies is a post-1946 phenomenon; till 1946, the majority of companies were public, though most of these were closely owned. In fact, during the first two decades of the present

TABLE XXIV

Companies Registered and at Work in India since 1900

(Paid-up Capital in Rs. Crores)

As on 31st March	*Number of Companies*	*Paid-up Capital*
1900	1,340	34.7
1910	2,216	61.4
1920	3,668	123.2
1925	5,204	275.5
1930	6,919	286.3
1935	9,842	304.0
1939	11,114	290.4
1946	17,343	424.2
1950	27,558	723.9
1955	29,625	969.6
1957	29,357	1,077.6
1960	26,397	1,618.7
1964	26,457	2,537.5
1970	28,948	3,754.7

TABLE XXV

Number and Paid-up Capital of Companies in Important Industrial Groups

(As on 31st March, 1964)

Industrial Groups	*No.*	*Paid-up Capital*
		(Rs. Cr.)
1. Tea Plantations	575	34.6
2. Sugar Factories and Refineries	193	50.0
3. Cotton Spinning & Weaving	763	165.1
4. Iron & Steel (Basic Mfr.)	573	538.1
5. Transport & Equipment Mfr.	635	83.2
6. Mfr. of Electrical Machinery Etc.	706	81.4
7. Machinery other than Transport and Electric	1,115	167.9
8. Basic Industrial Chemicals, Fertilizers, etc.	426	104.1
9. Products of Petroleum and Coal	39	62.5
10. Manufacture of Cement	40	46.4
11. Paper and Paper Products manufacture	199	48.4
12. Wholesale Trade	4,139	121.0
13. Banking, loan and other financial institutions	2,132	107.9

TABLE XXVI

Public and Private Companies 1917-70

Paid up Capital in Rs. crores

As on 31st March	*Public Companies*		*Private Companies*	
	No.	*Paid-up capital*	*No.*	*Paid-up capital*
1917	2,306	85.0	207	5.8
1920	3,000	104.6	668	18.5
1939	6,859	213.2	4,255	77.2
1946	10,129	323.1	7,214	101.1
1951	12,568	566.5	15,964	208.9
1956	9,575	690.4	20,299	333.8
1960	7,188	840.5	19,709	778.2
1964	5,968	1,164.9	20,489	1,372.6
1970	6,172	1,658.8	22,776	2,095.9

century (data are availableonly from 1917 onwards) there were very few private companies. The preference for private companies that has been so much in evidence since 1946 is, perhaps, only partly attributable to the desire to avoid the greater statutory regulation of public companies; mainly, the private company appears to have become the favourite vehicle of trading and urban financial activity and nascent industrial enterprise.

The number and relative importance of Government companies have increased substantially since the beginning of planning. This category of companies was recognized for the first time in the Companies Act 1956, section 617 of which defined a Government company as one in which 51 per cent or more of the share capital is held by Government. Understood in this sense, there were 36 Government companies with a share capital of Rs. 26 crores in 1951 and 61 with a share capital of Rs. 66 crores at the end of March 1956. They accounted for about 3 per cent of the share capital of all companies in 1951 and a little more than 6 per cent in 1956. Their growth since then has been impressive. At the end of 1969-70, there were 282 government companies with a share capital of Rs. 1,790.6 crores (Table XXVII).

TABLE XXVII

Government Companies at Work 1951-70

As on 31st March	*Public Cos.*		*Private Cos.*		*Total*	
	No.	*Share capital*	*No.*	*Share capital*	*No.*	*Share capital*
		(Rs. Cr.)		(Rs. Cr.)		(Rs. Cr.)
1951	—	—	—	—	36	26
1956	—	—	—	—	61	66
1961	39	33	103	514	142	547
1970	81	130.2	201	1660.4	282	1790.6

Finally, to complete this introduction, reference may be made to foreign companies. These are companies registered outside India but with a place of business in India and should be clearly distinguished from foreign-controlled companies which are registered in India. The number of foreign companies at work increased from 579 in 1913 to 901 in 1933, declining to 819 in 1955, and further to 561 in March 1970. (Table XXVIII). The decline is attributable entirely to the weeding out of non-reporting branches of foreign companies. Most of these companies are engaged in tea plantation, insurance, trade, business, services and transport; 390 of them are of U.K. origin and 72 of U.S. origin.

TABLE XXVIII

Foreign Companies Working in India

Year	*Number*
1913	579
1923	720
1933	901
1939	870
1943	827
1947	834
1950	845
1955	819
1960	565
1963	583
1970	561

V. Industrial Management

Early History: The management of public industrial companies in India has, in most cases, been in the hands of managing agents since the beginning of industrialization. As in Malaya, Hong Kong, the former Treaty Ports of the pre-Communist China, and Indonesia, this institution was the product of gradual evaluation. The managing agency developed on the ruins of the agency house system (founded by ex-servants of the East India Company) which failed in 1833. It grew out of the enterprise of European individuals who came to Calcutta as representatives of trading companies. They found the country lacking in industrial leaders, since imports from Britain had crippled the master craftsmen and traders; money-lenders and big landowners had neither the inclination nor the experience to go into modern industry. The prospects of local processing and rudimentary manufacture for export were attractive because of the availability of raw materials and cheap labour. With the opening of the Suez Canal and laying of railways, the Indian market also appeared on the business horizon. Exploitation of the prospects required capital, contacts with suppliers of equipment and buyers of produce, and skilled labour; these the European representatives were well-qualified to supply or procure. Their mercantile experience and connections proved invaluable; the deficiency of technical expertise was made up by hiring it from Britain. The field open to each *entrepreneur* was wide; mistakes could be made without burning of fingers. *Entrepreneurs* moved from jute into coal, from tea into steamers, from these into some kind of engineering, to find a market for one in the other. The Industrial Commission of 1916-18 noted:

"A characteristic feature of organised industry and commerce in all the chief Indian centres is the presence of the large agency firms, which, except in the case of Bombay, are mainly European. In addition to a participating in the export and import trade, they finance

and manage industrial ventures all over the country and often have several branches in the large towns. The importance of these agency houses may be gauged from the fact that they control the majority of the cotton, jute and other mills, as well as of the tea gardens and the coal mines. This system originated and has still continued owing to the ability of these houses to furnish financial help to industries; it also owes its existence to some extent to the difficulty, in the case of companies under European control, of finding among the relatively small class of leading men of business available in India, directors, especially managing directors, who will remain in the country long enough to guarantee continuous supervision ... An agency firm as a rule comprises several partners, some of whom are in India, while the others attend to the firm's affairs in London or elsewhere. There is no doubt but that the system is in many ways well adapted to present conditions in India, and has a far greater list of successes to its credit than can be shown by ordinary company management under individual managing directors."

In Calcutta, the system, thus, combined ownership mainly by residents in Britain with management by partners and assistants in India. Although family influences predominated and the partnership was carried on from generation to generation, the more enterprising and ambitious of the junior assistants could look forward to becoming partners ultimately. Managing agents did the preliminary work of starting new concerns, promoted joint stock companies, employed their own funds or arranged for finance by acting as guarantors, and also managed the concerns. Besides these promotional, financing and managerial functions, they acted as agents for sales and purchases. The more important managing agencies also carried on export and import trade, insurance, banking and various kinds of agency business.

On the West Coast, the managing agents were, with some exceptions, Indian. The first written managing agency agreement was between the Bombay Spinning and Weaving Company and Cowasjee Nanabhoy Davar concluded on July 7, 1854; under the agreement he was appointed manager and broker for life, on a remuneration of 5 per cent of the sale proceeds of yarn. It can be safely presumed that the managing agency arrangements in Calcutta were imitated in Bombay by Indian merchants, who made fortunes from the opium trade with China and later, during the American Civil War, from the export of raw cotton to Lancashire; the latter alone was said to have earned Rs. 51 crores worth of gold and silver. Cowasjee Davar and Manockjee Petit in Bombay and Ranchhod Das Chotalal in Ahmedabad, and those who followed them raised most of the capital from their own resources but also secured substantial monetary and other assistance from agents of British machinery suppliers and friends. Though the mill companies were public, they had very

few shareholders. In Ahmedabad, where, unlike Bombay, most of the bigger managing agents were by tradition bankers, rather than traders, funds were raised in the form of deposits, too; the larger suppliers of capital got a share in the managing agency remuneration, contingent upon taking up a specified part of the share capital of the managed company—a rudimentary form of underwriting. In both these centres, capital was also raised from potential selling agents, etc., in consideration of future contracts. Commission to agents of machinery suppliers was often paid for in shares. The managers and technicians were generally British till the twenties. The privilege of sharing the fruits of managing agency was, however, normally restricted to members of the founding family with financiers as the only co-sharers, if any. From the thirties and forties onwards, some Indian managing agents in these centres and in Delhi, Kanpur, etc., began to give a share in the managing agency commission also to senior employees.

Shareholdings: The common practice with managing agents (leaving aside the fly-by-night variety found in all countries) was to promote and set up a concern and, when it was reasonably well established either to make it a public company and throw open its share capital to the public or otherwise dispose of their holdings. Care was taken at all times to retain permanent management rights; in most cases, adequate share capital was also retained in order to frustrate any move to oust them. What little evidence there is of shareholdings by managing agents in the first half of this century indicates that, whatever the position might have been in the 19th century, the well known managing agents held only a small part of the share capital of the companies under their management, and the proportion tended to decline even before 1939. But it was felt that the holdings of leading managing agents in the cotton and jute companies under their management were tending to shrink.

In the twenties, the holdings of managing agents in managed companies were small and in many cases the holdings belonged to the partners/directors of the managing agents. The Bombay Shareholders Association testified on the basis of shareholding data before the Tariff Board in 1932 that managing agent had ceased to be the principal shareholders in Bombay Cotton mills. A representative of Martin & Co. stated that his firm did not hold even 20 per cent of the companies under their managing agency because they prided themselves on the fact that they were successful agents. Managing agents were, therefore, not, in general, inclined to lock up their resources but took the earliest opportunity to free their funds for investment in other directions. The Tariff Board of 1932 observed:

"Where the managing agent represents a high standard of ability and sense of responsibility, it may make little difference to the company

to what extent the managing agent is interested in the share capital of the company. The better class of managing agent works partly for the remuneration fixed for him under his agreement but partly also out of regard for his reputation and out of a sense of pride in the tradition of management associated with his concern."

Control and Remuneration: Leaving aside their role as financiers (dealt with separately), it is clear that, as their direct contribution to share capital tended to decline, they sought security in permanent and comprehensive rights of management. These rights were assured through agreements in which managing agents acted in a dual capacity as managers and as shareholders. Until 1913, the law did not require an elected board of directors. When the law made elections mandatory, the outside directors depended for their continuance upon the loyalty they showed to the managing agents. Thus, although the managed companies were joint stock concerns with boards of directors, they were more akin to partnerships with outside shareholders as sleeping partners. As the holders of considerable shares (either in their own names or through partners and associated companies), it was in the managing agents' interest that the companies be managed efficiently and fair dividends be paid. But managing agents were paid in a number of other ways, too: commissions on profits, purchases, sales and insurance, remuneration to relatives and associates, etc.

Remuneration of Managing Agents: Managing agency by itself secured a certain value because of its rights and privileges apart from its ability to show profit in the concerns managed; the dividend earnings of agents were subordinate to their earnings in other forms. As the managers-cum-key owners were not chiefly interested in returns on investment, the general inducement to invest and public confidence in investment were adversely affected. Managing agency rights became a negotiable asset. In every boom period, the rights in many companies were transferred at fabulous prices and capitalized at inflated values; during slumps, transfers took place because the managing agents as distinct from the managed companies were in trouble and could no more raise finances on their guarantees. Even the Tatas handed over the majority control in the managing agency of their electric companies in the 1920s to an American syndicate without the prior sanction of the shareholders of the companies.

Originally, the common method of remuneration to managing agents was a commission on output. When ring spindles replaced mules in cotton mills, this sytem led to abuses. J. N. Tata was the first in 1886 to change over to a commission on profits. Till 1946, however, Ahmadabad cotton mills and Calcutta jute mills generally gave a com-

mission on output, in addition to an office allowance. The tea industry paid $2\frac{1}{2}$ per cent on sales and a further $2\frac{1}{2}$ per cent on profits. Coal and cement companies paid on the basis of profits while, in sugar, both the systems existed side by side. In 1916, Tata Iron and Steel adopted a sliding scale of remuneration, rising from 5 per cent to 9 per cent of profits according to various slabs of dividends declared. With the notable exception of Tata companies, profits were defined for this purpose as profits before interest and depreciation.

Many reputable managing agents surrendered their commission when the managed companies were in difficulties, and even gave up the interest due on debenture holdings, besides providing or securing large finances. In 1928, managing agents of 73 cotton mills in Bombay surrendered Rs. 1.91 lakhs of managing agency commission and Rs. 7.40 lakhs of interest on loans and debentures. From 1922 to 1927, Ahmadabad mill agents surrendered Rs. 13.31 lakhs of managing agency commission. The surrender in Bombay was not exactly munificent.

Mixed Blessings: That the managing agency system was a mixed blessing was being recognized even before 1920. The Industrial Commission was impressed by the high financial prestige of "the better-class agency firms and the readiness of the investing public to follow their lead" but was not altogether complacent about their performance.

> "....they (the better class agency firms) have not escaped criticism as being unduly conservative in their methods of business and as exhibiting undue reluctance to embark on new ventures. They have been charged with lack of enterprise and an unwillingness to follow up lines of development naturally proceeding from the expansion of operations in their own specialised industries. In other words they have been inclined to develop commerce rather than industries, and thus been at times less helpful than might have been the case, in clearing the way for continuous industrial progress."

The Central Banking Enquiry Committee 1931, had the benefit of considerable evidence on the working of the system during the twenties, especially in the western region. Appraisal of this evidence induced the Committee to recommend lesser dependence on the managing agency system for industrial development:

> "Although the Managing Agency system is reported to have done a great deal for the industrial development of Bombay, it is admitted that it is not by any means a perfect arrangement but has many serious drawbacks. There have been cases where the Managing Agents have, besides managing their own mills, traded and speculated and the resulting weakness in their position has reacted on the financial position of the mills themselves and led to banks withdrawing their cash credits even when the mills were intrinsically sound, merely because the Managing Agents had become weak. Further, although

it is true that in times of crisis such as Bombay has been going through, Managing Agents have incurred extensive losses as a direct result of financing the mills under their control, there have been a few cases in which these Agents have turned their loans to the mills into debentures, with the result that the concerns have passed into their hands and the shareholders have lost all their capital .. This system works well when everything goes on smoothly and when the industries are prosperous. When conditions alter and the industry or the particular concern comes up against bad times and the Managing Agents find themselves compelled to find more money to support the industry, it is found that they are not able in all cases to cope with the requirements."

"We suggest, therefore, that attempts should be made to make industrial enterprise in India less dependent on this system for future development. The establishment of direct financial relations between industrial companies and commercial banks is desirable.. "

With the passage of time more dissatisfaction was expressed with the working of the system in all its three main aspects. The well-known economist, P. S. Lokanathan said:

"There have been cases of waste .. ill conceived and fraudulent promotion. They (the managing agents) have been unwilling to pioneer and risk in new enterprises, where the profits have been neither large nor certain. However, successful the managing agency system of promotion might have been in the past, it cannot be concluded that it is so at present, or will continue to be so in the future.

"Since most Indian concerns have been under-capitalised, with share capital barely sufficient for block expenditure, the balance has to be raised from various short term or undependable or expensive sources. With debentures and preference capital unpopular, funds had to be raised by or through managing agents which had the result of further strengthening the managing agency system. Had the share and permanent capital raised at the start been sufficient to cover the needs of working expenses, there would not have been the same need for the continuance of an institution like the managing agent to finance industrial concerns.

"*While its (the system's) power for doing injury may be great, its capacity to do good is limited.* So far as the Indian section of the managing agency system is concerned, its continuance can be explained and justified only because of the concentration of ability, experience and capital in the hands of a few persons who have done great service to industrial development. If it became possible to persuade them to do for industry in an altered status what they have been doing as members of agency firms, the result would perhaps be wholly good. *There*

are no benefits which would be lost by such a change, for those benefits are not the result of the system but of the ability and resources of the persons who run the system".

Companies Amendment Act: Statutory restrictions on the power of managing agents were imposed for the first time in 1936. The duration of the appointment of a managing agent in public companies was limited to 20 years at a time, but there was no restriction on reappointments long before the expiry of the initial appointment. Managing agents could be removed if they were convicted of a non-bailable offence punishable under the Penal Code in relation to the affairs of the company. They could transfer their office only with the approval of the company in a general meeting. Powers of management were vested in the board of directors but subject to the articles of association of the company, which proved a gaping loophole. In 1938, insurance companies were debarred from having managing agents. Banking companies were similarly excluded in 1949.

Multiple Directorships: One of the minor reasons for the existence and continuance of the (British) managing agency houses was the difficulty of finding a sufficient number of Europeans to constitute boards of directors for industrial companies. Till 1913, and even for some years thereafter, the managing agents were the sole directors; later, the managing agents found a few friends generally solicitors and business associates, later Indian aristocrats and brokers, to serve as directors to conform with legal requirements. In 1931, out of 52 jute mills for which information was available, two had no directors (being incorporated before 1913) and the remaining 50 mills had 92 directors between them. Seventy-two coal companies had 80 directors between them, with four having none. In Bombay, around the same time, directorial talent was even more scarce: one person, for instance, was a director of 65 industrial concerns, another of 42, a third of 34, two others of 29 each, and another of 26.

The Companies Act 1956 limited the number of directorships held by an individual to 20 excluding those held in non-profit associations and those private companies which were neither holding companies nor subsidiaries of public companies. A study of the directors of 117 companies with a paid-up share capital of Rs. 50 lakhs and above registered in the western region in 1956-57 showed that these companies had 917 directorships held by 546 persons who, on an all-India basis, held 4,174 directorships in 1,905 companies, giving an average of about 8 directorships per person. Of these 546 directors, 113 held one directorship each, 294 had between 2 to 10 directorships, 95 had 11 to 20, and 44 had 21 or more; the last mentioned had 1,099 directorships between themselves.

The occupations of directors were defined rather vaguely in the relevant documents. The predominant majority, 441 out of 546, declared business as their occupation, and 33 were accountants or lawyers. Only 23 were specialists or technicians, and 49 were executives. Most of the directors were, in other words, businessmen-at-large.

Information regarding the age of directors was available for 505 out of 546. Of these, 36 were upto 30 years old, 142 were between 31 and 45, 172 were 46 to 55, and 92 between 56 and 65. The remaining 63 were above 65 and their re-appointment in public companies required a special resolution by three-fourths majority of the shareholders.

Of the 119 companies, 43 had both Indian and foreign directors. The distribution of directors by nationality in these companies was as follows:

TABLE XXIX

Distribution of Directors by Nationality in 1957

	No. of Companies	*No. of Indian directors*	*No. of Foreign directors*	*Ratio of Indian to Foreign*
Cos. with mainly foreign directors	10	10	60	1:6
Cos. with equal number of Indian & foreign directors	4	15	15	1:1
Cos. with mainly Indian directors	29	201	58	3:1
Total	43	226	133	2:1

Companies Act 1956: A large number of flagrant abuses in the promotion, management and financing of companies came to light in the late forties and early fifties. The abuses included cornering of shares of some leading companies listed at stock exchanges with a view to dislodging their managements, fraudulent promotions, trafficking in managing agency rights, large scale inter-company loans and investments to drain away the funds of widely owned prosperous companies into enterprises closely owned by controlling interests, widespread use of dummy shareholders and directors, oppression of minority shareholders and frauds upon creditors and tax authorities. The Company Law (Bhabha) Committee was appointed in 1951 to draft a new and consolidated Company Law. The Companies Act 1956 was based largely upon the recommendations of the Bhabha Committee. A department was set up within the Central Government to administer the Companies Act which had been administered till then by part-time officials in States. The Act required public companies and their subsidiaries to obtain prior Government approval of the appointment and remuneration of managerial personnel and their relatives and associates, inter-company investments, changes in the constitution of the managerial firms, etc.

Government was given the power to abolish the system in notified industries or businesses and Government companies were not to appoint managing agents after August 1960. Four categories of managerial personnel were recognized and defined for the first time: managing agents, secretaries and treasurers, managing director and manager*. All the four categories are specifically subject to the superintendence, control and direction of directors. The first two can be companies, firms or individuals but the latter two have to be individuals; all have to be appointed by the company in general meeting or hold office by virtue of the company's memorandum and articles. A director having any powers of management is deemed a managing director. The maximum remuneration to managing agents is fixed at 10 per cent of profits after depreciation. The maximum for secretaries and treasurers is 7½ per cent and for managing directors and managers 5 per cent. Managerial personnel (and their partners or members if any) are not permitted to hold any other office of profit under the company. The period of appointment is 5 years at a time of managing directors, ordinarily 5 years but upto a maximum of 10 years for managing agents. No company can have more than one category of managerial personnel.

The Act has tightened up the conditions of issue of prospectus, required greater disclosure of accounts and interests of managerial personnel (which term does not include other officers of the company), abolished the issue or continuance of shares with disproportionate voting power, and restrained fraudulent persons from managing companies. No person can be a director of more than twenty public companies; managing agents (including managing agents under the same control) can manage not more than 10 companies but there is no restriction on the employment of the previous managing agents as secretaries and treasurers who can manage any number of companies; managing directors and managers can manage not more than two companies. Important decisions require shareholders' approval through special resolutions, which have to be passed by three-fourths majority.

Amendments between 1960 and 1965 have tightened up or introduced provisions relating to inter-company investments, private companies in which 25 per cent or more of share capital is held by public companies, audit and cost audit, powers of investigation by Government, appointment of sole selling agents, and preventing undesirable persons from exercising their voting power as shareholders. A Public Trustee has been appointed to take over the voting power of large trusts and a special tribunal has been vested with powers to remove managerial personnel and officers for misconduct. Government has the power to nominate

*The distinction between a statutory manager and other persons holding that designation or rank is that the former has powers of management as defined under the Companies Act and is or can be remunerated on the basis of a commission on profits.

two directors to protect minority interests and/or in the public interest. The amendments proposed in 1965 will remove many of the procedural rigidities which had been encountered in the administration of the Act.

Between 1956 and 1962, the Central Government, in consultation with the Company Law Advisory Commission, evolved certain principles and criteria for granting approval to the appointment of managing agents, managing directors, etc. These are broadly as follows:

1. The term of office of managing agents is ordinarily ten years for initial appointment and 5 years for re-appointment; for managing directors the term is five years or less.
2. The remuneration to the managing agents is generally fixed on the following scale:

   10 per cent on the first Rs. 10 lakhs of profit
   9 per cent on the next Rs. 10 lakhs
   8 per cent on the next Rs. 10 lakhs
   7 per cent on the next Rs. 10 lakhs
   6 per cent on the next Rs. 10 lakhs
   5½ per cent on the next Rs. 25 lakhs
   5 per cent on the next Rs. 25 lakhs
   4 per cent on any sum over Rs. 1 crore.

   Where, in exceptional cases, a fixed rate of commission is laid down, a ceiling on the amount of remuneration in any single year is prescribed. The minimum remuneration in the event of absence or inadequacy of profits ranges from Rs. 7,500 per year for a company with total long-term capital of Rs. 5 lakhs or less to Rs. 50,000 for a company with total long-term capital of over Rs. 150 lakhs. In private companies, the maximum remuneration permitted is 20 per cent of profits. Remuneration in other forms paid to directors or members or partners (as the case may be) of managing agents is to be charged against their commission. The maximum guarantee commission payable to managing agents is 1/10 of their total remuneration provided that, inclusive of it, the total commission paid to managing agents does not exceed 10 per cent of profits.

   Exceptions to the above are made in favour of heavy and high priority industries which have long gestation periods.
3. Approval of remuneration is related to the financial resources of the company, dividend record, turnover, size of unit, nature of business, extent to responsibility delegated, the number of managing directors proposed (total remuneration, if this is more than one, is subject to a maximum of 10 per cent of profits), and the nationality and previous experience of the personnel. The minimum remuneration limit of Rs. 50,000 is relaxed more frequently than for managing agents. The maximum remuneration is generally Rs. 120,000 per year but higher amounts are permitted to foreigners and others in exceptional cases.

A study carried out by the Company Law Administration in 1962-63 revealed that the nature of services rendered by managing agents to companies managed by them varied very widely. While some managing agents provided guidance on policy matters and the benefit of common expert services to their managed companies by employing wholetime paid directors and senior technical personnel, others gave only the benefit of their personnel advice and guidance to the managed companies. In some cases the cost of the common expert services was borne by the managing agents, while in others the entire cost of the services was distributed equitably over companies benefiting from them. The study also disclosed that it was difficult to find any reasonable common measure of services rendered by all or most of the managing agency houses in India. The Department also felt that is was not easy to distinguish between purely managerial and executive services. In the light of the results of the study, the Department came to the conclusion that, by and large, an illustrative list of services which could ordinarily be regarded as falling within the scope of the direct responsibility of the managing agents would include:

(a) overall supervision and control of the various operations subject to the general policy laid down by the Board of the managed company,
(b) co-ordination and integration of the departmental or divisional activities,
(c) dissemination of useful information,
(d) advice and guidance regarding sale of the company's products,
(e) undertaking of research,
(f) purchase of raw materials, import of capital goods and replacement of personnel, and
(g) planning and development, etc.

Apart from the services enumerated above, the managing agents are also expected to render promotional and financial services and to maintain a central organization for providing legal, accounting, taxation, technical, secretarial and other such administrative and routine services. The expenditure incurred by them for rendering non-managerial services can be reimbursed to the extent permissible under the law.

In January 1965, the Government, as required by Section 324 of the Companies Act 1956, appointed a committee of five senior officials to enquire into and report on the continuance of the managing agency system in five established industries, cement, cotton, paper, sugar and jute, and in any other industry or business as may be deemed fit.

In the meantime, Government had been exercising its administrative discretion to weed out managing agents in several cases. Between April 1, 1964 and February 28, 1965, Government renewed the appointment of managing agents in 33 companies and refused permission to 40.

Different Forms of Management: Statistical data on the significance of the managing agency system have been available since the mid-fifties. In 1954-55, there were 3,944 managing agents, of which 2,522 were unincorporated firms, 1,238 private companies and 184 public companies. These managing agents managed in all 5,055 companies, out of the total of 28,568 companies (excluding banking, insurance and Government companies) in that year. The 5,055 managed companies accounted for 54 per cent of the total share capital of 28,568 companies. Out of 3,944 managing agents, 3,526 managed only one company each and 250 managed two companies each. About 95 per cent of the managing agents thus managed two companies or less. Only 17 managing agents managed 10 or more companies each.

In 1962-63, the number of managing agents came down to 1,044, of which 548 were unincorporated firms, 402 private companies and 94 public companies. The 1,044 managing agents managed 1,440 companies, out of a total of 24,598 companies (excluding banking, insurance and Government companies) in that year. Out of 1,044 managing agents in 1962-63, 899 managed one company each and 67 two each. About 93 per cent of the managing agents thus managed two companies or less. Only 7 managing agents managed 10 companies each, which excludes others which they managed as secretaries and treasurers.

In 1954-55, the system was of predominant importance in plantations, coal, grains and pulses, vegetable oil, sugar, textiles, iron and steel, transport equipment, cement, clay and glass, paper, power and transport. Its importance was relatively nominal in services and in two industries, tobacco and rubber, which were mainly under the control of international combines (Imperial Tobacco and Dunlop Rubber). By 1960-61, when all old managing agency agreements expired, the importance of the system in the aggregate was greatly reduced by the formation of Government companies, transmutation of erstwhile managing agents into secretaries and treasurers, greater frequency of subsidiaries, and flotation of new companies with other forms of management. In that year, managing agents continued nevertheless to be of predominant importance in plantations (in tea, subsidiaries and director managed companies became more significant), vegetable oil and dairy products, sugar, textiles, cement, power and basic iron and steel.

Secretaries and Treasurers: The institution of secretaries and treasurers was recognized for the first time in the Companies Act 1956. There was no reference to it in the report of the Bhabha Committee. The intention of the then Finance Minister, Shri C. D. Deshmukh, in encouraging the adoption of this system was, among other things, to smoothen the transition from managing agency to other forms of management and to enable those managing agents who managed more than 10

TABLE XXX

Companies Managed by Managing Agents—Industry-wise

(Paid-up capital in Rs. crores)

	1954-55					1960-61				
	Total No. of Companies	*Total Paid-up Capital*	*No. of Cos. managed by Mg. Agents*	*Paid up Capital*	*(4) as % of (2)*	*Total No. of Companies*	*Total Paid-up Capital*	*No. of Cos. managed by Mg. Agents*	*Paid up Capital*	*(9) as % of (7)*
	1	2	3	4	5	6	7	8	9	10
Industry										
1. Agriculture (excl. plantations)	854	4.43	190	1.29	29.1	290	2.49	7	0.23	9.2
2. Tea plantations	591	27.86	266	16.09	57.7	583	32.30	130	12.34	38.2
3. Other plantations	234	7.90	75	4.09	51.8	129	8.14	39	4.27	52.5
4. Coal mining	495	22.73	204	18.31	80.6	436	93.42	62	9.93	10.6
5. Other mining	421	14.55	90	5.86	40.3	338	14.95	16	5.21	34.8
6. Grains and pulses	263	5.11	52	3.04	59.4	230	6.09	15	1.21	19.9
7. Vegetable oil and dairy products	436	15.02	139	7.83	52.2	361	13.19	24	11.31	85.7
8. Sugar	216	30.23	108	22.84	75.5	203	44.08	62	28.21	64.0
9. Tobacco	68	19.24	12	1.77	9.2	58	19.73	2	1.41	7.1
10. Textiles	1,678	184.52	724	147.00	79.7	1,012	212.36	313	122.67	57.8
11. Beverages	328	9.01	84	2.85	31.6	128	4.79	7	0.79	16.5
12. Leather	178	3.61	45	1.12	32.0	148	3.96	11	9.87	22.0
13. Basic ferrous metal	318	34.22	85	29.97	87.6	505	379.15	23	57.91	15.3
14. Transport equipment	435	35.60	81	18.77	54.5	423	49.77	22	21.09	42.4
15. Electrical engineering	400	18.18	93	6.30	34.6	61	2.25	4	1.03	45.8
16. Machinery and workshops	646	26.67	148	12.50	46.9	804	60.9	54	14.25	23.7
17. Metal products	507	16.25	91	5.71	35.1	585	31.20	30	6.25	20.0
18. Chemicals and pharma	1,858	70.44	495	21.49	35.6	1,145	99.22	62	16.27	16.4
19. Perfumes and toilet	—	—	—	—	—	76	0.74	4	0.29	39.2

TABLE XXX (*Contd.*)

Companies Managed by Managing Agents—Industry-wise

(Paid-up capital in Rs. crores)

	1954-55					1960-61				
	Total No. of Companies	*Total Paid-up Capital*	*No. of Cos. managed by Mg. Agents*	*Paid up Capital*	*(4) as % of (2)*	*Total No. of Companies*	*Total Paid-up Capital*	*No. of Cos. managed by Mg. Agents*	*Paid up Capital*	*(9) as % of (7)*
	1	2	3	4	5	6	7	8	9	10
20. Paint and varnish	—	—	—	—	—	137	3.65	5	0.62	17.0
21. Matches	—	—	—	—	—	31	3.38	3	0.33	9.8
22. Cement	30	23.98	13	21.23	88.6	33	41.52	12	34.01	81.9
23. Clay and glass	440	12.38	126	7.40	59.8	400	13.30	30	4.60	34.9
24. Rubber	90	4.37	22	1.07	24.4	113	10.48	10	3.56	34.0
25. Paper and stationery	201	15.98	60	30.53	79.6	247	33.99	30	15.89	46.7
26. Power	354	34.48	209	30.53	88.6	257	39.19	85	33.59	85.7
27. Other manufacturing	2,174	19.35	368	4.51	23.3	1,478	46.02	35	2.14	4.7
28. Transport	1,550	42.15	120	28.27	67.1	1,464	52.90	30	8.43	15.9
29. Commerce, finance, storage and real estates	13,564	291.94	799	51.32	17.6	8,347	238.25	87	6.86	2.9
30. Other services	2,457	18.79	443	5.75	30.6	1,142	14.16	20	1.76	12.4
Total:	29,625	970.82	5,055	465.44	47.9	21,194	1,574.76	1,234	420.37	26.7

Sources: 1954-55: Nigam: *Managing Agencies in India* (First Round), 1957
1960-61: *Company News and Notes*, December 16, 1964.

companies to retain the management of the excess number. Under the Act, secretaries and treasurers had practically the same powers as managing agents, except that they had no right to nominate directors and their maximum remuneration was 7½ per cent of profits.

Before the expiry of all old managing agency agreements on the notified date, namely, August 15, 1960, there were only 9 companies with a paid up capital of Rs. 1.6 crores which were managed by secretaries and treasurers. As on August 16, 1960, 179 companies were managed by 45 secretaries and treasurers.

Over-all Pattern: Since 1956, the number of new companies proposing the appointment of managing agents declined steeply. Between April 1956 and March 1963, 9,150 new companies were formed. Of these, 134 companies had managing agents, 15 had managers, 18 secretaries and treasurers, and 2,681 managing directors; the remaining 6,302 were managed by boards of directors without any statutory managerial personnel.

In 1964, nevertheless, the relative importance of the managing agency system in terms of the share capital of public non-Government companies remained practically unassailed. More than one-half of the share capital of non-Government public companies was in companies managed by managing agents and their close variant, secretaries and treasurers. If banks, insurance and other service companies, and subsidiaries of international combines, which by tradition do not or under the statute cannot have managing agents are excluded, the proportion would rise from one-half to about three-fourths or more. In spite of the decline in its popularity, *the managing agency system is far from dead or dying.* Managing directors and their variant, managers, are comparatively insignificant as a form of management.

It should be emphasized, at the same time, that remuneration to managing agents has been tending to decline. It was 13.4 per cent of profits before tax (which is slightly different from the definition of profit and calculating the remuneration of managerial personnel in the Companies Act) in the aggregate Reserve Bank sample of public companies (including those not managed by managing agents) in 1950 and 4.9 per cent in 1962-63 (Table XXXI). The decline has taken place mostly in large-sized companies, *i.e.*, those having a paid-up capital of Rs. 50 lakhs and above (Table XXXII). Separate data for companies actually managed by managing agents are available only for 1955-59. The number of companies so managed declined during this period and remuneration as percentage of profits came down from 14.3 per cent in 1955 to 9.1 per cent in 1959. (Table XXXIII). Shrinkage in remuneration was most obvious in traditionally managing agency managed industries like tea, coal, sugar and textiles.

Comparable data on remuneration to managing directors are not available. A sample study of 125 companies having this form of management in 1962 found (rather inconclusively since the sample was heterogenous and included Government and managing agency companies) that this system appeared somewhat expensive at lower levels of profits but quite economical at higher levels of profits (Table XXXIV).

TABLE XXXI

Remuneration to Managing Agents 1950-63

	No. of Companies (1)	*Profits** *(Rs. Cr.)* (2)	*Remuneration to Mg. Agents* (Rs. Cr.) (3)	(3) *as % of* (2) (4)
1950	751	73.26	9.81	13.4
1951	751	96.93	12.42	12.8
1952	751	66.63	10.41	15.9
1953	751	76.05	10.36	13.6
1954	751	89.40	11.16	12.5
Total**		401.27	54.16	13.5
1955	749	98.60	14.13	14.3
	(30)	(2.36)	(57)	(24.2)
1956	736	102.17	11.49	11.2
	(27)	(3.35)	(.36)	(12.2)
1957	690	72.04	8.29	11.5
	(24)	(1.43)	(13)	(9.1)
1958	665	88.90	8.77	9.9
	(25)	(1.43)	(13)	(9.1)
1959	630	117.41	10.66	9.1
	(49)	(4.55)	(33)	(7.3)
Total***		479.12	53.34	11.1
		(13.12)	(1.52)	(11.6)
1960—61	1,333	228.12	13.03	5.7
1961—62	1,333	243.88	12.53	5.1
1962—63	1,333	267.40	13.20	4.9
Total**		739.40	38.76	5.2

*Before managing agents' remuneration and taxation.

**Figures for 1950-54 and 1960-62 relate to all companies in the Reserve Bank sample, including those not managed by managing agents.

***Figures for 1955-59 relate exclusively to companies managed by managing agents. Figures in parentheses are for companies managed by secretaries and treasurers. *These data are not comparable with earlier and subsequent data.*

TABLE XXXII

Remuneration to Managing Agents by Size of Companies—1959-1963
(As percentage of profits before tax and remuneration)

Paid-up capital (Rs. lakhs)	1959 (1001)	1960 (1333)	1961-62 (1333)	1962-63 (1333)
5— 10	7.4	7.5	7.5	7.5
10— 25	8.2	7.2	7.4	7.7
25— 50	7.0	7.7	6.8	6.5
50—100	8.3	6.9	6.5	6.1
Above 100	5.2	4.3	3.8	3.7
Total:	6.4	5.7	5.1	4.9

Figures in parentheses give the number of companies.

TABLE XXXIII

Remuneration to Managing Agents by Industry—1955 & 1959

Industry	1955		1959	
	No. of Companies	*% of Profits*	*No. of Companies*	*% of Profits*
1. Tea plantations	124	17.0	109	8.9
	(11)	(15.5)	(4)	(8.3)
2. Coal mining	46	20.2	36	11.4
			(5)	(10.3)
3. Sugar	61	14.6	47	10.2
	(1)	(4.7)	(4)	(29.2)
4. Cotton textiles	174	19.4	149	12.9
	(13)	(25.6)	(6)	(8.3)
5. Jute textiles	44	51.3	33	9.7
			(5)	(8.3)
6. Iron and steel	2	3.6	2	2.4
7. Transport equipment	8	11.7	5	10.5
			(1)	(—)
8. Electrical engg.	13	13.3	12	10.9
9. Other machinery	36	15.0	34	10.9
	(1)	(6.1)	(1)	(8.5)
10. Aluminium	2	9.7	2	10.2
11. Basic chemicals	8	12.3	7	11.5
	(1)	(—)	(1)	(—)
12. Pharmaceuticals	8	23.8	5	10.5
13. Matches	1	16.0	1	9.6
14. Other chemicals	12	12.8	11	9.8
			(1)	(—)
15. Cement	9	10.9	9	10.6
16. Pottery	10	17.7	2	10.5
17. Rubber	2	13.9	7	15.0
18. Paper	13	10.8	12	9.6
			(1)	(7.1)
19. Construction	4	13.6	4	9.6
20. Power	20	11.8	14	9.4
	(1)	(23.9)	(4)	(8.4)
21. Trading	10	14.1	6	10.3
22. Shipping	9	26.8	8	18.6
23. Hotels and restaurants	3	13.0	2	8.3
			(1)	(11.5)
Total (incl. others)	749	14.3	630	9.1
	(30)	(24.2)	(49)	(7.3)

Note: Data relate to only those companies, which were actually managed by managing agents. Profits are taken as before managing agency commission and taxation. Figures in brackets relate to secretaries and treasurers.

TABLE XXXIV

Remuneration to Managing Directors by Size of Net Profits 1962

Net Profits (Rs. lakhs)	*No. of Companies* (125)	*Average percentage remuneration*
Upto 10	77	11.8
10 — 50	31	5.1
50 — 100	10	5.1
100 & above	7	1.9

Appraisal of Managing Agency System: The significance of the managing agency system lies in its predominance in the management of large public, mainly industrial companies, but it is not the only form of group management. In a study of the ownership and control of more than 1,000 companies in which twenty selected business groups had an interest of one kind or other in 1958, it was found that only 372 were managed by managing agents; the remaining had other forms of management. The findings of the study were:

(a) Almost every well-known business group had a large number of managing agencies, most of which managed only one company each, while a few managed a very large number.

(b) Barring a few, which had other business besides managing agency, nearly all managing agencies had very little resources. They provided only a small fraction (less than 3 per cent) of the total share capital of the companies under their management; most of the controlling investments in managed companies were held by other companies in the group.

(c) A large part of the share capital of managing agency companies was owned by other companies. In fact, many leading managing agency companies were subsidiaries or joint subsidiaries of other companies. This indicated that they were merely the management departments of the groups concerned, and did not constitute the fountain-heads of control.

(d) A fairly large number of managing agencies were under the joint control of more than one controlling interest.

The principal advantages claimed for this system, as distinguished from other methods of managing companies under the same control, are that

(i) it provides firm and stable control over management; (ii) it secures the economies of large-scale operations, *e.g.*, in marketing, finance and management to companies under the same management; and (iii) it provides a flexible system of remuneration to top management.

Managing agency agreements did not appear to be generally necessary for the purpose of exercising voting control over the management of

public companies. The total controlling blocks in the public industrial companies of most groups were sufficiently large to enable the controlling interests to control the management of these companies even without the additional power of control conferred by managing agency agreements.

The firm and stable control which the managing agency system is supposed to provide means the perpetuation of family control. The system confers a birthright upon the managing agency family not merely to control the management of companies in the group but also to participate actively in and to direct their routine management. The technical and managerial deficiencies of hereditary management have been made up to some extent, in recent years, by the employment of professional technicians and managers, but the appointment of family members at levels superior to these professionals tends to weaken efficiency and leads to an overlapping of hierarchy in the top management of the managed companies.

There is often confusion within many managing agencies, too, for all the partners (if the managing agency is a joint venture) as well as the active family members have the right to intervene directly in the day-to-day affairs of the managed companies.

The question of the accrual of economies of management to companies under the same management can arise only in the case of those managing agents which manage a large number of companies. Most managing agents manage only one or two companies each. In their case, the question of economies of management does not arise at all.

The few managing agents who manage a large number of companies cannot claim special expertise in each of the various industries in which they have a managerial interest. They are not under an obligation to provide the best managerial and technical expertise at their own cost. The cost of the expertise, when it is obtained, is almost invariably charged to the managed companies, not to the managing agents.

The rate of commission on the profits of managed companies which is charged by the managing agents is independent of the number of companies managed by a single managing agent. If managing agent A, for instance, manages 10 companies, the rate of commission paid by each of these 10 companies is not any lower because the same managing agent manages 9 other companies too. The economies of management, if any, therefore, accrue to the managing agent, not the managed companies.

As members of a group, the managed companies do share and receive many common services and facilities. These depend upon membership of the group, not upon a particular system of management. So long as companies A and B, for example, belong to the same group, both are entitled to share the group facilities, whether one or both are managed by managing agents or have some other form of management.

The managing agency system is superfluous in most business groups from the point of view of finance and marketing as well. The financing and marketing role of managing agents is now generally undertaken by their associates within the group and these associates are remunerated separately for performing that role.

The managing agents are remunerated on the basis of a commission on the profits of the managed companies as laid down under the Companies Act and various official decisions. This system of remuneration does appear flexible as compared with the payment of fixed amounts to top management, but the flexibility is superficial. Most, if not all, of the expertise obtained for the managed companies is generally debited to them, not to the managing agents. To the extent a commission does save on large fixed salaries to top management, it tends to be offset by the fact that the management secured in return for the commission is only part-time. The managing agents as a company and their members as individuals are free to have other occupations, and any number of other management jobs in various capacities, even if these involve a conflict of interest. Besides, in a protected market, the flexibility of the remuneration tends to be one way and that is upwards.

The conclusion, therefore, is that the managing agency system is an expensive, irrational and part-time system of management. Its abolition is necessary in order to rationalize the management of public industrial companies. The removal of this system will not make any difference to the control and management of companies by groups. It will alter only the form, status, and system of remuneration of top management. For some time to come, that is, till there is a fundamental change in the structure of attitudes of management, even the association of the controlling families with the routine management of companies will continue. The reform will, over a period of time, separate the power to appoint and control management, which is bound to remain with the controlling families or their representatives, from the actual exercise of managerial functions. It will give an impetus to the building up of professional technical-cum-managerial cadres, the top members of which would be judged by their performance, not by their blood relationship and financial participation.

Apart from the reasons referred to above, it has also been pointed out that, since 1957, foreign technical and financial collaborators have been providing a large part of the expertise and resources which managing agents were said to be providing before; that the public and semi-public financial institutions set up since 1948 make available resources of a magnitude which managing agents could never raise and that their underwriting activities have largely replaced the functions of managing agents. Attention is also drawn to the fact that, unlike the European firms which established themselves in the 19th century (the foreign element in which has been withering away since 1946), new foreign private

investment comes largely from international combines which do not rely on the managing agency system.

The Monopolies Inquiry Commission, in its report (1965) while agreeing that the managing agency system played an important part in quickening industrial development, it produced a high degree of concentration of power in the hands of a few family groups. The Commission explained why it was not making any recommendation regarding abolition or control of the system. The most important of its reasons, was, the Commission's doubt whether even the total abolition of the managing agency system at that stage would have any marked effect in curbing the growth of concentration of economic power. The Commission was inclined to believe that even if the system went, its place would quickly be taken by some other system of group management or some other method which it would not be practicable to prevent. Secondly, the question of what action should be taken in addition to what had been provided in the Companies Act had to be decided not only on a consideration of its effect on concentration of economic power but as a full and careful assessment of the effects of any proposed action as the process of the country's industrial development. Another reason which was in the Commission's mind was that a Government-appointed committee was already examining the future of managing agencies in certain selected industries.

This Committee of senior officials (reference to which has been made earlier in this chapter) made its report in March 1966. After considering the position of the five industries it had selected for the purpose of its inquiry, recommended discontinuance of the managing agency system in three of them namely, cotton-textiles, cement and sugar industries. It felt that other things being equal, the system should be discouraged on wider social and economic grounds. However, the Committee felt, a reasonable time should be allowed to the Companies for a changeover to other systems. The Government however, decided to abolish the system in all the five industries: cotton-textiles, cement, jute textiles, sugar and paper and pulp at the end of a three year period.

The decision was announced in Parliament on September 5, 1966 by the Minister of Law. He also announced that the question of the continuance of the managing agency system in other established industries would be reviewed within the next three years in order to bring about their progressive reduction.

According to official figures as on April 1, 1966, there were 869 companies with managing agents. Of these, 302 companies were accounted for by cotton-textiles, cement, sugar, jute textiles and paper and pulp industries in which the system was to be abolished. This left a balance of 567 managed companies in industries and business whose cases were to be reviewed.

Decision on Total Abolition: In December 1967, Parliament was in-

formed of Government's decision to abolish the Managing Agency System altogether. Six months later, on May 10, 1968, the Minister for Industrial Development and Company Affairs, introduced in the Lok Sabha a Bill to amend the Companies Act.

The number of managed companies had been progressively going down over the years. In 1954-55, there were 5,055 such companies and by March 1964, the number had gone down to 1,272 and further to 674 by the end of March 1968. Of the 674 companies, 474 ceased to be managed companies by efflux of time that is by April 3, 1970. This left a balance of 200 managed companies.

The Amending Bill was passed by Parliament in May 1969 on Presidential assent, became an Act on May 28, 1969. Accordingly, the systems of management of companies by Managing Agents and Secretaries and Treasurers stood abolished with effect from April 2, 1970. Such companies had now to switch over to alternate forms of management: namely, (i) Board of Directors, or (ii) Managing Directors/ Whole-time Directors/Managers. Appointments of Managing Directors/Whole-time Directors/Managers are made by the Board of Directors and their remunerations approved at the general meeting of the Company. Such appointments and remunerations to be paid require the approval of the Government of India. Between April 1, 1969 and March 31, 1970, the Company Law Board received 613 applications relating to Managing Directors, Whole-time Directors and Managers.

As at the end of March 1970, there were 179 managed companies and 139 managing agents (Table XXXV & XXXVI).

As on the same date, there were 23 Secretaries and Treasurers managing 52 public limited companies (Table XXXVII).

TABLE XXXV

Number of Companies Managed by Managing Agents as on 31.3.1970

(Rs. in crores)

No. of companies managed by each managing agent mentioned in Col. 2	*Number of managing agents*	*Number of managed companies Col.* 1 x *Col.* 2	*Paid-up capital of managed companies*
1	2	3	4
1	114	114	112.2
2	15	30	95.4
3	6	18	32.0
4	3	12	43.3
5	1	5	0.6
Total	139	179	283.5

TABLE XXXVI

Number of Managed Companies—Industry-wise as on 31.3.1970

	Cotton Tex-tiles	*Jute Tex-tiles*	*Sugar*	*Cement*	*Paper and Pulp*	*Other Indus-tries*	*Total*
A. Managed by 59 firms of Managing Agents:							
Public	7	—	1	1	4	38	51
Private	4	—	—	—	1	7	12
Total:	11	—	1	1	5	45	63
B. Managed by 15 Managing Agents organized as public limited companies:							
Public	—	1	—	1	1	24	27
Private	—	—	—	—	—	1	1
Total:	—	1	—	1	1	25	28
C. Managed by 65 Managing Agents constituted as private limited companies:							
Public	4	1	5	—	3	74	87
Private	—	—	—	—	—	1	1
Total	4	1	5	—	3	75	88
Total A, B & C							
Public (Total)	11	2	6	2	8	136	165
Private (Total)	4	—	—	—	1	9	14
Grand Total	15	2	6	2	9	145	179

TABLE XXXVII

Secretaries and Treasurers at Work as on 31.3.1970

	Number	*Paid-up capital* (Rs. in Lakhs)
A. Secretaries/Treasurers working in India	23	2,106
(i) Public Limited Companies	12	1,668
(ii) Private Limited Companies	10	368
(iii) Unincorporated Firms	1	70
B. Companies managed by Secretaries/Treasurers	52	1,944
(i) Public Limited Companies	52	1,944
(ii) Private Limited Companies	—	—
C. Secretaries/Treasurers acting as Managing Agents of other companies	11	1,272
(i) Public Limited Companies	5	918
(ii) Private Limited Companies	6	354
(iii) Unincorporated Firms	—	—

VI. Ownership and Control of Companies

The earliest data on the pattern and concentration of ownership and control of companies relate to 1927 or thereabouts. They give some idea of the concentration of ownership in cotton, jute and coal compa-

nies. Ownership was highly concentrated in cotton and coal, slightly less in jute. More recent data for the fifties indicate that about one-half of the share capital of companies is owned by individuals and the major part of the remaining one-half by companies, with the Life Insurance Corporation playing an important role as supplier of preference capital. A study of the situation in 1951 and 1958 establishes that institutional, *i.e.*, other than individual, ownership of share capital is becoming increasingly significant, mainly, because most of the subscription from the controlling interests comes from companies and trusts, not individuals. This conclusion is confirmed by the Reserve Bank which found that new companies raised the major part of their capital from other companies, 75 per cent against 36 per cent only in the case of the older companies in the sample. The Gini Co-efficient of concentration in the Reserve Bank sample was 0.82 for all sample companies together, higher at 0.89 per cent in new companies. The boom on the stock exchange which lasted from 1959 to 1961 was reported to have attracted a large number of small investors into the capital market for the first time. In view, however, of the large proportions of share capital of new companies taken up by foreign collaborators, underwriters and financial institutions, etc., a decline in the concentration of ownership since 1959 is unlikely.

The proportion of total share capital of private companies owned by Indian and foreign companies increased from about 54 per cent in 1951 to 60 per cent in 1958. The proportion owned by individuals fell from 35 to 25 per cent and that owned by trusts from more than seven to less than 6 per cent. In public companies, individuals owned more than half of the total share capital in both years but the proportions clearly tended to decline.

Indian companies owned more share capital than Indian individuals in both years (under study) in 10 out of 28 industrial heads: coal (other than mining), cotton, woollen, plantations, printing and publishing, construction, investment and finance, managing agency and trade. Also, Indian companies came to hold a larger proportion of share capital than Indian individual heads: rayon, jute, engineering, food and vegetable oil, real estate, etc. The industries in which the major part of share capital was held by Indian individuals were: power, basic iron and steel, non-ferrous engineering, sugar, glass, plastic and pottery, cement, transport, banking and insurance. In chemicals and paper too, individuals held slightly more share capital than companies.

Government's investment in both years was concentrated mainly in engineering, chemicals and cement. Life Insurance Corporation's (L.I.C.) investments were distributed fairly widely but tended to concentrate in basic iron and steel, cement, engineering, power, chemicals, paper, transport managing agency and other industry. Trusts were significant holders in cotton, iron and steel engineering, paper, hotels,

investment and finance, managing agency and other industry. During the period foreign investments increased only in iron and steel, engineering, chemicals, cement, other industry and trade.

Investment companies were the largest single occupational group of corporate shareholders in almost every industry, with the exception of coal, power, iron and steel and transport, to which chemicals and cement were added in 1958, much of the investment by industrial companies in other companies was within the same industry or represented a vertical spread, like steel investing in coal. There were however quite a few instances of significant investments in unrelated industries as for example: (1) coal received significant amounts from cotton in 1951, sugar, paper and 'other industry' in 1958; (2) paper was a receiver from cotton in 1951, coal, jute, engineering, sugar, real estate, cement and 'other industry' in 1958; (3) engineering was a receiver from cotton, sugar, jute, chemicals and paper in 1951, cotton, sugar, food and vegetable oils, chemicals, paper, cement and 'other industry' in 1958. Most of the investing 'other industry' companies were those that had diversified from cotton or jute or sugar. In addition, banking, insurance, investment and managing agency companies also had substantial holdings by industrial companies.

Occupational Diversification: Each one of the twenty companies is occupationally diversified. The larger the complex, the more diversified it generally tends to be. Consequently, concentration in India is far from synonymous with monopoly in a particular industry. To give some examples:

Tata is interested mainly in steel engineering and power, and has a variety of other interests including cement, cotton, chemicals, soap and vegetable oil, etc., bonds insurance, investments and trade. Birla has a stake in almost every industry except steel, power and transport. The interests of Martin Burn are rather limited by contrast. They carry only steel, engineering, power and transport. The interests of Dalmia-Sahu-Jain are in jute, cement, paper, chemicals, newspapers, banking, insurance, investments and trade.

Proliferation of Companies: Tata, Martin Burn and Shri Ram alone among the larger groups prefer to concentrate most of their assets in a few large companies. In Birla, Dalmia-Sahu-Jain, Bird-Heilgar, Bangur and J.K. on the other hand, there is a tendency to disburse industrial, trading and financial activity over a large number of companies. This tendency is attributable only in fact to the nature and variety of their occupational interests, for all of them (except Bird-Heilgar) have diversified many of their leading companies. Among the relatively smaller groups, some degree of justification of the number of companies is necessitated by the variety of occupations and joint ventures with other interests. Even among them, Ramakrishna has diversified two com-

panies. These differences, notwithstanding, almost every group (with fair exceptions) appears to maintain a number of Government companies *i.e.* companies, the accounts of which, show hardly any activity. This phenomenon is especially prominent in Bata, Dalmia-Sahu-Jain, Bird-Heilgar and Khatau. Besides, Birla and Dalmia-Sahu-Jain, particularly the latter, had a high level of corporate mortality, too during the period under reference.

Joint Ventures: Joint ventures, that is companies having more than one controlling interest, are a frequent and important phenomenon in the corporate section. These include foreign partners also. The overall significance of joint ventures is indicated by the fact that in 1958, out of 1,078 companies having a share capital of Rs. 361 crores, and gross capital stock of Rs. 1,121 crores, 274 companies with a share capital of Rs. 119 crores and gross capital stock of Rs. 127 crores, had foreign partners in either companies registered abroad or companies under foreign control registered in India. Of the 274 joint venture companies, 82 with a share capital of Rs. 41 crores and a gross capital stock of Rs. 106 crores were under the sole control of the decision making authority of the twenty complexes: That is to say, the groups concerned had the majority interest in them. Foreign minority partners played a significant role in these ventures, accounting for 25 companies which had a share capital of Rs. 20 crores and gross capital stock of Rs. 62 crores. The role is all the more significant because foreign participation in share capital became a necessity only after 1958 due to the foreign exchange crisis. Such joint ventures with foreign partners were prominent in Tatas, Kasturbhai and Thapar. On the whole, however, only a few groups had majority ventures, besides, Tata, Kasturbhai and Thapar, Indra Singh, Kirloskar, Seshasayee and Shapoorji. In Khatau, Martin Burn and Ramakrishna on the other hand, there were no majority joint ventures at all. Most of the joint ventures took the favour of minority participation by the groups concerned. In several cases, such participation is indirect or of the second order *i.e.* a minority venture in turn holds a controlling interest in another venture. For example, Tata has a minority interest in ACC which has a minority interest in Asbestos Cement.

Financial Structure: The twenty companies included 592 public companies in 1951 and 622 in 1958. These companies financed the greater part of their substantial expansion from external sources. About 32 per cent of the gross total funds came from loans and 24 per cent from short terms liabilities making a total of 56 per cent from borrowings. Share capital (including capitalized reserves) provided nearly 16 per cent. About 9 per cent came from free resources and 19 per cent from depreciation. On the used side, gross fixed assets absorbed more than 64 per

cent of the gross total funds raised, and nearly 21 per cent went into inventory, making a total of 85 per cent for the formation of gross physical assets. Only 3 per cent was absorbed in investments of which more than 11 per cent went into receivables and cash. The period thus witnessed a substantial increase in the ratio of debtors equity, and of fixed to working capital. These changes brought about a degree of deviation from orthodox financial standards. In 1951, the share capital of public companies was more than adequate to convert fixed assets, while reserves almost covered inventory requirements. In 1958, net worth was barely adequate even for net fixed assets.

Taking private and public companies together, the ratio of preference to total share capital declined from 20 to 18 per cent during the period. The data on shareholding cover 988 companies in 1951 and 1,079 in 1958. The various types of owners are:

1. Individuals in India
2. Indian Companies
3. Life Insurance Corporation of India
4. Government
5. Trusts
6. Foreign Individuals
7. Foreign Companies

Out of 988 (1951) and 1,079 (1958) companies, only 258 and 214 respectively were owned wholly by individuals and trusts. In both years, individuals in India owned about one half of the total share capital, Indian companies, 37 per cent, foreign investors about 4 per cent and trusts 3 per cent. There was thus no striking change in the broad pattern of ownership between these years. More specifically, the proportion of total share capital owned by individuals, both Indian and foreign and by Government, declined slightly during the period. The proportion owned by Indian companies remained practically constant at 37 per cent. The Life Insurance Corporation set up in 1956, came to acquire about 5 per cent of total share capital by 1958. If the holdings of Indian and foreign companies and the Life Insurance Corporation are lumped together, the proportion held by them rose by 6 per cent to 45 per cent. The ownership of share capital is thus evolving gradually in favour of corporate and away from individual owners.

Government's total investment in the sample companies amounted to Rs. 13.28 crores in 1951 and Rs. 15.58 crores in 1958. The Life Insurance Corporation had a total investment of Rs. 17.57 crores in 1958. The investments of Government and the Life Insurance Corporation are in the larger complexes. This pattern of distribution is largely the result of historical circumstances (integration of timely state) and market conditions at various times.

While some public industrial companies are quite widely owned, the general picture is one in which the controlling interests still hold a

fairly large proportion, in many cases the bulk, of share capital. Between 1951 and 1958, the proportion of share capital held by controlling interests in the public companies belonging to 20 business groups declined from 48 to 43 per cent under equity and 23 to 17 per cent under preference, which normally does not carry voting power. These over all proportions covered up fairly wide inter-group differences for, in some groups, the controlling interests tended to hold the predominant majority of share capital or, at least, equity capital. Inter-corporate investment is the main instrument, and an increasingly important one, for the control of companies. In both 1951 and 1958, more than two-thirds of the controlling block was held by companies, and their holdings acquired greater importance during the period.

TABLE XXXVIII

Ownership of Cotton Mill Companies, 1927

Sl. No. of Copy	*Percentage of Shares*	*Held by Number of Share-holders*	*Sl. No. of Copy*	*Percentage of Shares*	*Held by Number of Shareholders*
1	30	21	34	81	15
2	9	21	35	19	13
3	37	15	36	—	—
4	99	15	37	—	—
5	—	—	38	80	19
6	29	19	39	75	17
7	14	15	40	56	20
8	72	20	41	—	—
9	—	—	42	38	10
10	33	23	43	—	—
11	63	21	44	39	20
12	28	20	45	64	21
13	70	19	46	29	16
14	29	22	47	—	—
15	96	20	48	45	23
16	95	11	49	59	22
17	58	20	50	—	—
18	31	15	51	—	—
19	28	20	52	51	23
20	61	23	53	31	8
21	55	21	54	21	17
22	—	—	55	60	11
23	40	21	56	89	21
24	—	—	57	53	22
25	90	10	58	59	21
26	70	9	59	17	20
27	28	20	60	—	—
28	31	19	61	74	14
29	11	8	62	29	20
30	27	22	63	59	10
31	50	20			
32	50	20			
33	54	20			

TABLE XXXIX

Ownership Of Jute Companies

(Late 1920's)

Managing Agents	*Number of mills managed*	*Percentage of shares held by top 15 shareholders in each company*
Andrew Yule	8	29, 24, 14, 30, 43, 21, 26, 7
Begg. Dunlop	4	35, 30, 10, 13
Bird	7	23, 16, 13, 15, 17, 15, 16
Kettlewell Bullen	2	15, 38
Jardine & Skinner	4	6, 21, 13, 47
Mackinnon Mackenzie	2	15, 38
McLeod	4	9, 18, 1, 72
Barry	2	18, 47

TABLE XL

Ownership of Coal Companies

(Late 1920's)

Manaing Agents	*Number of managed companies*	*Percentage of shares held by top 15 shareholders in each company*
Andrew Yule	15	43, 30, 31, 27, 25, 22, 55, 26, 46, 38, 22, 34, 40, 30, 51
Heilger	7	44, 31, 68, 57, 44, 25, 28
Martin	7	19, 22, 31, 79, 18, 73, 74
Shaw Wallace	6	37, 47, 34, 24, 56, 42
H. V. Low	5	68, 17, 33, 28, 26
McNeill	7	27, 99, 30, 56, 81, 38, 65...

TABLE XLI

Percentage of Share Capital of 63 Companies held by Different Classes of Shareholders in 1957

Classes of Shareholders	*Equity Capital*	*Preference Capital*	*Total Capital*
Banks*	0.73	1.75	0.90
Insurance Companies (including L.I.C.)	4.38	14.00	6.15
Investment and Finance Companies	5.86	2.75	5.28
Non-financial (Trading and Industrial) Companies	18.08	2.94	15.32
Government	7.05	11.60	7.88
Foreigners	11.96	2.24	10.19
Individuals	51.94	64.72	54.28
Total:	100.00	100.00	100.00

*On the basis of information supplied from the share registers, holdings of banks were 4.44 per cent of equity capital, 11.48 per cent of preference capital and 5.74 per cent total paid-up capital. As most of these were nominee holdings, the figures have been replaced by estimates made on the basis of total investments of banks in shares.

TABLE XLII

Pattern of Ownership of 70 Companies by Type of Owner, 1959

Type of Owner	*No. of Accounts*	*Value (Rs. lakhs)*
1. Individuals (including joint holdings)	4,86,519 (98.87)	110,55 (52.95)
2. Institutions		
(a) Joint Stock Companies	4,461 (0.91)	8,416 (39.62)
(b) Trusts and Charitable Institutions	814 (0.17)	268 (1.26)
(c) Other Institutions (including L.I.C.)	213 (0.04)	1,235 (5.81)
3. Others	59 (0.01)	268 (1.26)
All Categories	4,92,066 (100.00)	212,42 (100.0)

Note: (1) Figures in brackets indicate percentages to total.
(2) If each joint holder is treated as separate shareholder, the total number of individual shareholders would work out to 6,86,184.

TABLE XLIII

Size-Wise Pattern of Ownership by Type of Owner

(Percentage)

Type of Owner	*Companies having ordinary paid-up capital of*	
	Rs. 4 crores and above	*Less than Rs. 4 crores*
1. Individuals	57.4	45.4
2. Institutions		
(a) Joint Stock Companies	34.8	45.7
(b) Trusts and Charitable Institutions	0.8	1.8
(c) Other Institutions (including L.I.C.)	6.0	5.6
3. Others	1.0	1.5
Total:	100.0	100.0

TABLE XLIV

Pattern of Ownership in Old and New Companies by Type of Owner

(Percentages)

Type of Owner	*Old Companies*		*New Companies*	
	No. of Accounts	*Value*	*No. of Accounts*	*Value*
Individuals	98.83	55.00	99.18	22.86
Joint Stock Companies	0.93	36.03	0.72	75.05
Trust and Charitable Institutions	0.18	1.31	0.08	0.75
Other Institutions (including L.I.C.)	0.05	6.28	0.02	1.24
Others	0.01	1.38	—	0.10
Total:	100.00	100.00	100.00	100.00

TABLE XLV

Ownership of Companies in 1951 and 1958

	Total		*Public Companies*		*Private Companies*	
	1951	1958	1951	1958	1951	1958
No. of Companies	988	1,079	618	644	370	435
Total share capital (Rs. Cr.)	244.05	363.38	210.60	316.18	33.45	47.20
	(100.00)	(100.0)	(100.00)	(100.00)	(100.00)	(100.00)
Percentage held by:						
1. Individuals in India	50.0	47.0	52.9	50.5	31.7	23.8
2. Indian Companies	37.0	37.2	35.4	35.0	47.2	51.8
a. Banking Companies	(5.2)	(6.4)	(5.5)	(7.3)	(3.6)	(1.2)
b. Insurance Companies	(3.4)	(1.3)	(3.8)	(1.5)	(1.0)	(0.4)
c. Finance Companies	(20.5)	(20.3)	(18.3)	(18.5)	(33.6)	(31.9)
d. Industrial Companies	(7.4)	(7.9)	(7.2)	(6.5)	(8.7)	(16.9)
e. Service Companies	(0.5)	(1.4)	(0.6)	(1.2)	(0.3)	(1.4)
3. Life Insurance Corporation	—	4.8	—	5.5	—	—
4. Government	5.4	4.3	5.7	3.5	3.5	9.6
5. Trusts	3.2	3.0	2.5	2.6	7.3	5.6
6. Foreign Individuals	2.5	1.1	2.4	1.1	3.2	1.1
7. Foreign Companies	1.9	2.6	1.1	1.8	7.1	8.1

TABLE XLVI

Controlling Blocks in Public Companies of Twenty Groups

(Percentages of share capital)

Group	1951		1958	
	Ord.	*Pref.*	*Ord.*	*Pref.*
1. Tata	19.5	4.5	18.0	2.2
2. Birla	61.0	55.4	61.1	28.0
3. Martin Burn	25.9	7.4	23.7	3.1
4. Dalmia-Sahu-Jain	65.2	36.3	54.8	24.2
5. Bird Heilger	34.7	10.6	40.5	8.2
6. Andrew Yule	43.3	43.0	45.7	43.1
7. Bangur	79.8	46.5	68.8	25.4
8. Thapar	57.6	11.8	61.1	23.7
9. J.K.	72.8	46.0	74.7	36.4
10. Shri Ram	46.3	58.2	43.9	26.9
11. Shapoorji	72.3	—	35.5*	—
12. Khatau	67.2	16.4	68.6	17.7
13. Walchand	69.8	17.1	67.0	6.3
14. Mafatlal	68.5	2.7	69.5	7.4
15. Kasturbhai	23.4	36.5	20.1	34.3
16. Seshasayee	8.7	4.9	6.1	2.7
17. Ramakrishna	26.5	18.3	24.4	11.9
18. Indra Singh	62.6	—	40.6	41.0
19. Mahindra	8.0	22.5	37.8**	5.3
20. Kirloskar	27.9	—	27.9	1.7
Total:	48.0	22.7	43.1	17.3

*The decline occurred owing to the acquisition of the Brady group in 1958.

**The increase is mainly due to the conversion of the principal company from private to public.

About 83 per cent of the additional share capital subscribed by controlling interests between 1951 and 1958 came from companies, 12 per cent from trusts and 5 per cent only from individuals. The total share capital of companies in the 20 groups increased during the period by Rs. 93 crores, of which individuals in India and abroad provided a little more than Rs. 38 crores; the individuals who constituted the ultimate controlling interests of these groups accounted for only Rs. 1 crore out of Rs. 38 crores.

Their much-talked-about role as providers of finance notwithstanding, managing agents *per se* (as distinct from the controlling interests as a whole) owned only 3.0 and 2.5 per cent of the total share capital of industrial companies in 1951 and 1958, respectively. Even as a proportion of the total controlling blocks, their holding was 8.4 per cent in 1951 and 7.4 per cent in 1958.

Subsidiary Companies: As of end-March 1963, there were 828 subsidiary companies in India with a total share capital of Rs. 218 crores, roughly 16 per cent of the share capital of all non-Government companies. Of

TABLE XLVII

Holders of Controlling Blocks in Public Companies of Twenty Groups

(Rs. lakhs)

	1951			1959		
	Total	*Ord.*	*Pref.*	*Total*	*Ord.*	*Pref.*
No. of companies	524			545		
1. Total Share Capital	16,626	12,563	4,063	25,670	1,9942	5,728
2. Controlling Blocks	6,954	6,030	924	9,577	8,588	989
(2) as % of (1)	(41.8)	(48.0)	(22.7)	(37.3)	(43.1)	(17.3)
Holders of Blocks						
(a) Managing Agents	383	347	36	569	523	46
	(5.5)	(5.8)	(3.9)	(5.9)	(6.1)	(4.7)
(b) Investment Companies	2,713	2,473	240	3,951	3,560	391
	(39.0)	(41.0)	(26.0)	(41.3)	(41.5)	(39.5)
(c) Banking Companies	88	58	30	164	115	49
	(1.3)	(1.0)	(3.2)	(1.7)	(1.3)	(5.0)
(d) Insurance Companies	301	175	126	222	154	68
	(4.3)	(2.9)	(3.6)	(2.3)	(1.8)	(6.9)
(e) Industrial Companies	1,075	815	260	1,663	1,483	180
	(15.5)	(13.5)	(28.1)	(17.4)	(17.3)	(18.2)
(f) Service Companies	53	46	7	236	212	24
	(0.8)	(0.8)	(0.8)	(2.5)	(2.5)	(2.4)
(g) Trusts	3,75	317	58	7,13	652	61
	(5.4)	(5.3)	(6.3)	(7.4)	(7.6)	(6.2)
(h) Individuals in India	1,863	1,713	150	1,978	1,812	166
	(26.7)	(28.3)	(16.2)	(20.7)	(21.1)	(16.8)
(i) Companies Abroad	62	52	10	50	50	—
	(0.9)	(0.8)	(1.1)	(0.5)	(0.6)	(—)
(j) Individuals Abroad	41	34	7	31	27	4
	(0.6)	(0.6)	(0.8)	(0.3)	(0.3)	(0.4)

Note: Figures in parentheses under (a) to (j) are percentages of the amounts shown in row (2).

these, 220 with a share capital of Rs. 130 crores were subsidiaries of companies registered outside India. The management pattern of the subsidiaries was as follows:

TABLE XLVIII

Management Pattern of Subsidiaries, March 1963

	Number	*Paid-up capital*
		(Rs. crores)
1. Managed by holding companies	56	13.01
	(3)	(4.05)
2. Subsidiaries and holding companies having common managing agents	23	6.70
3. Managed by managing agents/secretaries and treasurers	32	7.38
	(7)	(0.82)
4. Other forms of management	717	190.41
	(210)	(124.75)
Total:	828	217.50
	(220)	(129.62)

Figures in parentheses are for foreign subsidiaries. Most of the subsidiaries, particularly foreign subsidiaries, did without managing agents and generally relied upon managing directors or boards of dlrectors.

Concentration of Economic Power: This has been measured in the private corporate sector on the basis of the share of the leading business groups in aggregate share capital and physical assets.

The four largest groups, Tata, Birla, Martin Burn and Dalmia-Sahu-Jain, had nearly 18 per cent of the share capital of non-Government public companies in 1951. This proportion rose to more than 22 per cent in 1958. Including their minority and fifty-fifty interests in other companies, the ratio went up from 22 to 27 per cent.

The share of these four largest groups in the gross capital stock, *i.e.*, net fixed assets plus accumulated depreciation plus inventory, of non-Government public companies expanded during the same period from 17 to 22 per cent. Including their minority and fifty-fifty interests, the ratio went up from 20 to 26 per cent.

In 1958, the public companies in which Tatas and Birlas had an interest of one kind or other had nearly one-fifth of the gross capital stock of all non-Government public companies.

TABLE XLIX

Public Companies in Four Top Groups

(Amounts in Rs. crores)

	Share 1951	*Capital* 1958	*Gross Capital* 1951	*Stock* 1958
1. Tata	34.88	65.60	105.23	287.22
	(5.90)	(8.58)	(7.54)	(10.74)
2. Birla	36.75	61.26	62.55	143.44
	(6.22)	(8.01)	(4.48)	(5.36)
3. Martin Burn	14.09	19.42	39.25	89.90
	(2.38)	(2.54)	(2.81)	(3.36)
4. Dalmia-Sahu Jain	20.14	24.58	29.70	71.58
	(3.41)	(3.21)	(2.12)	(2.68)
Total:	105.86	170.86	236.73	592.14
	(17.91)	(22.34)	(16.95)	(22.14)

Figures in parentheses are percentages of all non-Government public companies.

The Mahalonobis Committee on Distribution of Income and Levels of Living in its report in 1964 also came to the conclusion that concentration of economic power in the private sector was more than what could be justified as necessary on functional grounds and it existed both in generalized and in specific forms. It suggested that a free time agency should make a detailed enquiry into the operations of individual companies.

Accordingly, in the same year, 1964, Government constituted the Monopolies Inquiry Commission headed by K. C. Das Gupta, a judge of the Supreme Court of India. Its terms of reference were:

(a) to inquire into the extent and effect of concentration of economic power in private hands and the prevalence of monopolistic and

restriction practices in important sectors of economic activity, other than agriculture, with special reference to (i) the factors responsible for such concentration and monopolistic and restriction practices; (ii) their social and economic consequences, and the extent to which they might work to the common detriment, and

(b) to suggest such legislative and other measures that might be considered necessary in the light of such inquiry, including, in particular, any new legislation to protect essential public interests and the procedure and agency for the enforcement of such legislation.

Incidentally, this was the first official authoritative body to find a solution to a grave economic malady. The Commission was appointed under the chairmanship of Inquiry Act 1952, and it submitted its report to Government at the end of October 1965.

Power Manifestation: The Commission concentrated its attention on the different manifestations of economic power in the private corporate sector. One such manifestation, according to the Commission, is the achievement by one or more units in an industry of such a dominant position that they are able to control the market by regulating prices or output or eliminating competition. Another is the adoption of some producers and distributors, even though they do not enjoy such a dominant position, of practices which restrain competition and thereby deprive the community of beneficient effects of the rivalry between producers and producers and distributors and distributors, to give the best service. Such practices inevitably impede the best utilization of the means of production. Also a few industrialists, obtain control of large areas of economic activity by various means. Clearly, the Commission held that concentration of economic power is the Central problem. Monopolistic and restrictive trade practices are the functions of such concentration.

The Commission, in its report, listed seven causes of concentration of economic power in private hands:

The economics of scale brought about largely by technological advances and the capital formation; the supply of managerial skill in different forms and diverse ways — the managing agency system; the investment of funds by one corporation in acquiring the assets or stocks or shares of another independent corporation. Where such investment is made in a corporation in the same line of business, it tends to promote what the Commission has termed "industry-wise" concentration. Where the investment is made in a corporation in a non-competing line of business, it helps in the growth of "country-wise" concentration. The effect on competition is particularly adverse where the investment is in

a competing line of business. The effect is bound to be considerable also where the investee company, though non-competing, is engaged in producing the raw material used by the investor corporation or in marketing the goods of the investor corporaton. Even where investment in another corporation is not of an extent to give it a control over the voting power, it is sometimes sufficient to enable it to have one or more directors on the Board of the investee company. Where such inter-locking of directors is achieved in a company in the same line of production, or a company engaged in the distribution of its product or one engaged in the production of an allied product, or of raw materials, it has clearly a tendency to increase concentration of economic power. In the period immediately following independence, the very forces which were harnessed to speed up industrialization of the country, worked at the same time to concentrate power in industry in a few individuals or families who were already wealthy and powerful. It should also be mentioned that when independence came, some British businessmen left the country. Several of their concerns passed into the hands of wealthy Indian industrialists necessarily causing an increase of concentration.

The planned economy which Government decided as the quickest way to achieve industrialization on the right lines, has proved to be potent factor for further concentration. The allocation of resources and the settlement of priorities, which planning necessarily involves, have necessitated a system of licensing for starting new industries or expanding established units or starting new units in existing industries; capital issues also had to be controlled. Big business was at an advantage in securing the required licences and was in a better position to raise large amounts of capital needed. Licensing authorities were naturally inclined to prefer men who had proved their ability by success in big industrial ventures in the past to men who had still to establish their ability. Furthermore the ability of big businessmen to secure foreign collaboration helped in obtaining industrial licences. The Commission found on examination that between 1959 and 1963, 71.6 per cent of the licences issued went to big business. The Commission said it was convinced that the system of controls by way of industrial licensing, however necessary from other points of view, had restricted the freedom of country into industry and so helped produce concentration.

In the industrial field, the Commission said that two main kinds of concentration of economic power prevailed. The first is where in respect of the production and distribution of any particular commodity or service, the controlling power, whether by reason of ownership of capital or otherwise, is in a single concern or comparatively limited number of concerns or though in a fairly large number of concerns.

These concerns themselves are controlled by only a single family or a few families or business houses; this may be called "product-wise con-

centration". Where a large number of concerns engaged in the production or distribution of different commodities are in the controlling hands of one individual or family or group of persons, whether incorporated or not, connected closely by financial or other business interests "country-wise concentration" is clearly considered to exist.

Product-wise Concentration: The Commission examined 1,298 products to measure concentration. It accepted concentration ratios of enterprises in terms of production as most suitable to give a correct idea of the market power exercises by top enterprises. The degree of concentration was defined by the extent of the share of top three enterprises in the manufacture of a product as given below:

H:	High concentration	:	75% or more
M:	Medium concentration	:	60% or more but less than 75%
L:	Low concentration	:	50% or more but less than 60%
N:	Nil	:	Below 50%

Of the 1,298 products examined, 1,131 were found to have a high degree of concentration. Sixty-three came in the medium category, 31 in the low category and 73 had nil concentration.

TABLE L

Product Concentration in 75 Business Groups

Sl. No.	*Name of Group*	*No. of pdts. in which the group cos. appear as one of top 5 producers*	*No. of pdts. in which the group cos. appear as single producer*	*No. of pdts. in which the group cos. share is between 75% and below 100%*	*No. of pdts. in which the group cos. share is between 60% and below 75%*	*Total of columns 4, 5 and 6*
1	2	3	4	5	6	7
1.	Tata	121	19	8	7	34
2.	Birla	123	13	8	5	26
3.	Martin Burn	37	—	—	2	2
4.	Bangur	15	—	—	—	—
5.	Associated Cement Company	10	1	1	1	3
6.	Thapar	21	6	2	—	8
7.	Sahu Jain	13	—	—	—	—
8.	Bird Heilgers	13	—	—	—	—
9.	J. K. Singhania	26	—	—	1	1
10.	Soorajmull Nagurmull	23	3	1	2	6
11.	Walchand	25	—	—	1	1
12.	Shri Ram	18	—	—	2	2
13.	Scindia	1	—	—	1	1
14.	Goenka	4	1	—	—	1
15.	Mafatlal	3	—	—	—	—
16.	Sarabhai	34	8	2	1	11

TABLE L (*Contd.*)

1	2	3	4	5	6	7
17.	Andrew Yule	6	—	—	—	—
18.	Killicks	7	2	—	—	2
19.	I.C.I.	26	5	7	1	13
20.	Kilachand	10	4	—	—	4
21.	Kasturbhai Lalbhai	20	2	2	4	8
22.	Macneil & Barry	13	2	1	—	3
23.	Jardine Henderson	14	3	—	1	4
24.	Seshasayee	14	2	—	—	2
25.	Dalmia, Jai Dayal	9	—	—	—	—
26.	B.I.C.	16	—	—	—	—
27.	T.V. Sundram, Aiyanagar	4	2	—	2	4
28.	Amalgamations	27	3	2	1	6
29.	Shaw Wallace	13	1	2	—	3
30.	Bajaj	14	—	—	—	—
31.	Binny	7	—	—	—	—
32.	Naidu, G.V.	8	—	—	—	—
33.	Mahindra & Mahindra	4	1	1	1	3
34.	Turner Morrison	16	5	—	—	5
35.	Indra Singh	6	3	2	1	6
36.	Kirloskar	12	1	—	—	1
37.	Ruia	3	—	—	—	—
38.	A & F Harvey	7	—	—	—	—
39.	Shapoorji & Pallonji	6	2	2	—	4
40.	Nowrosjee Wadia	2	1	—	—	1
41.	Jaipuria	4	—	—	—	—
42.	Thiagaraja	—	—	—	—	—
43.	Chinai	14	2	—	—	2
44.	Khatau (Bombay)	7	—	1	—	1
45.	V. Ramakrishna	4	—	—	—	—
46.	Thackersay	5	1	—	—	1
47.	Nadu, V. Rangaswami	1	—	—	—	—
48.	Gillanders Arbuthnot	13	7	—	3	10
49.	Kamani	18	2	1	—	3
50.	Vissanji	3	—	—	1	1
51.	Mangaldas Parekh	—	—	—	—	—
52.	Parry	5	—	—	—	—
53.	Wallace	1	—	—	1	1
54.	Kothari, G.D.	—	—	—	—	—
55.	Modi	—	—	—	—	—
56.	B. N. Elias	1	—	—	—	—
57.	Amin	23	3	1	—	4
58.	Balmer Lawrie	5	—	—	1	1
59.	Rallis	4	—	2	—	2
60.	Swedish Match	6	—	1	—	1
61.	Tube Investment	2	—	—	—	—
62.	Shriyans Prasad Jain	6	—	—	—	—
63.	Talukdar Law	4	—	—	—	—
64.	Kanoria, R.K.	—	—	—	—	—
65.	Finlay	1	—	—	—	—
66.	Podar	2	—	—	—	—
67.	Kothari, Madras	2	—	—	—	—
68.	Mangaldas, Jeysinghai	1	—	—	—	—
69.	Kanoria, Bhagirath	2	—	—	—	—
70.	J.P. Srivastava	1	—	—	—	—
71.	Ram Kumar Agarwal	1	—	—	—	—
72.	Muthiah	4	—	—	1	1
73.	Jatia	1	—	—	—	—
74.	Dalmia, R.K.	2	—	—	—	—
75.	Perice Leslie	1	—	—	—	—
	Total:		105	47	41	193

In addition, the Commission examined 100 products of importance to the ordinary consumer. Of these 65 products had high concentration, 10 medium, 8 low and 17 nil concentration.

The Commission has worked out the concentration ratio for 1,298 products. Of these, companies belonging to 70 groups appear as leading producers in 588 products or 45.1% of the total number of products. The remaining five business groups, namely, (1) Thiagaraja, (2) Mangaldas Parekh, (3) Kothari, G. D., (4) Modi, and (5) Kanoria, R. K. are not dominant producers in any one of the products.

Company-wise Concentration: In order to ascertain the extent of control or ownership exercised by industrial houses over a number of companies engaged in each line of product, the Commission evolved a definition. It took a "business group" to comprise all such concerns which are subject to the ultimate and decision-making power of the controlling interest in the group — the group master.

It examined 2,259 companies to ascertain their group affiliation to 83 groups in the Commission tentative list. Ultimately, the Commission decided on a list of 75 groups where assets were not less than Rs. 5 crores.

The assets of all the 75 groups, comprising altogether 1,536 companies totalled Rs. 2,605.95 crores. The total paid up capital is Rs. 646.32 crores.

What is the share of these groups in the total paid up capital and assets in the corporate sector? As on 31.3.1964, the total number of non-Government non-banking companies was 25,661 with a total paid up capital of Rs. 1,465.46 crores and assets valued at Rs. 5,552.14 crores. The proportion of assets of the 75 groups works out at 46.9 per cent and of paid up capital at 44.1 per cent.

To complete the picture, the Commission has drawn attention to the diversified activities of certain companies which have not been included in these groups. Leaving out companies with assets of less than Rs. 5 crores, there are at least 16 larger companies.

TABLE LI

Larger Business Groups Houses: Assets Not Less Than Rs. 5 Crores as on 31.3.1964

Rank	*Business Group/House*	*Total No. of Coys. in Group*	*Total No. of Coys. in Group with not less than Rs. 1 crore assets*	*Total assets of Coys. Share in Col. 4 (Rs. in lakhs)*	*Paid up capital, assets, and turn over of companies in the group* (Rupees in lakhs)		
					Paid up Capital	*Assets*	*Turn-over*
1	2	3	4	5	6	7	8
1.	Tata	53	27	38,499	10,231	41,772	32,498
2.	Birlas	151	54	27,104	7,634	29,272	29,024
3.	Martin Burn	21	9	14,471	2,228	14,961	10,872

1	2	3	4	5	6	7	8
4.	Bangur	81	15	5,836	1,968	7,791	6,529
5.	Associated Cement Co.	5	3	7,599	2,423	7,736	4,413
6.	Thapar	43	16	6,176	1,429	7,190	7,061
7.	Sahu Jain	26	12	6,299	1,962	6,769	6,106
8.	Bird Heilgers	64	18	5,152	1,492	6,010	5,829
9.	J. K. Singhania	46	14	5,116	1,419	5,920	5,443
10.	Surajmull Nagarmull	76	18	4,280	1,284	5,737	4,483
11.	Walchand	25	8	5,113	1,441	5,517	5,402
12.	Shri Ram	16	7	5,237	959	5,468	5,985
13.	Scindia Steam Navigation	8	2	4,422	1,240	4,696	2,062
14.	Goenka	52	13	3,300	1,284	4,695	4,356
15.	Mafatlal	21	10	4,451	1,026	4,591	4,311
16.	Sarabhai	27	8	3,930	614	4,316	5,429
17.	Andrew Yule	29	14	3,598	1,067	4,189	3,430
18.	Killicks	14	7	3,958	1,539	4,150	2,445
19.	I.C.I.	5	5	3,689	941	3,689	3,816
20.	Kilachand	12	5	3,332	929	3,513	2,430
21.	Kasturbhai Lalbhai	16	9	3,325	792	3,394	2,620
22.	Macneill & Barry	32	5	1,999	838	2,921	2,698
23.	Jardine Handloom	20	6	2,340	831	2,851	3,142
24.	Seshasayee	13	5	2,430	1,029	2,669	1,322
25.	Dalmia Jai Dayal	15	6	2,439	881	2,657	1,907
26.	British Indian Corporation	9	5	2,301	594	2,377	2,905
27.	T.V. Sundaram, Aiyangar	17	6	1,657	448	2,187	2,333
28.	Amalgamations	28	4	1,249	537	2,173	3,343
29.	Shah Wallace	22	4	1,643	458	2,125	333
30.	Bajaj	21	6	1,647	576	2,114	2,925
31.	Binny	5	4	2,045	497	2,113	2,540
32.	Naidu G. V.	13	5	1,939	811	2,085	1,605
33.	Mahindra & Mahindra	12	3	1,814	419	2,012	2,111
34.	Turner Morrison	8	7	1,933	343	1,990	1,925
35.	Indra Singh	7	4	1,834	431	1,940	777
36.	Kirloskar	11	6	1,801	550	1,912	2,146
37.	Ruia	16	6	1,607	358	1,892	1,720
38.	A & F Harvey	12	3	1,661	341	1,869	2,114
39.	Shapoorji Pallanji	21	7	1,416	424	1,869	1,264
40.	Nowrosji Wadia	9	1	1,480	450	1,854	1,809
41.	Jaipuria	16	2	1,347	447	1,722	1,778
42.	Thiagaraja	30	5	948	471	1,681	1,796
43.	Chinai	7	1	1,528	453	1,649	1,306
44.	Khatau (Bombay)	27	2	1,044	343	1,362	1,423
45.	V. Ramakrishna	9	3	1,253	275	1,361	1,052
46.	Thackersey	12	4	1,155	126	1,351	1,500
47.	Naidu V. R.	7	3	1,147	662	1,294	618
48.	Gillanders Arbuthnot	26	3	735	275	1,283	802
49.	Kamani	14	4	1,006	226	1,206	1,255
50.	Vissanji	10	3	694	274	1,204	2,062
51.	Mangaldas Parekh	16	5	994	217	1,168	1,390
52.	Parry	7	4	1,020	261	1,168	1,891
53.	Wallace & Co.	7	2	1,049	318	1,134	763
54.	Kothari G. D.	19	4	840	148	1,131	2,155
55.	Modi	10	2	992	270	1,128	2,082
56.	B. N. Elias	5	3	1,066	235	1,119	2,044
57.	Amin	7	3	1,003	296	1,115	1,331
58.	Balmer Lawrie	7	3	936	179	1,113	2,168
59.	Rallis	10	1	717	450	1,080	2,445
60.	Swedish Match	3	2	982	209	1,074	2,392
61.	Tube Investment	4	1	849	315	1,069	1,134
62.	Shriyans Prasad Jain	12	2	817	207	1,032	764
63.	Talukdar Law	10	3	758	418	1,022	681
64.	Kanoria R. K.	20	4	620	249	961	1,028
65.	Finlay	4	4	926	190	926	1,316

1	2	3	4	5	6	7	8
66.	Podar	18	2	513	231	903	1,103
67.	Kothari D. C.	15	4	756	368	882	579
68.	Mangaldas Jaisinghbhai	12	5	789	225	847	707
69.	Kanoria Bhagirath	11	4	527	180	795	1,678
70.	J. P. Srivastava	16	3	494	312	792	1,013
71.	Ram Kumar Agarwal	37	1	242	228	727	502
72.	Muthiah	10	1	487	243	689	405
73.	Jatia	10	2	339	158	580	658
74.	Dalmia R. K.	11	2	447	266	542	412
75.	Pierce Leslie	15	1	116	207	500	360

TABLE LII

Company-wise Concentration — 16 Companies

Sl. No.	*Company*	*Assets* (Rs. in lakhs)	*Business activities*
1	2	3	4
1.	Ashok Leyland	1,065	Heavy duty commercial vehicles and engines for industrial purposes.
2.	Dunlop Rubber Co. (I) Ltd.	2,187	Automobile and cycle tyres, cycle rims, fans and vee belts, hose; conveyer and transmission belting.
3.	Dyer Meaken Breweries Ltd.	730	Beer, malt, spirit, molasses spirit, CO_2, gas, malt extract food products and breakfast food.
4.	Escorts Ltd.	816	Manufacturing pistons, X-Ray equipment, railway shock absorbers, heating element for electrical appliances, agricultural implements and motor cycles.
5.	General Electric Co. of India (P) Ltd.	1,020	Ceiling fans, propeller fans, motors, meters, radios, transformers and switch fuses.
6.	Godrej Boyce Mfg. Co. Ltd.	1,057	Manufacturing steel furniture, typewriters, refrigerators, locks and pork-lift trucks.
7.	Guest Keen Williams Ltd.	1,875	Special steels, steel bars, bolts, nuts, rivets, railway permanent way material, electrical stampings for fans, motors and generators, transformer laminations, pressed components and assemblies for automobiles, textile and other industries.
8.	Hindustan Lever Ltd.	1,992	Soaps, toilet preparations, *vanaspati*, dehydrated vegetables and non-soap detergents.
9.	Indian Aluminium Co. Ltd.	2,182	Aluminium, ingots, rolled prevent extrusions paste, power and pyrotechnic powder, chemicals, alumina and carbon electrode paste.
10.	Indian Oxygen Ltd.	1,213	Oxygen, dissolved actylene, electrode gas welding and cutting equipment.

1	2	3	4
11.	Metal Box of India Ltd.	1,082	Containers, closures and plain/lithographed sheet metal products, industrial components, machinery, paper and board products, flexible packages and plastic products.
12.	National Insulated Cable of India Ltd.	555	Bare copper wire, aluminium conductors, copper cadmium grooved conductors; cotton and paper covered wires and strips, VIR/PVC cables and flexibles.
13.	Phillips India Ltd.	895	Radios, radio components and parts, fluorescent lamps, fittings and accessories, burners for mercury vapour lamps, electronic service and industrial measuring instrument sound equipment; tungsten and molybdenum wire and tungsten coils.
14.	Siemens Engineering and Manufacturing Co. of India	929	Motor starters, distribution switchgear switchboards, X-Ray units; railway signals; mechanical portions of cargo winches and topping winches, HRC fuses, fure bases' tripple pole fuse isolators.
15.	Union Carbide India Ltd.	1,223	Dry cells, zinc strips, flash light cases, polythalyene, chemicals, cinema arc carbons, carbon electrodes.
16.	Glaxo Laboratories (India) Private Ltd.	1,109	Bata Ionenem, Corticosteroids, Vitamin A, Calcium sennosides, hydroxocobalamin, ointments, vaccines, antibiotic powder vials; infant milk food.

Monopolistic and Restrictive Practices: The Commission came to the conclusion that in a large number of industries, a single undertaking is the only supplier or at least has a very large portion of the market as compared with its competitors. It has the power to dictate the price of the commodity or services it supplies and to regulate its volume of production in such a manner as to maximize its profits — monopoly power. Monopoly, according to the Commission, would include not only the single supplier in a market but also the one dominant supplier who dictates the market price. It emphasizes that when such a power is shared by a few enterprises as dominant sellers, they should be considered as holding a monopolistic position.

A distinction has been drawn by the Commission between "monopolistic practice" and "restrictive practice" while conceding that on the face of it every monopolistic practice is a restrictive practice. It explains that every practice whether it is by action, or understanding or agreement, formal or informal, to which persons enjoying monopoly power, resort in exercise of the same, to reap the benefits of that power and every action, understanding or agreement, tending to or calculated to preserve, increase or consolidate that power should properly be

designated monopolistic practice. Similarly a restrictive practice means practices other than those preserved by monopolists which obstruct the free play of competitive forces or impede the free flow of capital or resources into the stream of production or of the finished goods in the stream in distribution at any point before they reach the hands of the ultimate consumer. The Commission analyses the various ways in which industrialists in India resort to monopolistic and restrictive practices and says these are attempts by monopolists and near monopolists to keep out or crush competitors.

The bright picture of what concentrated economic power has achieved in the past and is fairly certain to achieve in the future, says the Commission, must not make us blind to certain evil effects of such power on the country's economy. The most serious of these, it points out, is the risk of the emergence of monopoly with its attendant evils and keeping out the small industrialists. "Big business" by its very "bigness" sometimes succeeds in keeping out competitors. "The statements made before us by some small businessmen have convinced us that both price wars and threats have been used by dominant *entrepreneurs* in India, with a view to maintaining their domination," the Commission has observed. It adds, "The dangers from concentrated economic power and monopolistic and restrictive practices are not imaginary but do exist in a large measure either at present or potentially. We are clearly of opinion that a permanent body should be set up with the duty and responsibility for exercising vigilance and for taking action to protect the country against the dangers that we think do exist."

Accordingly, the Commission in its report has included a draft bill for the purpose.

Statutory Commission: Subsequently in 1967 Government introduced in Parliament its own Bill called "The Monopolies and Restrictive Trade Practices Bill" which was finally passed and assented to by the President on December 27, 1969. In 1970, the Monopolies and Restrictive Trade Practices Commission was set up with a High Court judge as chairman and two members.

Under the Act, the Commission has an advisory role in matters concerning expansion, diversification, mergers and amalgamations as well as monopolistic practices. It has mandatory powers in respect of restrictive trade practices.

The Act does not apply to banking and insurance companies to the extent they overlap with the provisions of the special enactment governing them. It also does not apply to Government or Government controlled undertakings.

The Act *inter alia* provides for:

(1) Regulating expansion, mergers and amalgamations and appoint-

ment of Directors in respect of dominant undertakings having assets of Rs. 1 crore and above and of undertakings, which by themselves or with inter-connected undertakings have assets of not less than Rs. 20 crores in value.

(2) Regulating the starting of new undertakings which would become inter-connected undertakings the total assets of which exceed Rs. 20 crores.

(3) Control over and prohibition of monopolistic and restrictive trade practices as are found to be prejudicial to public interest.

The Commission has been vested with the powers of a civil court under the Civil Procedure Code.

The Commission also made several recommendations which are non-legislative in character. A very important recommendation relates to the industrial licensing system. While conceding that at the present stage its abolition is not practicable, it suggests that licensing policy should be liberalized. It should be made easy for the comparatively smaller *entrepreneurs* to get industrial and import licences expeditiously and without undue expenditure. Licensing, the Commission points out, can be used to good purpose by Government in fighting concentration wherever necessary.

Role of Licensing System: Meanwhile, Government's industrial licensing system was the subject of official study as well as of public discussion. A study made on behalf of the Planning Commission revealed that the large and medium sized business groups enjoyed a higher ratio of approval in industrial applications as compared to others and that their share in the investment applied for and approved had tended to rise over the period. This was certainly true about certain Business Houses, the most important of which, according to the Study, was the House of Birlas. When this matter came up in Parliament in May 1967, Government announced that a Committee would be appointed to go into the basic questions regarding the functioning of licensing system and any advantages obtained through it by some of the large industrial houses.

The Industrial Licensing Policy Inquiry Committee was set up a few weeks later. In its report in 1969, the Dutt Committee, so named after its Chairman, observed that in the earlier years, licensing was guided more by technical than by economic, leave alone, social considerations. Not only no attempt was made to use licensing to prevent the further growth of the larger industrial houses, but the process actually worked in their favour. Even after the Monopolies Inquiry Commission had made its report, no clear question was issued to the licensing authorities and the financial institutions as to how they should treat applicants from large houses.

The licensing system worked in such a way as to provide a dispro-

portionate share in the newly licensed capacity to a few concerns belonging to the large industrial sector, the most prominent among them being the Birlas. The Committee found no justification for the disproportionate share obtained by these Houses.

A large proportion, nearly 32 per cent of the licences issued during the period 1956-66 were not implemented. Non-implementation of a licence for products where there is interest and competition is a definite indication of pre-emption. The Committee found that among the Houses which were responsible for various forms of pre-emption, the most prominent was Birlas. They held the largest number of unimplemented licences, made repeated attempts to obtain a large number of licences for many products, created excess capacities and tried to have them regularized afterwards and also produced more than authorized capacities.

In spite of its failure and defects the Committee was of the view that the licensing system must continue if industrial development was to take place as part of an overall development plan. The Committee held that licensing had only a small role to play in preventing concentration of economic power. The major instrument for obtaining the objective was the Monopolies and Restrictive Trade Practices Commission.

Financial Institutions: The Dutt Committee has dealt with the role of public financial institutions with reference to the prevention of the concentration of economic power on the one hand and the growth of the public sector on the other. The objective contemplated in the Industrial Policy Resolution of 1956, that the State would play an increasingly active role in a number of newly developing industries had not been achieved to any significant extent. On the other hand, investment funds of the Life Insurance Corporation which could be made available to the priority industries in the public sector had been diverted to the private sector. A number of new industrial projects in the private sector had been established only on the basis of a large proportion of their costs being met through assistance provided by public financial institutions. In many concerns, the State, through the L.I.C. and other financial institutions held significant proportions of equity capital. But this equity had not been utilized for effective participation in the management of these concerns. By providing a large part of the assistance as debentures or loans, the public financial institutions had also denied themselves a share in capital appreciation. The Committee urged a thorough change in these policies. Where a very large proportion of the cost of a new project was to be met by public financial institutions, it wanted these projects to be set up in the public sector. Ordinary shareholders and even some private

concerns could be associated with them and the Companies Act did provide for it. In such an event the Committee recommended that the projects should be in what it called the Joint Sector. One important advantage of the joint sector project was that the Large Industrial Sector would not be permitted to build up huge industrial empires. In a joint sector project, there should be proper representation for the State in the management. The financial institutions could insist on the whole or part of the assistance given by them as loans and debentures being converted into equity. The equity holdings of public financial institutions including the L.I.C. and the Unit Trust of India should be effectively used for enlarging the role of the State in the management of private sector industry.

Industrial Planning: The need for detailed industry plans for licensing has also been emphasized by the Committee: Such planning was essential, said the Committee for licensing, to be used as a positive instrument for co-ordinated and planned development. Without detailed planning, decisions on applications for licences, whether in terms of size, technical process or location would continue to be *ad hoc* and purely discretionary in character. In that situation existing faults in the licensing system could not be avoided.

In the present circumstances the Committee would like the use of industrial licensing as a positive instrument only for the basic, strategic and critical sectors — the 'core' sector — for which industry plans should be drawn up. A system of reservations and bans could be used for preventing undersizeable developments. The present policy of reserving certain areas of production for small and medium industries was right and should be continued. Bans on the creation of further capacity should be used for preventing the development of non-essential luxury goods which made large drafts on scarce resources. Negatively bans could be useful for regional dispersal of industries and thus avoid industrial concentration in metropolitan areas.

Limited use of licensing has been recommended in the 'middle' sector which is neither included in the 'core' sector nor in the 'Reservations' and 'Bans'. This the Committee felt was necessary to prevent the 'Larger House' or foreign concerns dominating the sector.

Since receiving the Committee's report, Government has taken action to streamline and simplify the licensing system and to lay down guidance for public financial institutions giving term loans to the private sector.

Sarkar Commission: Government also set up in February 1970, a one-man Commission of Inquiry headed by A. K. Sarkar, former Chief Justice of India in respect of certain findings of the Dutt Committee

on the Large Industrial Houses especially the Birlas. These are:

1. Irregularities, lapses or improprieties said to have taken place in the grant, utilization and implementation of industrial licences.
2. The financial assistance given by public financial distributions has gone to a large extent to certain groups which have benefited most.
3. Allegations of the exercise of undue influence by the Birla group of concerns on/or obtaining of undue favours from Government of industrial licences, gross irregularities in the management of these concerns amounting in many cases to contravention of law and of other improprieties or illegalities.

VII. Industrial Finance

In the early years of this century, there were only two institutional sources of industrial finance within the country, *viz.*, managing agents and banks. There was no capital market in the proper sense of the term though stock exchanges existed in Calcutta and Bombay. Both long and short term finance was raised by promoters from their own resources (personal taxes, if any, were nominal and profits were high) or from relatives and friends — and princes and zamindars. Banks provided accommodation mainly for the financing of external trade; their assistance to industry was confined to export commodities and that, too, largely to European houses which were able and willing to satisfy the banks about their creditworthiness.

Indian businessmen, (as became clear in the course of evidence before the Central Banking Enquiry Committee (CBEC), as late as the thirties) were generally averse to the idea of submitting their affairs to bank scrutiny and of pledging or hypothecating their assets. The precise role of managing agents as financiers at that time — or till the fifties for that matter — cannot be quantified. It can be safely assumed, nevertheless, that in most cases they provided the bulk of finance at that time; in some companies, however, they acted almost wholly as local managers for foreign investors.

While banks were traditionally chary of financing the needs of industry as distinct from trade, there were two periods when some new Indian banks took a keen interest in long term financing. In the seven year period, 1906-13, the banks which rose on the crest of the Swadeshi wave, freely subscribed to the shares and debentures of industrial companies and advanced what were, by contemporary standards, large amounts on the security of fixed assets, often to the concerns in which their promoters were interested. Prominent among these banks were People's Bank, Indian Specie Bank, Hindusthan Bank, Lahore Bank, Doaba Bank, Marwar Bank, Industrial Bank and Credit Bank of India.

Nearly all of them had a narrow capital base as their deposits were all short term. They violated every known principle of investment banking and made imprudent and reckless loans. There was a severe banking crisis in 1913-15; no less than 34 per cent of the paid-up share capital of banks was lost; the depositors recovered their money largely from shareholders (bank shares were generally partly paid-up), not from the assets of borrowers.

Four Industrial Banks: Industrial banks were the rage between 1917 and 1923. The Tata Industrial Bank was established in 1917 with a share capital of Rs. 2.25 crores, Calcutta Industrial Bank in 1919 with Rs. 80 lakhs, Industrial Bank of Western India, also in 1919 with Rs. 40 lakhs and Karnani Industrial Bank in 1921 with Rs. 60 lakhs. The Tata Bank was set up to finance the development of new and existing industries, to promote industrial companies and support them by underwriting their shares and debentures, and to be always prepared to retain a considerable holding of shares in such companies, as an earnest of its belief in the bona fides and prospects of the companies concerned. It set up a subsidiary to finance certain subsidiary companies, undertook every description of banking business, and opened twelve branches. Its investments soon depreciated heavily and the bank was merged in the Central Bank of India in 1923. In spite of its relatively large capital base, its resources were mainly short term; moreover, the investments were not properly assessed and the principle of holding on to large investments, especially in other Tata Companies proved misconceived. The other Industrial Banks were managed even worse and faded out soon.

The history of somewhat crystallized thinking on the need for what were than described as industrial banks dates back to the advice of the Bombay Advisory Committee of the Indian Industrial Commission 1916-18, which favoured "the establishment of a central industrial bank or similar organization with a large capital and numerous branches, designed to afford financial support to industries for longer periods and on less restricted security than is within the power or practice of existing banks. Such a bank would probably require a measure of Government support, but should not be brought under rigid Government control." That this plea should have been made in the second decade of the century and in Bombay is interesting. War demand, larger Government purchases in India and a considerable degree of success in running cotton, jute and coal undertakings had created prospects of large scale industrialization, for which the resources of eager promoters and their friends were no longer sufficient. The capital market was still undeveloped, notwithstanding the exceptional successes which a few concerns like Tata Iron and Steel had achieved in raising capital from the market. Resort

to bank finance was unpopular; the more reputable banks were not, in any event, interested in extending long term finance to industries, particularly to units under Indian management. Business houses in Calcutta, being mostly foreign, had ready access to British investors, a source which could not be tapped by Bombay and Ahmadabad industrialists.

Recommendations of Commission: The Industrial Commission considered the question of the best agency for the provision of initial and current finance for industries. It rejected the idea of an industrial trust or financial corporation on the ground that it would be too directly concerned in the success of particular undertakings to be a suitable instrument for the general advancement of industries, though it could be a useful agency for furthering particular industrial interests. The Commission preferred an industrial bank which, if wisely conducted, "is benefited by an increase in the number of individual undertakings, and it can, to some extent, prevent their extension beyond the safety point." While suggesting the early appointment of an expert committee to consider the form of Government assistance to and regulation of, additional financial facilities, whether central or provincial or both, it expressed the view that

> "an industrial bank should possess a paid-up share or debenture capital high in proportion to its total business; it should observe the usual precautions of not allowing too large a share of its funds to be used for the benefit of any single interest or group of financially interdependant interests; its loans on plant building and land should be carefully considered and should be limited in each case; the larger portion of its industrial business should be confined to the provision of working capital; it should provide initial capital with caution, at any rate during its opening years, and should not itself attempt to promote companies, though it may advise and assist in other ways persons who propose to do so. The main factor of safety in an industrial bank is the judicious limitation of each class of business to its proper proportions."

State Aid to Industries Act: It is, perhaps, more than a coincidence that the initial set up of the Industrial Finance Corporation of India established thirty years later conformed remarkably to these recommendations, except that it did not emphasize working capital and did lend a large part of its funds to one industry, namely, sugar. The Commission went on to suggest a scheme for aid to small industries which culminated in State Aid to Industries Acts/Rules in various provinces. As regards large industrial undertakings, the Commission believed that, if adequate technical advice and an undertaking to purchase output were provided by Government, private funds would be forthcoming without

Government aid in the majority of cases. Financial aid for projects required for national safety should come exclusively from the Centre and for others from Provincial Governments (subject to Central sanction) where they had the necessary expert staff. Government assistance, the Commission suggested, may take the form of guarantees of dividends, or loans or assurance to purchase output and, only in cases of enterprises "of importance to national safety" where sufficient private capital is not secured, participation in share capital. Subventions for the payment of guaranteed dividends should be refunded from the future profits of the enterprise when they reach a predetermined percentage and the guarantee should be only for a limited period. Loans were held suitable for concerns with assets of a comparatively liquid nature but need not be confined to these if Government was fully satisfied about the prospects of the undertaking. Agreements to purchase output could be freely given to concerns manufacturing articles not previously made in the country but should be limited in time and accompanied by suitable conditions governing quality and price.

As a safeguard, in all cases of direct assistance, Government was to satisfy itself about the financial status of the promoter and the economic and technical aspects of the proposed industry and secure rights of inspection and audit and nomination of directors but without involving Government interference in their working. The capital of assisted enterprises should be raised in India in rupees and allotment of shares should be such as to enable small investors and the Indian public to participate. While there need be "no limitation on Government aid to a new enterprise, on the ground of its competing with an established external trade" it would be desirable to secure a *quid pro quo* in the shape of preference to Government orders or acceptance of a certain number of apprentices, etc.

In the twenties, a number of provinces enacted legislation for aid to small industries but the results of the little aid provided did not come upto expectations. Some assistance was also extended to large enterprises, notably in Madras (Tamil Nadu), Bihar and Orissa, Bengal and the United Provinces (Uttar Pradesh). Included in these were the Tamil Nadu Government loan of Rs. 474,000 and guarantee for overdraft of Rs. 134,000 to Carnatic Paper Mills between 1925 and 1928; but in the year 1928, Government had to take possession of its assets. Bihar and Orissa investment of Rs. 5 lakhs in Indian Steel Wire Products failed, to rescue the company. Uttar Pradesh gave loans to five concerns between 1922 and 1925, ranging from Rs. 80,000 to Rs. 600,000, (total Rs. 13 lakhs) but all the five enterprises foundered. A Bengal loan of Rs. 8 lakhs to a paper company in 1924-25 was actually an advance payment for orders placed; but it saved the company from external competition.

Advance Factors: The implementation of the recommendations of the Industrial Commission was bedevilled by a number of factors. The post-war boom in industrial and banking flotations completely petered out by 1923, thereby eroding public confidence in new enterprises. Consistent decline in agricultural prices and adverse terms of trade reduced internal purchasing power. Cheap imports from foreign countries made the establishment of new industries difficult and raised demands even from existing industries for protection, which Indian industrialists (especially those who went into sugar in the thirties) soon found more useful than irksome and miniscule financial aid from Government. Local enterprise found a safe haven in traditional industries, cotton, jute, tea, coal and minor light engineering, which despite difficult times, had a reasonably assured level of internal demand and could also raise capital with comparative ease. Government, too, was none too eager to lend a helping hand since it was worried about its own finances.

Long Term Industrial Financing: The question of long term financing of industry was raised at length before the Central Banking Enquiry Committee which, however, made only two broad recommendations in this connection: (i) 10 per cent of the capital and reserves of the Imperial Bank and nine other large banks could be utilized for investment in the shares and debentures of industrial companies and (ii) central and/or provincial industrial banks could be set up with Government participation in the share capital to provide limited assistance to industries. Neither of these recommendations was acted upon.

In the absence of any specialized financial institutions, industry fell back upon subscriptions and deposits from the public and, beginning with the early forties, banks, too. The exact pattern of the sources of industrial finance through the thirties and forties is not known due to lack of data. In the western region, *i.e.*, Bombay and Ahmadabad, public deposits were an important source of finance. According to the Central Banking Enquiry Committee, total unsecured loans (mostly deposits) of Bombay cotton mills in March 1924 amounted to nearly Rs. 12 crores, which declined to less than Rs. 3 crores in October 1930, when the industry was in a depressed condition, but which came even then to 11 per cent of their total finances. In Ahmadabad, public deposits provided nearly 40 per cent of the financial requirement of cotton mills in 1930.

In Bombay, the deposits were mostly for six to twelve months and the rates of interest varied from $4\frac{1}{2}$ to $6\frac{1}{2}$ per cent. Loans from banks were personally guaranteed by managing agents and also secured collaterally against hypothecation (not pledge) of the liquid assets of the borrowing companies. In some cases, the managing agents provided finance in consideration for acting as buying and selling agents of the managed

companies. The deposit system in Ahmadabad was more elaborate, partly because many of the reputable managing agents were originally bankers and attracted many rural depositors also. The older mills normally raised one-year deposits but the newer ones accepted deposits upto 7 years and offered in return a share in the managing agency commission and, later, shares in the managing agency company than the managing agents incorporated themselves. Deposits varied from five to ten thousand rupees on the average. In the days of prosperity, when mills accumulated large funds, the practice grew of inter-depositing, which replaced deposits from rural areas as they fell off after the slump in agricultural prices.

In Calcutta, the needs of European business houses were met largely by banks and in so far as their managing agents substantially reduced their holdings of share capital, the Indian public (mostly zamindars and prosperous traders) avidly took them up. The guarantees of Calcutta managing agents were not personal or unlimited as in Bombay but were merely a certificate to the effect that loans were always covered by stocks. The needs of small tea gardens and coal mines were met largely by zamindars and money-lenders.

This pattern of financing could be availed of only by traditional industries, in which alone banks and public depositors had confidence. New industries had little chance.

Post-War Plenty: During and immediately after the Second World War, industrial finance was not much of a problem, though the requirements of cotton, jute and iron and steel for rehabilitation and modernization were large and were not matched by adequate internal resources. Equipment was difficult to get. Most companies had build up large liquid balances or were entitled to refund of Excess Profits Tax deposits. General liquidity in the economy assured the success of public issues (there was a remarkable boom in 1946 followed by its inevitable aftermath) and the circulation of large amounts of concealed wealth and income provided abundant funds. Banks, too, were flushed with funds, their liquidity ratio being as high as 80 per cent. The partition and political disturbances which followed also kept down the pace of industrial investment. The availability of entrepreneurial finance was, in fact, large enough to enable several Indian business houses to buy out many European managements in leading centres at fabulous prices.

Data on the sources and uses of funds in the corporate sector were collected for the first time by the Taxation Enquiry Commission 1953-54. Its analysis of the finances of 407 selected public companies during the period 1946-51 disclosed that they raised about one-half of gross total funds internally, depreciation and EPT refunds contributing a large proportion. The external funds came in large measure from share capital

and bank loans. About one-half of the funds raised went into fixed assets and one-third into inventory. Investment in Government securities was substantially reduced and cash balances were raised considerably.

In the period 1951-54, which corresponded roughly with the First Five Year Plan, public companies relied to a much greater extent upon internal resources (depreciation contributing one-third of gross total funds) and short term trade credits, much less upon banks. A much higher proportion, 62 per cent against 49 per cent in 1946-51, of gross total funds was invested in fixed assets and less than 13 per cent in inventory. Liquidity was still not unduly strained; cash balances and investments in other companies went up significantly.

Industrial Finance Since 1951: The First Five Year Plan was mainly a rationalization of the projects already in existence. The programme for large scale industry envisaged a total capital expenditure over 1951-56 of Rs. 477 crores, Rs. 94 crores in the public sector including an expected foreign and domestic participation of Rs. 20 crores, and private investment of Rs. 233 crores, exclusive of Rs. 150 crores for replacement and modernization of plant and machinery. Finances for public enterprises were to be raised by Government investments and loans. No precise estimates were made of the sources of finance for private investment. The various sources merely enumerated Government and World Bank loans, foreign capital and financial institutions. The actual achievement was Rs. 57 crores in the public sector, and Rs. 340 crores, including Rs. 150 crores on modernization and rehabilitation, in the private sector.

The programmed expenditure on industries (excluding minerals, oil and plantations) during the Second Plan (1956-61) was Rs. 1,100 crores, plus Rs. 150 crores for modernization and replacement, of which Rs. 620 crores was to be in the private sector. Actual private investment, according to Planning Commission estimates, came to Rs. 850 crores.

The higher than expected level of financial achievement (though physical targets realized were only 85 to 90 per cent) was made possible by the larger inflow of external capital, buoyancy of the capital market and greater assistance from financial institutions. More comprehensive data for the corporate private sector as a whole given by the Reserve Bank indicate that, among domestic sources, banks provided the major part of external financing. Internal sources, *i.e.* depreciation and retained earnings, provided 53 per cent of gross total financing. Finance corporations played a very minor role.

Institutional agencies as a source of external finance for industry have grown steadily in importance since 1955. This has taken the form of

larger bank loans and to some extent investments, substantially greater assistance from the Life Insurance Corporation of India, the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India, together with other financial institutions. One of the yawning gaps in the institutional structure of the capital market, namely, the practical absence of underwriting facilities, has been largely filled by now.

Insurance Companies: Before proceeding to the somewhat detailed analysis of institutional developments, the growth of assistance from insurance companies and banks to industry may be briefly recorded here. The earliest data on investments by insurance companies date back to 1913, when they had invested Rs. 11 lakhs only in shares and debentures. This figure grew to Rs. 4.38 crores on the eve of the Second World War and to Rs. 13.04 crores at its conclusion in 1945. The total investment before nationalization of life insurance was nearly Rs. 59 crores.

The explanation for the rather low level of insurance investments in private securities lies in (i) the slow growth of insurance business itself; (ii) the practice, moderated only since the mid-fifties, of investing heavily in Government securities, and (iii) the relatively small number of private securities traded in the capital market till 1960.

Banking in Two Decades: The twenty years spanning 1949 and 1969 are a major landmark in the history of banking in India. It was in the year 1949 that the Banking Regulation Act was passed and in 1969 fourteen major commercial banks were nationalized. These two decades also covered the first era of planned economic development in which the banking system sought to adapt itself to the major changes in banking structure and policy.

The credit portfolio of scheduled banks rose faster (550 per cent) than deposits (420 per cent) in these twenty years. This sharper expansion reflects the pace of growth in the organized industrial sector. The banks had largely catered to this sector which in turn had put increasing reliance on bank credit in proportion to other sources of funds. Consequently, as a proportion of total credit, lending to industry rose from about a third (Rs. 152 crores) in 1950 to over two thirds (Rs. 2,068 crores) in 1968.

Within the industrial sector, the share of industries such as iron and steel, engineering, chemicals, cement and textiles showed significant increases. Out of a total of Rs. 2,068 crores (1968) as industrial advances Rs. 114 crores was given to State owned or State managed industrial concerns. Nearly 85 per cent of this credit amount went to public sector engineering, iron and steel, fertilizer and fuel oil manufacturing

industries and mining and electricity generation and distribution concerns.

Other public sector industrial concerns which received bank credit were sugar, cotton textiles, chemical products, cement construction and shipping concerns.

In this context must be mentioned the emergence of banks as term lending institutions in the last few years. Fifteen years earlier, they confined themselves to the short term credit needs of industry. With the establishment of the Refinance Corporation for Industry (subsequently replaced by the Industrial Development Bank of India), banks have been able to increase their involvement in this sector. This is in addition to the contribution made by the banking system to the capital stock and debentures of the specialized financial institutions.

Objectives of Nationalized Banks: Nationalization of Banks came into force on July 19, 1969 and its broad aims promised a fair deal to the hitherto neglected sections of the community. The preamble to the Act says: "to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives." It will be the endeavour of the nationalized banks to ensure that the needs of productive efforts of diverse kinds, irrespective of size and social status of the borrower and in particular those of farmers, small scale industries and self-employed professional groups are met in an increasing measure. It will also be a primary objective of nationalized banks to foster actively the growth of new and progressive *entrepreneurs* and to create fresh opportunities for backward areas in different parts of the country.

These objectives called for extensive changes in the bank's attitudes and methods of work. Particularly, it became necessary for them to reorient the concept of security for loans to pay special attention to the growth potential and developmental needs of local areas where the branches are situated, to take better care of underdeveloped areas and backward sections of the population, to forge close relations with developmental and term financing institutions, to ensure that large borrowers do not have more access to the resources of the banks than is actually required for production use and to prevent use of credit for speculative and unproductive purposes.

Credit Guarantee Scheme: In order to cover the credit risks incurred by banks in granting loans to small scale industries, the ten year old Central Government's Credit Guarantee Scheme was modified and brought into force on February 1970. Under the modified scheme, the guarantee is made available to all eligible advances on an automatic

basis in terms of an agreement executed by each approved credit institution with the Guarantee Organization. The credit institutions which join the scheme are required to report all their eligible advances at quarterly intervals which form the basis for changing the guarantee fee at one tenth of one per cent per annum on a quarterly basis. This change in procedure is expected to expedite the flow of institutional credit to the small scale sector, particularly the weaker units.

At the suggestion of the Guarantee Organization, 74 banks and 16 State financial corporations have agreed to bear themselves the guarantee fee instead of recovering it from their constituents. With these guarantee facilities, credit institutions are expected to liberalize where necessary, their terms of lending, particularly in regard to margin requirements. Soft loans or loans on clean basis, wherever deserving, might be extended especially for schemes promoted by qualified technicians/*entrepreneurs*. Where there is a default, the Guarantee Organization makes a swift examination of the possibility of its rehabilitation. In deserving cases the credit institution is urged to take on a programme of nursing.

By the end of June 1971, 149 credit institutions including all the major commercial banks and state financial corporations and 56 co-operative banks had joined the modified scheme. The amount of guarantees outstanding on that date stood at Rs. 790.97 crores as against Rs. 661.77 crores at the corresponding period in the previous year. Since the inception of the guarantee scheme (two years ago) claims of 200 guarantee obligations for an aggregate sum of Rs. 27.15 lakhs were paid to the credit institutions. However, at the end of March 1971, defaults which might eventually lead to settlement of claims, covered 1,799 cases for Rs. 589.04 lakhs as against 463 cases for Rs. 141.97 lakhs at the end of June 1970.

Small Scale Sector: Bank credit to small scale industries has also been growing in the second decade of 1949-69. Between 1960 and 1968, it had risen from Rs. 28 crores to Rs. 211 crores, and by the middle of 1969, it had further gone up to around Rs. 295 crores, thanks to the special efforts of the banks. The tempo was maintained and by March 1971, total credit limits sanctioned reached the figure of Rs. 868.3 crores over and above the increase of Rs. 156.8 crores in the corresponding period of 1969-70. The number of units financed rose from 89,307 to 103,550, that is to say by 15.9 per cent.

The share of industrially backward states in advances to small scale industries has gone up since June 1968, the increase being particularly marked in Andhra Pradesh, Bihar and Uttar Pradesh.

Public Sector Banks: The banks in the public sector accounted for

89 per cent of the total outstanding credit to small scale industries, the share of the State Bank of India group being 40 per cent. This group sanctioned credit limits of Rs. 320.4 crores which was Rs 28 crores over the 1970 level. The contribution of the 14 nationalized banks amounted to Rs. 459 crores at the end of March 1971, a rise of Rs. 47 crores.

Loans sanctioned by the State Bank group under their scheme for financing craftsmen and other qualified *entrepreneurs* amounted to Rs. 7.1 crores covering 562 units. This was more than double the quantum of loan and number of units in 1970.

Following the State Bank's lead, a number of banks, including some nationalized banks have drawn up special schemes for assisting qualified *entrepreneurs* who have worthwhile small scale industrial projects but do not have the finance. According to information available, seven nationalized banks had under their own schemes, sanctioned Rs. 1.35 crores covering 540 *entrepreneurs* as at the beginning of December 1970.

TABLE LIII

Bank Assistance to Industry

Rs. in crores

	1950	*%age of total*	1968	*%age of total*
1. Shares and debentures	14.37	3.5	77.40	5.5
2. Advances	152.36	32.0	2,067.00	67.5
3. Of 2 advances to traditional industries	80.00	21.5	647.00	20.7
Total: 1 and 2	166.73	22.3	2,144.40	26.2
Plantations*	35.06	2.7	57.62	1.9

Note: Traditionals are cotton, jute, other textiles and sugar.
*Plantations have been classified only from 1961.

TABLE LIV

Scheduled Banks' Advances to Industry as on March 31, 1968

Rs. in lakhs

Sl. No.	*Industry*	*Amount*	*% age of total*
1.	Cotton (ginning, processing, spinning and weaving, etc.)	31,699	10.0
2.	Jute	9,550	3.1
3.	Other textiles	7,314	2.4
4.	Iron and steel	11,435	3.7
5.	Coal, other mining and quarraying	5,099	1.7
6.	Engineering	47,964	15.7
	(a) Heavy engineering	27,186	8.9
	(b) Light engineering	20,778	6.8
7.	Sugar	16,136	5.2

1	2	3	4
8.	Vegetable oils (including *vanaspati*, soap etc)	4,324	1.4
9.	Chemicals, Dyes, Drugs fertilizers and pharmaceuticals	18,453	6.0
10.	Public utilities (as transport and communications, gas, electricity etc.)	5,385	1.8
11.	Cement	3,941	1.3
12.	Paper and paper products	4,816	1.6
13.	Rubber products	2,016	0.7
14.	Others	38,615	12.6

Life Insurance Corporation of India: The total investments of Insurance Companies in India at the end of December 1955 amounted to Rs. 58.90 crores. This was before nationalization of Life Insurance in 1956. As of March 1970, the total investments of the Life Insurance Corporation of India amounted to Rs. 1,528.66 crores. This includes Rs. 14.40 crores, the share of its General Insurance Department. Investments in Stock Exchange securities, loans and contribution to the initial capital of Unit Trust of India was Rs. 1420.10 crores. Of this amount, nearly Rs. 238 crores were invested in the shares and debentures of financial institutions which in turn assist private industry and co-operative credit institutions. An amount of Rs. 234 crores was invested in the shares and debentures of joint stock companies and Rs 5.37 crores in a joint sector undertaking.

Within the limitations of availability of sound proposals and adequately remunerative existing scrips, Life Insurance Corporation has made a conscious attempt to diversify investments both by States and industries in such a manner as to favour the relatively underdeveloped States and new industries. Even to the extent that it has purchased securities of traditional industries, in the open market, it has released funds for investments elsewhere.

The Corporation has also taken considerable interest in underwriting fresh capital issues. From its establishment in September 1956 through June 1971, Life Insurance Corporation's underwriting of new issues valued at over Rs. 150 crores.

Underwriting of Private Sector Capital issues: The total value of capital issues through prospectus by non-Government public limited companies was Rs. 45.1 crores in 1956. The proportion of issues underwritten by different financing institutions rose from 5 per cent in 1956 to as much as 71.3 per cent in 1969-70. While the non-institutional sources in brokers and investment companies took up between 13 and 18 per cent

TABLE LV

State-wise Distribution of Life Insurance Corporation Investments as on 31-3-70

Rs. in lakhs

Region and State		Total	%age of investment in the region to total investment in the region
1	2	3	4
1.	**Eastern Region**		
	(a) Assam	24,12.51	2.45
	(b) Bihar	61,47.33	6.25
	(c) Orissa	46,75.50	4.76
	(d) West Bengal	110,41.52	11.23
	Total	242,76.86	24.69
2.	**Northern Region**		
	(a) Delhi	8,09.74	0.82
	(b) Haryana	16,05.22	1.63
	(c) Himachal Pradesh	27.01	0.03
	(d) Jammu and Kashmir	1,66.36	0.17
	(e) Punjab	30,46.54	3.10
	(f) Rajasthan	40,13.27	4.08
	(g) Uttar Pradesh	68,66.97	6.99
	Total	165,35.11	16.82
3.	**Southern Region**		
	(a) Andhra Pradesh	70,41.03	7.16
	(b) Kerala	34,59.20	3.52
	(c) Karnataka	53,09.42	5.40
	(d) Pondicherry	9.07	0.01
	(e) Tamil Nadu	98,76.65	10.05
	Total	256,95.37	26.14
4.	**Western Region**		
	(a) Gujarat	89,75.12	9.13
	(b) Madhya Pradesh	35,69.32	3.63
	(c) Maharashtra	192,57.62	19.59
	Total	318,02.06	32.35
	Grand Total:	983,09.40	100.00

TABLE LVI

Sector-wise Distribution of Life Insurance Corporation Investments in India as on March 31, 1970

Rs. in lakhs

	Amount	*%age of total amount*
1. Public Sector	10,45,26.16	73.6
2. Co-operative Sector	1,35,50.61	9.5
3. Joint Sector	5,36.60	0.4
4. Private Sector	2,33,96.80	16.5
Grand total	14,20,10.17	100.0

TABLE LVII

Distribution of the Investments (in Debentures, Preference Shares and Ordinary Shares) Among Various Industries and Among The States in which the Principal* Factories or Works of Various Companies and Co-operative Societies are Situated as at March 31 1970

Rs. in lakhs

Sl. No.	*Industry*	*Andhra Pradesh*	*Assam*	*Bihar*	*Delhi*	*Gujarat*	*Haryana*
		1	2	3	4	5	6
1.	Aluminium	—	—	—	—	—	—
2.	Banks	0.98	—	—	18.49	102.63	—
3.	Cement	59.43	—	70.84	—	128.41	—
4.	Coal	—	—	43.71	—	—	—
5.	Cotton Textiles	28.41	—	—	315.77	473.52	—
6.	Dyes, Chemicals & Pharmaceuticals	43.72	—	—	—	206.62	—
7.	Electricity	—	—	42.82	—	388.09	—
8.	Electrical Goods	—	—	226.30	25.85	25.56	—
9.	Engineering	37.07	—	566.93	83.84	80.65	27.50
10.	Food, Drink and Tobacco	27.62	—	—	20.10	5.87	—
11.	Insurance	1.35	—	—	—	0.19	—
12.	Investment Trust	—	—	—	—	—	—
13.	Iron and Steel	—	—	1,023.92	—	—	—
14.	Jute	5.31	—	0.11	—	—	—
15.	Managing Agents	—	—	—	—	—	—
16.	Matches	—	5.26	—	—	—	—
17.	Mining	—	—	55.29	—	0.86	—
18.	Mineral Oil	—	536.60	—	—	—	—
19.	Paper and Boards	60.61	—	9.75	—	19.70	—
20.	Plantations	—	44.20	—	—	—	—
21.	Railways	—	9.21	17.89	—	—	—
22.	Rubber Products	—	—	—	—	—	—
23.	Shipping and Transport	—	—	—	—	2.17	—
24.	Sugar and Breweries	54.36	—	64.45	—	—	—
25.	Textiles (other than Cotton)	—	—	—	—	22.16	—
26.	Vegetable oils	3.94	—	—	—	8.92	—
27.	Co-op. Housing Societies	—	—	—	—	—	—
28.	Miscellaneous	20.42	16.19	81.26	7.28	24.11	4.76
	Total:	3,43.22	611.46	2,203.27	471.33	1,489.46	32.26

TABLE LVII (Contd.)

Sl. No.	*Industry*	*Himachal Pradesh*	*Kerala*	*Madhya Pradesh*	*Maharashtra*	*Karnataka*	*Orissa*	*Pondicherry*
		7	8	9	10	11	12	13
1.	Aluminium	—	—	—	—	—	—	—
2.	Banks	—	—	—	4,47.62	19.21	—	—
3.	Cement	—	1.15	—	6,23.06	33.16	4.71	—
4.	Coal	—	—	18.42	—	—	2.04	—
5.	Cotton textiles	—	3.69	72.67	9,22.12	64.10	2.37	2.74
6.	Dyes, Chemicals & Pharmaceuticals	—	28.17	2.44	1,88.99	21.55	14.62	—
7.	Electricity	—	0.31	5.58	9,24.74	1.78	0.01	—
8.	Electrical goods	—	1,48.93	7.12	2,46.90	58.15	—	—
9.	Engineering	—	7.77	44.66	12,60.03	35.56	60.83	—
10.	Food, Drink and Tobacco	—	—	—	13.51	0.30	—	—
11.	Insurance	—	—	—	2,16.74	0.04	—	—
12.	Investment Trust	—	—	—	2,68.72	0.12	—	—
13.	Iron & steel	—	—	—	—	—	—	—
14.	Jute	—	—	—	—	—	—	—
15.	Managing Agents	—	—	—	1.24	—	—	—
16.	Matches	—	—	—	79.65	—	—	—
17.	Mining	—	—	4.39	3.08	9.75	11.27	—
18.	Mineral Oil	—	46.00	—	5.62	—	—	—
19.	Paper and Boards	—	—	—	1,27.50	60.38	1,54.69	—
20.	Plantations	—	52.38	—	—	46.89	—	—
21.	Railways	—	—	—	15.57	—	—	—
22.	Rubber Products	—	24.36	—	18.03	—	—	—
23.	Shipping and Transport	—	—	—	43.34	—	—	—
24.	Sugar and breweries	18.49	8.53	8.68	2,25.15	40.50	6.18	—
25.	Textiles (other than Cotton)	—	40.53	3,04.36	2,34.80	—	—	—
26.	Vegetable Oils	—	—	—	2,29.36	—	—	—
27.	Co-operative Housing Societies	—	—	—	23.54	—	—	—
28.	Miscellaneous	—	29.31	39.70	1,65.59	1.58	35.26	—
	Total:	18.49	3,91.13	5,08.02	62,84.90	3,93.07	2,91.98	2.74

TABLE LVII (Contd,)

Sl. No.	*Industry*	*Punjab*	*Rajasthan*	*Tamil Nadu*	*Uttar Pradesh*	*West Bengal*	*Foreign*	*Total*
		14	15	16	17	18	19	20
1.	Aluminium	—	—	32.31	1,36.57	7,61.77	—	9,30.65
2.	Banks	—	—	35.29	—	1,11.06	—	** 7,35.28
3.	Cement	—	42.11	1,44.84	—	—	—	11,07.71
4.	Coal	—	—	—	—	3,19.20	—	3,83.37
5.	Cotton textiles	14.50	8.08	1,83.12	1,14.39	62.04	0.44	22,67.96
6.	Dyes, Chemicals & Pharmaceuticals	—	—	1,12.96	47.13	1,06.45	—	7,72.65
7.	Electricity	—	—	17.54	31.93	3,38.22	—	17,51.02
8.	Electrical Goods	—	22.13	40.94	5.29	2,45.34	—	10,52.51
9.	Engineering	—	13.99	4,50.33	27.49	14,92.16	—	41,88.81
10.	Food, Drink and Tobacco	—	—	0.88	—	1,84.17	—	2,52.45
11.	Insurance	—	—	1.48	—	10.30	—	2,30.10
12.	Investment Trust	—	—	4.03	—	22.67	—	2,95.54
13.	Iron and Steel	—	—	—	—	7,11.38	—	17,35.30
14.	Jute	—	—	—	3.21	5,52.52	—	5,61.15
15.	Managing Agents	—	—	7.49	0.92	1,31.10	—	1,40.75
16.	Matches	—	—	—	—	—	—	84.91
17.	Mining	—	—	—	—	0.51	—	85.15
18.	Mineral Oil	—	—	—	—	32.02	—	6,20.24
19.	Paper and Boards	0.52	—	28.68	45.08	3,11.56	—	8,18.47
20.	Plantations	—	—	55.51	0.21	80.11	1.82	2,81.12
21.	Railways	—	—	—	9.37	18.61	—	70.65
22.	Rubber Products	—	—	2.41	—	4,45.57	—	4,90.37
23.	Shipping and Transport	—	—	—	—	39.90	—	85.41
24.	Sugar and Breweries	0.04	—	1,35.74	1,58.86	8.22	—	7,29.20
25.	Textiles (other than Cotton)	15.04	4.50	30.84	—	0.71	—	6,52.94
26.	Vegetable Oils	—	—	0.10	—	0.75	—	2,43.07
27.	Co-operative Housing Societies	—	—	—	—	—	—	23.54
28.	Miscellaneous	—	2.28	2,02.42	1,31.33	4,37.47	—	11,98.96
	Total	30.10	93.09	14,86.91	7,11.78	64,23.81	2.26	2,17,89.28

Note: *Where a company has more than one Factory situated in different States and none of them can be clearly defined as the Principal Factory, the investment is shown in the State in which the Registered Office of the Company is situated.

** Includes Rs 7,31.85 lakhs being the Book Value of investments in the 14 Scheduled Banks whose undertakings were acquired by the Government of India.

TABLE LVIII

Life Insurance Corporation Investments in Private Sector by Industries

(Rs. in lakhs)

Industry	*December* 31, 1957	*March* 31, 1970
1. Aluminium	n.a.	9,30.65
2. Banks	2,63	7,35.28
3. Cement	3,66	11,07.71
4. Chemicals, Pharma & Dyes	1,20	7,72.65
5. Coal	1,92	3,83.37
6. Cotton Textiles	6,87	22,67.96
7. Electricity	8,29	17,51.02
8. Electrical Goods	n.a.	10,52.51
9. Engineering	7,14	41,88.81
10. Food, Drink & Tobacco	n.a.	2,52.45
11. Sugar & Breweries	1,43	7,29.20
12. Insurance	1,36	2,30.10
13. Investment Trusts	50	2,95.54
14. Iron & Steel	5,48	17,35.30
15. Jute	4,15	5,61.15
16. Managing Agents	1,68	1,40.75
17. Matches	n.a.	84.91
18. Mining	34	85.15
19. Mineral Oil	n.a.	6,20.24
20. Paper and Boards	3,09	8,18.47
21. Plantations	1,35	2,81.12
22. Railways	71	70.65
23. Rubber Products	n.a.	4,90.37
24. Shipping & Transport	1,21	85.41
25. Textiles (other than cotton & jute)	.89	6,52.94
26. Vegetable Oils	.33	2,43.07
27. Miscellaneous	14,30	11,98.96
Total	68,53	217,65.74

n.a. — Not available

of the underwritings during 1965-66 through 1969-70, the bulk of the balance was taken up by the Life Insurance Corporation, the Unit Trust of India, the Industrial Credit and Investment Corporation of India, commercial banks and the Industrial Finance Corporation of India in that order. As the largest underwriter in this category the Life Insurance Corporation's percentage has varied between 21 and 24. The Industrial Development Bank of India which went in for underwriting upto 15 per cent in 1965-66 has been tapering off in the next three years. Next to the Life Insurance Corporation the Unit Trust of India has entered the underwriting operation in a massive way. Its share after a modest start, has gone up to 20 per cent and above in 1968-69 and 1969-70.

The main point of note is that the amounts underwritten have tended to grow steadily and the institutional underwriters have increased in number and become stronger.

In the period between 1966 and 1970, the response of the general

public has not been adequate. During the four year period response of the public reached a little over one-third of the total issue. In the next three years it has been less than 30 per cent and the institutions had to step in to make good the shortfall either as independent subscribers to the issue or in their capacity as underwriters.

TABLE LIX

Response of Public and Underwriters

Rs in crores

	1966-67	1967-68	1968-69	1969-70
1. Number of Companies	66	71	65	47
2. Total capital issues	36.36	60.14	43.35	43
3. Offered to the public	32.10	41.07	41.48	41.40
4. Subscribed by public	11.08	17.35	9.69	11.78
5. Underwritten	30.84	40.55	40.40	39.89
6. Subscribed by underwriters	20.81	23.66	31.69	29.53

TABLE LX

Underwriting Operations 1956 And 1966-70

Rs. in crores

	1956	1966-67	1967-68	1968-69	1969-70
Total amount underwritten Underwriters	2.1	30.84	40.56	40.40	39.89
1. Life Insurance Corporation	0.2	6.63 (21.5)	9.67 (23.9)	9.96 (24.7)	9.46 (23.7)
2. Industrial Development Bank of India	0.2	4.58 (15.0)	.62 (1.5)	1.43 (3.57)	2.03 (3.8)
3. Industrial Credit and Investment Corporation of India	0.8	4.45 (14.4)	5.34 (13.3)	5.87 (14.7)	4.90 (12.3)
4. Unit Trust of India	—	2.61 (8.4)	6.46 (16)	8.79 (21.7)	7.99 (20.0)
5. Industrial Finance Corporation	—	2.39 (7.7)	1.41 (3.47)	2.49 (6.2)	1.48 (3.8)
6. Banks	0.7	2.37 (7.7)	4.25 (10.5)	2.81 (6.9)	5.18 (13.0)
7. General Insurance Coys	—	1.91 (6.2)	3.43 (8.4)	2.16 (5.3)	2.25 (5.6)
8. State Financial Corporations and State Industrial Development Corporations	5.2	2.07 (6.6)	1.74 (4.37)	1.48 (0.7)	1.12 (2.8)
9. Industrial Investment Trust	—	0.5 (0.2)	0.2	0.2	—
10. Investment Corporation of India	—	0.15 (0.5)	3.5 (0.8)	0.9 (0.2)	2.0 (0.5)
11. Promoters and Directors	—	0.3 (0.1)	15.0 (10.3)	—	—
12. Others — Brokers etc.	0.4	3.57 (11.7)	7.13 (17.1)	5.30 (13.3)	5.29 (13.37)

Note: Figures in brackets denote percentage of total.

VIII. Financial Institutions

Beginning with the Industrial Finance Corporation of India (I.F.C.) in 1948, a number of institutions have been set up to provide long and medium-term finance to private industry. Apart from I.F.C. (there are the Industrial Credit and Investment Corporation of India (I.C.I.C.I.), National Industrial Development Corporation (N.I.D.C.), National Small Industries Corporation (N.S.I.C.), Refinance Corporation for Industry, State Financial Corporations (S.F.Cs.), and State Industrial Development Corporations (S.I.D.Cs.). In July 1964, two new institutions came into existence: the Industrial Development Bank of India (I.D.B.I.) and the Unit Trust of India. The functions of some of these institutions overlap but, by and large, they operate in different fields or owe their separate existence to certain unique background factors.

The Industrial Finance Corporation is a statutory corporation which gives mainly long-term mortgage-type rupee loans to large and medium sized concerns, organized as public limited companies or co-operatives. Most of its loans have gone to established industries like sugar, paper, cotton textiles, chemicals, and metal products. For some years now, it has also gone to some extent into foreign currency loans, guarantee of deferred payments and loans, and underwriting of public issues of share capital.

The Industrial Credit and Investment Corporation of India (I.C.I.C.I.) was registered as a joint stock company in January 1955, sponsored first by the U.S. Aid Mission in India and later by the World Bank. The Government has no participation in its share capital but has advanced Rs. 31.41 crores as loans, of which Rs. 7.5 crores is interest-free and ranks after equity and all other liabilities for repayment. U.S., U.K., and West German interests have participation in its share capital. Its principal business is to give foreign currency loans and underwrite public issues. It also gives mortgage-type rupee loans and subscribes directly to share capital. Most of its assistance has gone to new industries like ferrous metal products, chemicals, machinery manufacture, and electrical equipment.

Both I.F.C. and I.C.I.C.I. are national development banks, and though their spheres of activity have increasingly overlapped of late, but because of the vast territory open to both, on the whole, there has grown more co-ordination than competition. The two have co-operated, along with other financing agencies, in joint underwriting and loan operations and in general consultation.

The original reason for setting up I.C.I.C.I. seven years after the establishment of I.F.C. was that the U.S. aid mission and the World Bank wanted to sponsor and finance a private non-statutory body which would among other things, transact business which I.F.C. then could not take up under

TABLE LXI

I.F.C. And I.C.I.C.I. — Capital

Rs. in lakhs

	I.F.C. as on June 30, 1971	*I.C.I.C.I. as on Dec.* 31, 1966
1. I.D.B.I.	4,18	—
2. Scheduled Banks	1,70	87.04
3. Insurance Companies	1,80	3.98
4. Life Insurance Corp. and UTI	—	1,47.56
5. Cooperative Banks	67	—
6. Indian Companies	—	2,09.13
7. Foreign Controlled Coys.	—	5.29
8. Foreign shareholders	—	1,89.15
9. Others	—	1,07.85
Total:	8,35	*7,50.00

I.F.C. and I.C.I.C.I. — Resources

	As on June 30, 1971	*As on Dec.* 31, 1970
1. Paid up share capital	8,35	7,50
2. Resources	14,24	8,23
3. Investments and Repayment of rupee loans	73,47	11,00
4. Market borrowings	57,69	—
5. Govt. of India Loans	77,32	31,41
6. Loans from RBI/IDBI	1,24	12,30
7. Foreign credits	35,47	1,73,41
Total:	2,67,78	2,43,85

*In view of the nationalization of 14 major banks and the take over of General Insurance Companies pending nationalization, the character of the shareholdings has undergone a change although the character of I.C.I.C.I, as institution remains unchanged.

TABLE LXII

I.F.C. and I.C.I.C.I. — Operations

Form of Assistance	*I.F.C. through June* 30, 1971 No.	*Net amount sanctioned* (Rs. Cr.)	*Amount disbursed* (Rs. Cr.)	*I.C.I.C.I. through Dec.* 31, 1970 No.	*Net amount sanctioned* (Rs. Cr.)	*Amount disbursed* (Rs. Cr.)
1. Loans:						
Rupee	684	2,38.67	209.61	161	59.69	42.91
Foreign currency	157	43.58	35.47	442	1,74.39	1,20.63
Sub-total	841	2,82.25	2,45.08	603	2,34.08	1,63.54
2. Underwriting:						
Equity	130	11.22	7.79	138	18.83	8.80
Preference	103	7.06	5.20	100	11.74	6.53
Debentures	21	10.73	7.58	53	23.47	15.11
Sub-total	254	29.01	20.57	291	54.04	30.44
3. Direct subscription:						
Equity	13	0.54	0.26	66	4.91	4.71
Preference	4	0.12	0.05	12	1.96	.94
Debentures	1	1.82	1.82	3	1.70	1.50
Sub-total	18	2.48	2.13	81	7.57	7.15
4. Deferred Payment:						
Guarantees	42	28.46	27.65	—	—	—
5. Guarantees for foreign loans	5	23.47	23.33	—	—	—
Grand Total:	1,160	3,65.67	3,18.76	975	2,95.69	201.13

(a) 70 cases cover equity preference or debentures.
(b) 7 cases cover both equity and preference.
(c) Sanctions in respect of equity and preference shares in 75 cases have been accounted for separately

TABLE LXIII

I.F.C. and I.C.I.C.I. — Distribution of Assistance by States

Rs. in lakhs

		I.F.C. through June 30, 1971			*I.C.I.C.I. through December 1970*		
No.	*State/Territory*	*No. of Units*	*Net sanction*	*%age of total*	*No. of Units*	*Net sanction*	*%age of total*
1.	Andhra Pradesh	32	25,85.06	7.1	14	10,82	3.7
2.	Assam	6	6,51.79	1.8	3	1,90	0.6
3.	Bihar	25	22,22.61	6.1	18	20,14	6.8
4.	Gujarat	42	26,17.91	7.2	92	36,23	12.3
5.	Haryana	22	9,91.09	2.7	24	8,38	2.8
6.	Kerala	16	12,33.92	3.4	15	3,99	1.3
7.	Madhya Pradesh	15	9,20.89	2.5	8	5,52	1.9
8.	Maharashtra	113	73,51.23	20.1	224	1,08,51	36.7
9.	Meghalaya	1	95.00	0.3	—	—	—
10.	Mysore	37	22,15.01	6.1	30	15,49	5.2
11.	Orissa	16	11,15.17	3.0	9	6,52	2.2
12.	Punjab	11	6,70.16	1.8	3	23	0.1
13.	Rajasthan	13	16,03.49	4.4	6	5,45	1.8
14.	Tamil Nadu	61	49,50.37	13.5	60	30,02	10.4
15.	Uttar Pradesh	39	29,00.09	7.9	24	12,88	4.4
16.	West Bengal	71	39,97.70	10.9	73	24,80	8.4
17.	Delhi	4	2,99.67	0.8			
18.	Andaman & Nicobar Islands	1	11.00	—	10	4,21	1.4
19.	Goa	1	75.00	0.2	—	—	—
20.	Pondicherry	1	60.16	0.2	—	—	—
	Total:	527	3,65,67.32	100.0	613	2,95,09	100.0

TABLE LXIV

I.F.C. and I.C.I.C.I. — Distribution of Assistance by Industries

		I.F.C. through June 30, 1971		*I.C.I.C.I. through Dec. 31, 1970*	
	Industry	*Assistance sanctioned (net)* (Rs. Cr.)	*% of total*	*Assistance sanctioned (net)* (Rs. Cr.)	*% of total*
1.	Sugar	72.69	19.9	2.69	0.9
2.	Paper, pulp & paper products	23.13	6.3	14.51	4.9
3.	Textiles	46.73	12.7	20.17	6.8
4.	Rayon	11.31	3.1	—	—
5.	Chemicals and petro chemicals	31.91	8.8	64.39	21.8
6.	Fertilisers	22.64	6.2	—	—
7.	Cement	18.90	5.2	13.09	4.4
8.	Ceramics & glass	7.66	2.1	8.12	2.7
9.	Electrical equipment	13.08	3.6	24.49	8.3
10.	Automobiles & cycles	12.47	3.4	17.47	5.9
11.	Machinery	12.08	3.3	29.59	10.0
12.	Rubber products	10.87	3.0	9.88	3.3
13.	Iron & Steel	8.10	2.2	—	—
14.	Hotels	3.68	1.0	—	—
15.	Non-Ferrous Metals	31.51	8.6	17.57	5.9
16.	Shipping	—	—	—	—
17.	Mining & Oil	4.82	1.2	—	—
18.	Metal Products	24.04	6.6	41.25	14.0
19.	Others	10.06	2.8	11.4	3.9
	Total:	365.68	100.0	274.62	92.8

its charter. For some time thereafter, the two operated in different fields. Over the last several years, however, private business has expanded and diversified so rapidly and foreign exchange has become so scarce that both I.F.C. and I.C.I.C.I. have had to widen their spheres of activity, thus resulting in some functional overlap. The financial needs of private industry are, however, so large and diverse that there is room for more than one development bank. Moreover, each of the institutions has carved out a place for itself among various industrial and regional groups.

With regard to ownership, I.F.C. is in the public sector and I.C.I.C.I. in the private sector. The latter, however, has also received considerable Government assistance in the form of loans and the Life Insurance Corporation is its largest single shareholder. I.C.I.C.I. has much larger foreign currency resources both absolutely and in relation to total resources, though this difference is narrowing down somewhat as I.F.C. acquires more foreign currency resources. Because it is seven years older, because of its public obligations (*e.g.*, assistance for cooperative sugar mills), and because it gives individually larger loans on the overage, I.F.C. has done much more business than I.C.I.C.I.

Policy Changes: Following the recommendations of the Industrial Licences Policy Inquiry Committee, the Central Government, in January 1970, made certain changes in policy in regard to assistance from public financial institutions. Having accepted the joint sector concept (a recommendation of the Inquiry Committee), Government decided that there should be a greater degree of participation by the institutions in management, particularly at policy levels, in the case of major projects involving substantial assistance.

Government also decided that public financial institutions should as part of their arrangement regarding future loans exercise the option for converting loans and debentures into equity, either wholly or partly. In respect of current loans or debentures, financial institutions should have discretion to negotiate conversion in cases of default. In all cases where such conversion has been effected, there should be provision for nomination of Directors on the Boards of the assisted concerns. Guidelines have accordingly been given by Government to the all-India financial institutions namely: the Industrial Development Bank of India, the Industrial Credit and Investment Corporation of India, the Industrial Finance Corporation of India, the Life Insurance Corporation of India and the Unit Trust of India.

In terms of these guidelines, it has become obligatory on those institutions normally to affiliate a condition for option to convert a part of the loan into equity in all cases where the aggregate financial assistance exceeds Rs. 50 lakhs. In cases where the aggregate exceeds Rs. 25 lakhs but does not exceed Rs. 50 lakhs, the condition for the inclusion of the

convertibility clause has been left to the discretion of the financial institutions.

The convertibility clause will not apply to sub-loans in foreign currency granted by Indian financial institutions out of foreign currency lines of credit made available directly to them by foreign institutions. But the clause will apply to all loan agreements/debentures issued covering rupee assistance from the financial institutions to industrial concerns to enable them to purchase foreign exchange from foreign lines of credit operated by the Government of India or from any other source abroad.

In settling the terms of conversion, consideration will be given to factors such as the nature and importance of the industry, the likely gestation period of the project, the debt-equity gearing, the projected profit potential, prospects of expansion, etc. In respect of existing companies with resource created out of past profits, in fixing the issue price of the share, consideration will be given to factors such as the market value of the share, break-up value, dividend record, current and projected profitability, etc. I.F.C. assistance is, regionally, more dispersed than that of I.C.I.C.I, partly in pursuance of a Government directive to it. The distribution of their assistance by industries indicates that both have a diversified portfolio, though I.F.C. has a larger concentration ofi nterest in lighter industries.

Industrial Finance Corporation of India: The Industrial Finance Corporation is the largest and the oldest long-term industrial financing institution in India. It was set up in 1948 by an Act of Parliament "for the purpose of making medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable." Its charter permits I.F.C. to finance public limited companies and co-operative societies which are registered in India and are engaged in the manufacture, preservation or processing of goods, shipping, mining, hotels, and generation or distribution of power and gas. Originally it was expected to finance manufacturing and processing enterprises only. Under a Central Government decision in 1970, public sector undertakings, which are set up as public limited companies, can also seek assistance form I.F.C. on the same basis as the private sector. Final assistance on concessional terms, is available for setting up industrial projects in certain industrially less developed areas notified by the Central Government. I.F.C. finances not only new industrial projects but also renovation, modernization, expansion or diversification of existing enterprises only. The Corporation is required to "act on business principles due regard being paid to the interest of industry, commerce and the general public."

I.F.C. extends assistance to borrowers in various forms though, for a

long time, it practically confined itself to first mortgage loans repayable within a maximum period of 25 years (maturities generally being 12 to 15 years), normally upto one-half of the value of net fixed assets and/ or secured by Government guarantees. It lends upto 65 per cent of the value of fixed assets in the case of co-operative industrial concerns and upto 60 to 65 per cent in other cases where the foreign exchange component is more than 60 per cent of total capital expenditure. In many cases, it has also insisted upon an unlimited guarantee from managing agents or key directors, but since 1964 this condition has been generally relaxed. Lately, it has accepted bank guarantees in lieu of mortgages. In addition, it could underwrite capital issues but took a number of years to enter this field. A series of amendments to its charter since 1957 have enabled it to guarantee deferred payments to suppliers and loans due from any eligible concern to a financing agency within or outside India, to convert loans into equity or invest in equity, and to disburse foreign currency loans obtained from any foreign or Indian financial institution.

Projects to be eligible for assistance must be part of the Five Year Plans and should have obtained (i) the necessary licence under the Industries Development and Regulation Act 1951; (ii) consent from the Controller of Capital Issues for issue of shares, debentures and mortgage loans; and (iii) preferably preliminary clearance from the Capital Goods Committee of the Government when the import of equipment is involved. Besides, the projects should be commercially viable, have sound management, and the sponsors themselves must provide a reasonable proportion of the finance needed, with a sound debt-equity ratio.

Loans are given for the purchase of new machinery, renovation or replacement of old machinery, construction of factory buildings, and purchase of land for factory sites. Finance is not available for purchase of raw materials. Inventory is not accepted as security. Loans for working capital or repayment of existing liabilities are given only in exceptional cases. The rate of interest on all rupee loans was 7 per cent per annum, with a rebate of 0.5 per cent for punctual servicing. Since July 1962, it was progressively raised and from December 1970, the rate has stood at 9% subject to ½% rebate for punctual payment of principal and interest. Concessional rates are applicable to loans to small or medium size projects in areas notified by the Central Government as industrially less developed. The net rate of interest on foreign currency loans is slightly higher at 9½% with the ½% rebate.

Ownership: The Corporation has an authorized share capital of Rs. 10 crores of which Rs. 8.34 crores is paid up, comprising 20,000 shares of Rs. 5,000 each. The Government has guaranteed the repayment of the principal of share capital in the event of winding up the Corporation,

and also a dividend of 2.25 per cent per year on all the 10,000 shares issued till 1961, and 4 per cent per year on the additional share capital of 3.34 crores raised since then. Consequently, the shares are approved securities for trusts, banks and insurance companies. In 1953 and since 1957, the Corporation has paid dividends out of its own profits. The accumulated liability to the Government on account of the dividend subvention, *i.e.*, the difference between the dividend guaranteed by the Government and the profit available for distribution, in the earlier years was extinguished in June 1962.

The broad pattern of ownership of share capital is laid down by charter. Ownership is not open to individuals. Since June 1964, the pattern of ownership changed. I.D.B.I. together with the entire holdings of the Government and the Reserve Bank, has 50 per cent of total share capital.

At its inception, the intention was that the Government, directly and through the Reserve Bank, would have a minority participation in share capital. The subsequent nationalization of life insurance companies, and the Imperial Bank as well as the nationalization of 14 major banks in 1969 and the recent take over of General Insurance Companies (pending their nationalization) has given an overwhelming majority to the Government and other public sector entities. The management of the Corporation is autonomous, subject to certain safeguards and restrictions and policy directives from the Government, which powers have since been transferred to I.D.B.I.

Management: Management is vested in a Board of Directors, consisting of a full-time Chairman and four other directors appointed by the Industrial Development Bank, two directors nominated by the Central Government and two directors elected each by Scheduled Banks, insurance concerns, trusts etc., and co-operative banks making 12 directors in all. Initially, the Corporation had a leading industrialist as part-time Chairman, and a full-time Managing Director, who had long experience in banking. The change to the present set-up was made in 1955, to implement one of the recommendations of a committee of enquiry appointed by Parliament in 1952. Since 1955, the three successive Chairmen have been senior civil servants on loan from the Government. In 1970, the senior most officer of the Corporation was appointed Chairman, the first such appointment since the Corporation was set up. The Board is required to meet at least once in three months and actually meets once a month. In an emergency, such as an urgent need for additional assistance or early disbursement of a loan already approved or steps necessary to protect the Corporation's interest, the Chairman can exercise all the powers of the Board (this contingency arose only on a few occasions). The Corporation has six advisory

committees, one each for textiles, engineering, sugar, chemicals, jute and miscellaneous groups of industries, which help in appraising projects. The committees include persons who have specialized knowledge and experience of particular industries, and are drawn from the Government and the private sector.

I.F.C. has five branch offices and one sub-office in addition to the head office at New Delhi. Its accounts are audited by the Comptroller and Auditor General, besides two commercial firms of auditors elected by non-Government shareholders.

Government Control: Apart from the nomination of two directors, the Government had power under the original Act to give directives on questions of policy but was not to interfere in routine management. From 1948 through 1959, seven formal directives were received by the Corporation. In addition, it agreed in 1956 to a suggestion from the Government to extend special assistance to co-operative processing factories. Such assistance, almost wholly to co-operative sugar mills, account for nearly one fourth of its total net sanctions. The directives required the Corporation, among other things, to assist as far as practicable in the industrial development of backward areas, to require borrowing concerns to seek I.F.C. approval before declaring dividends above a certain limit, to keep generally a minimum margin of 50 per cent against fixed assets in making loans, to inform the Government regarding loans exceeding Rs. 50 lakhs to disclose the names of all borrowers, to minimize the time-lag between approval and disbursement of loans, and to seek prior Government approval for more than three loans to a single party or where the aggregate of loans to the party exceeds Rs. 1 crore and to "refer to the Ministry of Finance for orders" all cases where the total loans granted to "industrial concerns which are owned, managed or controlled by a closely connected group of industrialists exceed" Rs. 1 crore. The power to issue directives is now vested in I.D.B., and the limit of loans to individual concerns or groups without prior Government permission has been raised to Rs. 2 crores.

Apart from these policy directives, the general mechanism of planning and the presence of official representatives on the Board are conducive to co-ordination with Government policy. The Corporation makes use of Governmental machinery for the appraisal of projects but, in addition, makes objectives and detailed enquiries on its own into the merits of each proposal. There is no record of political interference in its working. As a matter of public obligation, it has played an important role in the development of co-operative sugar factories.

Operations: The Corporation does not give rupee loans of less than Rs. 10 lakhs. This field is left by convention and agreement to State

financial corporations. There is no upper limit on loans but, as always stated, rupee loans exceeding Rs. 1 crore required prior approval of the Government till 1964; till 1961, such loans required a Government guarantee of repayment of principal in addition to other security. For large projects, I.F.C. can and does arrange for participation by other financial institutions such as I.C.I.C.I., the Life Insurance Corporation, banks, etc., and foreign agencies such as the Commonwealth Development Finance Company of the U.K.

From 1948 through June 1971, I.F.C. obligated assistance aggregating over Rs. 365 crores, disbursed nearly Rs. 319 crores. The total amount written off from portfolio, till 1956-57 amounted to Rs. 50 lakhs and

TABLE LXV

I.F.C. Assistance — July 1948 through June 1971

(Rs. in crores)

	No. of applications	*Net sanctions*	*Dis-bursed*	*Amount outstanding*
1. Loans:				
—Rupees	684	238.67	209.61	133.32
—Foreign currency	157	43.58	35.47	26.09
Total:	841	282.25	245.08	159.41
2. Underwritings:				
—Equity	130	11.22	7.79	6.64
—Preference	103	7.06	5.20	4.24
—Debentures	21	10.73	7.58	4.73
Total:	254(a)	29.01	20.57	15.61
3. Direct Subscriptions:				
—Equity	13	0.54	0.26	0.75(b)
—Preference	4	0.12	0.05	0.29(b)
—Debentures	1	1.82	1.82	1.37
Total:	18	2.48	2.13	2.41
Total 1 to 3	1,113	313.74	267.78	177.43
4. Guarantees for deferred payments:	42	28.46	27.65(c)	7.05
5. Guarantees for loans from foreign financial institutions	5	23.47	23.33(c)	13.65
Total 1 to 5	1,160	365.67	318.76	198.13

(a) Sanctions in respect of equity and preference shares in 75 cases have not been accounted for in this table.

(b) Includes Rs. 0.67 crore being part of outstanding loans of 4 companies converted into shares and Rs. 0.06 crore of convertible debentures of another concern converted into equity shares.

(c) Guarantees actually issued.

since then it has been only Rs. 8 lakhs upto 1971. As a measure of prudence, however, the Corporation has so far set apart Rs. 1.54 crores

TABLE LXVII

I.F.C. — Net Financial Assistance Sanctioned and Disbursed Year-Wise from July 1, 1948 to June 30, 1971

(Rupees in crores)

Year ended June 30	*Net financial assistance sanctioned*				*Amount disbursed*			
	Loans	*Deferred Payments Guarantees/ Foreign Loans*	*Under-writings*	*Total*	*Loans*	*Deferred Payments Guarantees/ Foreign Loans*	*Under-writings*	*Total*
1	2	3	4	5	6	7	8	9
Prior To First Plan								
1949	3.25	—	—	3.25	1.33	—	—	1.33
1950	2.90	—	—	2.90	2.08	—	—	2.08
1951	1.98	—	—	1.98	2.38	—	—	2.38
Total	8.13	—	—	8.13	5.79	—	—	5.79
First Plan								
1952	3.20	—	—	3.20	1.78	—	—	1.78
1953	0.53	—	—	0.53	2.50	—	—	2.50
1954	4.10	—	—	4.10	2.82	—	—	2.82
1955	5.13	—	—	5.13	1.64	—	—	1.64
1956	14.06	—	—	14.06	2.20	—	—	2.20
Total	27.02	—	—	27.02	10.94	—	—	10.94
Second Plan								
1957	9.15	—	—	9.15	9.78	—	—	9.78
1958	5.93	1.82	0.75	8.50	8.33	—	—	8.33
1959	2.77	0.27	0.87	3.91	7.48	—	0.66	8.14
1960	12.62	6.06	0.10	18.78	8.41	2.09	0.17	10.67
1961	18.58	8.29	1.84	28.71	6.62	13.02	0.48	20.12
Total	49.05	16.44	3.56	69.05	40.62	15.11	1.31	57.04
Third Plan								
1962	19.05	0.32	0.73	20.10	10.79	0.44	0.24	11.47
1963	21.15	8.88	*4.99	35.02	14.11	4.33	*3.99	22.43
1964	25.11	7.74	4.85	37.70	16.03	3.89	1.96	21.88
1965	19.61	3.92	3.55	27.08	19.79	14.35	3.66	37.80
1966	21.60	1.35	3.96	26.91	23.99	2.17	4.48	30.64
Total	106.52	22.21	18.08	146.81	84.71	25.18	14.33	124.22
Annual Plans								
1967	12.35	4.00	1.87	18.22	29.52	5.64	2.90	38.06
1968	15.86	0.85	1.48	18.19	23.35	2.61	1.06	27.02
1969	23.93	0.40	2.42	26.75	15.03	0.28	1.68	16.99
Total	52.14	5.25	5.77	63.16	67.90	8.53	5.64	82.07
Fourth Plan								
1970	12.46	0.29	1.19	13.94	16.86	0.34	0.85	18.05
1971	30.97	0.42	3.80	35.19	16.28	0.20	0.87	17.35
Total	43.43	0.71	4.99	49.13	33.14	0.54	1.72	35.40
Grand Total	282.25	51.93	31.49	365.67	245.08	50.98	22.70	318.76

*Includes direct subscription of Rs. 2.48 crores.

as revenue for doubtful debts. In 1970-71, administrative expenses came to only 3.5 per cent of gross income. Total net assistance sanctioned upto June 30, 1971 amounted to Rs. 365.67 crores covering in all 1,160 applications and 527 industrial projects. Disbursements added upto Rs. 318.76 crores of which Rs. 267.78 crores were in cash. The outstandings stood at Rs. 198.13 crores.

The total disbursement of Rs. 267.78 crores was financed as follows:

TABLE LXVIII

Sources of I.F.C. Finance July, 1948 to June, 1971

(Rs. in crores)

1. Paid up share capital	8.35
2. Reserves	14.24
3. Repayments of loans, etc.	73.47
4. Loans from Government	77.32
5. Loans from Reserve Bank of India	1.24
6. Foreign credits	35.47
7. Bonds	57.69
Total:	267.78

Repayment of Bond issues, principal and interest are guaranteed by the Government of India. The facility of loans from the Government as and when resources are headed has enabled the Corporation to minimize idle cash. Such drawing facilities would, apart from P.L. 480 funds, now be available from I.D.B.I. and not Government. In addition, it has a short-term overdraft arrangement of upto Rs. 3 crores at the Reserve Bank.

Under its charter, I.F.C. can borrow in rupees and incur contingent liabilities upto ten times its paid-up share capital and free reserves, and, in addition, raise long-term deposits of upto Rs. 10 crores, which it has not exploited so far. Foreign currency borrowings are outside the above mentioned ceiling but require prior Government approval.

Foreign Currency Loans: As the only institutional lender of long-term industrial finance till the setting up of new agencies after 1954, I.F.C. realized the need for a foreign currency loan soon after it was established. It approached the World Bank several times without success.

In August 1951, long before the foreign exchange position deteriorated, I.F.C. approached I.B.R.D. for assistance. The Bank sent a Mission in May 1952 to make a detailed study of the Corporation's working. The seventh annual report of I.B.R.D. (1951) stated that "In May 1952, Bank representatives carried on discussions of possible assistance to the Industrial Finance Corporation, a private institution for providing medium and long-term credit to industry. It is expected that negotia-

tions for a loan to the Corporation will begin soon." Most of the suggestions made by the Mission to improve its operations were accepted. Thereafter, I.B.R.D. agreed to open negotiations for a loan of $8 million. In July 1952, the terms and conditions of the loan were finalized in Washington. Subsequently, the Corporation submitted 16 projects requiring foreign exchange for scrutiny and approval. At the end of 1952, the I.F.C. Act was amended in accordance with the I.B.R.D.'s suggestions. During the passage of the amending bill in Parliament, some members demanded an enquiry into the working of I.F.C. The Government and the World Bank thereupon agreed to defer the loan till after an investigation into the Corporation's affairs. In September 1955, a number of changes were made in the Corporation's charter, and a full-time Chairman was appointed. The World Bank had, in the meanwhile, actively sponsored the setting up of I.C.I.C.I. I.F.C.'s application was renewed in 1956 and negotiations were re-opened in March 1957. The prospect of securing a credit of $10 million (against $60 million requested) appeared bright at one stage but later (in 1957 or 1958) the negotiations faded out when I.B.R.D. indicated its intention to channelize its lending to the private sector exclusively through I.C.I.C.I.

In 1961, I.F.C. renewed its efforts to secure an I.B.R.D. loan but with no success. I.B.R.D. took the position that it could not finance two development banks in one country.

Failing I.B.R.D., I.F.C. turned to the U.S. Development Loan Fund, the only other foreign exchange lender at the time. Negotiations in 1960 resulted in an agreement being signed for a $10 million loan. The loan requires the Government to be guarantor and primary obligator; it carries interest at 5 per cent per annum, and is repayable *in rupees* over 15 years.

The U.S. Agency for International Development successor to D.L.F., granted two times of credit aggregating $26.88 million in 1961 and 1964.

TABLE LXIX

I.F.C. Foreign Currency Loans Sanctioned upto June, 1971

Currency	*No. of Sub-loans*	*Foreign Currency* (million)		*Rs. Lakhs*
U.S. Dollars	57	$	26.92	1,976.52
Pound Sterling	3	£	0.12	21.50
West German DM	103	DM	105.04	2,139.48
French Francs	11	Fr.	12.97	177.48
Total	174			4,314.98

Note: These sub-loans were in respect of 157 applications.

Kreditanstalt, the West German Reconstruction Loan Corporation, has, beginning from 1961, given the Corporation nine loans totalling DM

112.5 million, the last credit given in 1970. The initiation for the first loan came from West Germany which allocated DM 15 million to I.F.C., out of DM 100 million extended to India in 1961. DM credits are fully convertible for purchase in U.S.A., Britain, West European countries and Japan.

The French credit of 7,715 million finalized at the end of 1962, was mostly intended for the import of capital of goods from France. A British loan of £1 million was secured in 1970 under the U.K. India Capital Investment loan, for the import of capital goods from U.K.

Industrial Credit and Investment Corporation of India: The Industrial Credit and Investment Corporation of India was registered as a public limited company in 1955. The idea of setting up a private development bank originated with the U.S. aid mission which wanted to place P.L. 480 counterpart funds with a private agency but could not make much progress perhaps, due to the lukewarm attitude of the Government of India. The idea crystallized only when I.B.R.D. came into the picture in 1954. I.B.R.D. took over the informal steering committee of top Indian businessmen, which the U.S. aid mission had set up earlier. The committee was later transformed, with some additions, into the Board of Directors of the Corporation. The status of its members, sponsorship by I.B.R.D., and the selection of a British financial expert to head the management for some years, helped the new institution to secure participation in share capital from the Commonwealth Development Finance Company and British banks, as well as Bank of America, Westinghouse Corporation, Rockefellers, and Olin Mathieson.

Its memorandum states that the object of I.C.I.C.I. is to carry on the business of assisting industrial enterprises within the private sector of industry in India in general by assisting in the creation, expansion and modernization of such enterprises; (ii) encouraging and promoting the participation of private capital, both internal and external, in such enterprises; (iii) encouraging and promoting private industrial investments and the expansion of investment markets; and in particular by (a) providing finance in the form of long or medium-term loans or equity participations; (b) sponsoring and underwriting new issues of shares and securities; (c) guaranteeing loans from other private investment sources; (d) making funds available for reinvestment by revolving investments as rapidly as prudent, and (e) furnishing managerial, technical and administrative advice and assisting in obtaining managerial, technical and administrative services to Indian industry.

I.C.I.C.I. gives financial assistance to joint stock companies for the purchase of capital assets through (a) underwriting of public and private issues and offers of sale of industrial securities, (b) direct subscription to securities, (c) rupee loans upto one-half the net value of fixed assets

(secured by first mortgage)* repayable over periods upto 15 years, (d) foreign currency sub-loans out of I.B.R.D. and other foreign exchange credits to finance import of capital equipment and technical services, and (e) guarantee of loans made by other institutions, domestic or foreign.

Originally, there were no limits with respect to the amount of assistance to individual concerns, but later a lower limit was fixed at Rs. 500,000 and an upper limit at Rs. 1 crore; the latter limit applies to foreign currency sub-loans to a group of closely affiliated companies as well. I.C.I.C.I. can and does, nevertheless, help borrowers to get larger amounts by securing the co-operation of other financing institutions, both Indian and foreign. This co-operation is sought, in fact, even for modest amounts. In other words, I.C.I.C.I. is prepared to consider any proposal from anybody, provided the promoters make a substantial contribution to the total resources required, and the enterprise has or promises to obtain experienced management and expert technical personnel or advice. Sometimes, it appoints a director on the board of the borrower to safeguard its interests, but it does not seek participation in management; but this has since been modified under a directive from the Government of India referred to earlier in pursuance of the recommendation of the Licensing Policy Inquiry Committee.

I.C.I.C.I. turns over its investments to recoup liquidity and to promote wider distribution of ownership, but it does not give any commitment to the promoters regarding maintenance of market value or timing and amount of sales of holdings. The rate of interest at the end of 1964 was 7 per cent on rupee loans and 8 per cent on World Bank sub-loans. Besides, in many cases, it takes participation in profits, if the borrowing concern is narrowly owned, or retains the right to convert loans into equity if the borrower is widely owned. This policy has been extended to a few foreign currency sub-loans also.

Applications for all forms of assistance, including guarantees and underwriting, undergo a process of detailed and thorough appraisal which goes into the background of the company or promoters, basic soundness of the project, total cost and means of financing the entire project, market prospects, profitability, management, and Government consents.

As mentioned earlier, I.C.I.C.I. has a paid up share capital of Rs. 7.50 crores. Its authorized capital is Rs. 25 crores. It is the only long-term financing institution in India with foreign shareholders from the U.K., U.S.A. and West Germany.

The West German banks became shareholders by acquiring part of the U.S. interest. The capital subscriptions of the foreign shareholders

*This limit has been relaxed in favour of a few projects which had a high foreign exchange component, which provided a bank guarantee in addition to other security, and were expected to have satisfactory earning capacity.

were surrendered to the Reserve Bank and are not, therefore, available for foreign currency loans. Their rupee equivalent is part of the total resources available for assistance.

Management: The management of the Corporation is vested in a Board of Directors, which consists of a Chairman, a Deputy Chairman who is also Managing Director and 12 other directors, of whom one is a Government director and one each represents British and American shareholders. The Government is entitled to nominate a director so long as its loans remain outstanding. Another Government Director is elected. Since 1970 the L.I.C. represented on the Board. The I.C.I.C.I. has decided to have on its board a representative of the nationalized banks.

Nearly all the directors are well-known top industrialists and financiers. Some reshuffling was done in 1958, it is believed, at the initiative of I.B.R.D., to make the Board more broad-based. The Chairman does not have any emergency powers to approve assistance and can only authorize implementation of the Board's decisions.

In appraising various projects, particularly those in new industries like organic chemicals, the Corporation takes the advice of outside experts or advises borrowers to employ consultants, if they do not have a really satisfactory foreign technical collaboration. Routine projects are processed by the Corporation's own technical appraisal division. It has no advisory committee. Apart from the Head Office in Bombay, the I.C.I.C.I. has two regional offices in Calcutta and Madras.

The Government has no powers of control over the Corporation, apart from the right to nominate a director and to intervene in the event of a substantial redistribution of equity ownership and/or impairment of share capital. As with the several other development banks promoted by it, I.B.R.D. exercises a degree of supervision through periodical appraisals and suggestions for improvement. In 1958, I.B.R.D. loaned one of its top experts to advise and assist I.C.I.C.I. for some time.

Operations: From 1955 through December 1970, I.C.I.C.I. obligated assistance of Rs. 295.69 crores in 975 operations, disbursed Rs. 201.13 crores. The assistance has been fairly widely distributed geographically, but there is some concentration in a few states.

The largest single foreign currency loan of Rs. 1 crore was given with prior I.B.R.D. approval to Scindia Steam, the biggest shipping company in India, for the purchase of ships. Normally, I.C.I.C.I. seeks the participation of other institutions in giving a loan of this size, but made an exception in this case. Since then 14 companies have been given similar loans.

TABLE LXX

State-Wise Distribution of Financial Assistance since Inception upto Dec. 1970

State or Territory	*No. of Coys.*	*Net Sanctions*	*%age to total sanctions*
Andhra Pradesh	14	1,082	3.7
Assam	3	190	0.6
Bihar	18	2,014	6.8
Gujarat	92	3,623	12.3
Haryana	24	838	2.8
Kerala	15	399	1.3
Madhya Pradesh	8	552	1.9
Maharashtra	224	10,851	36.7
Karnataka	30	1,549	5.2
Orissa	9	652	2.2
Punjab	3	23	0.1
Rajasthan	6	545	1.8
Tamil Nadu	60	3,062	10.4
Uttar Pradesh	24	1,288	4.4
West Bengal	73	2,480	8.4
Union Territories	10	421	1.4
Total:	613	29,569	100.00

TABLE LXXI

I.C.I.C.I. Assistance from 1955 to 1970

(Rs. in crores)

	No.	*Net Amount Sanctioned*	*Amount Disbursed*
1. Rupee loans and guarantees	161	59.69	42.91
2. Foreign currencies	442	174.39	120.63
Total:	603	234.08	163.54
3. Underwiriting	291	54.04	30.44
4. Direct subscriptions	81	7.57	7.15
Grand Total:	975	295.69	201.13

In initial years, the demand for foreign currency loans was slack because imports of capital equipment were being financed out of free foreign exchange and, for some time thereafter, under deferred payment arrangements. The demand for underwriting and share capital participation, on the other hand, was relatively brisk, except in 1957. Since 1958, demand for both foreign currency and rupee loans has picked up. Until I.F.C. got a D.L.F. loan, and received permission to take up equity, I.C.I.C.I. was the only lender of foreign exchange and the only institution that could offer a comprehensive package of different forms of assistance. Even now though I.F.C., I.D.B. and the Unit Trust have entered the field, I.C.I.C.I. remains pre-eminent as underwriter and lender of foreign exchange.

The Corporation has operated profitably. A dividend of 10 per cent

TABLE LXXII

Industry-wise Distribution of Financial Assistance

(Rs. in lakhs)

Industry	*Net Sanctions*	*%age of Total*
Automobiles and cycles	1,747	5.9
Cement	1,309	4.4
Chemicals and petro-chemicals	6,439	21.8
Electrical equipment	2,449	8.3
Electricity, gas and steam	735	2.5
Food products (other than sugar)	308	1.1
Glass, pottery etc.	812	2.7
Machinery manufacture (other than electricals)	2,959	10.0
Metal products (ferrous)	4,125	14.0
Metal products (non-ferrous)	1,060	3.6
Pulp, paper and paper products	1,451	4.9
Rubber products	988	3.3
Shipping	1,757	5.9
Sugar	269	0.9
Textiles	2,017	6.8
Wood, cork and hard board	181	0.6
Miscellaneous	963	3.3
Total	29,569	100.00

TABLE LXXIII

I.C.I.C.I. Sources of Finance from 1955 to Dec., 1970

Rs. in crores

		Rs. in crores
1.	Share capital	7.50
2.	Reserves	8.23
3.	Sale of investments	11.00
4.	Government of India loans	31.41
5.	I.D.B.I. loans	12.30
6.	Foreign currency loans	173.41
	Total:	243.85

was declared in 1970. As at the end of 1970, its interest rates were $8\frac{1}{2}$ per cent on rupee loans and 9 per cent on foreign currency loans.

The first Government loan, advanced to I.C.I.C.I. in 1955, was for Rs. 7.5 crores free of interest, for 30 years, repayable in 15 annual instalments beginning in 1970. It is subordinate to all liabilities and equity. The second Government loan, Rs. 10 crores given in 1959 out of P.L. 480 funds, carries interest at $4\frac{1}{2}$ per cent per annum on amounts drawn and outstanding, repayable over 20 years, in 10 annual instalments commencing 10 years after withdrawal. This loan is subordinate only to I.B.R.D. loans. These two rupee loans were fully utilized by the end of 1963. It secured a third loan of Rs. 10 crores, from P.L. 480 funds, in 1964, of which Rs. 7.5 crores was drawn during the year. In June 1965, it received Government permission to raise the share capital by Rs. 2.5 crores to Rs. 7.5 crores.

Foreign Currency Loans: As the institution providing the largest amount of foreign currency loans to the private sector, I.C.I.C.I. has in the last 15 years since inception had received 20 loans of foreign credit totalling the equivalent of $231.21 million (Rs. 173.41 crores). This is made up of eight World Bank credits aggregating $199.39 million (Rs. 149.55 crores), one U.S.AID loan of $4.48 million (Rs. 3.36 crores), nine loans of DM 82.50 million (Rs. 16.90 crores) from Kreditanstalt of West Germany and one for £2 million (Rs. 3.60 crores) from the United Kingdom.

Sub-loans granted out of these credits are stated in the Table below:

TABLE L IV

(Rs. in crores)

	Amount Sanctioned (Rs.)	*Amount Disbursed (Rs.)*
I.B.R.D.	152.01	105.40
Kreditanstalt	13.92	11.87
U.S.AID	3.35	3.35
U.K.	1.46	—
Total:	170.74	120.62

I.B.R.D. loans are freely convertible but the others are tied to purchases in the creditor countries.

The pre-conditions of the first I.B.R.D. loan were that the Government would give a rupee loan of Rs. 7.5 crores subordinate to all liabilities and equity capital, and that Rs. 5 crores of ordinary share capital would be subscribed by private investors in and outside India. The second loan given in 1959 was conditional upon another Government loan of Rs. 10 crores subordinate only to I.B.R.D. loans.

The loans are utilized for re-lending to private concerns to finance exclusively the foreign exchange costs of approved projects. The security of sub-loans is to be duly safeguarded by I.C.I.C,I. Both the borrower and the sub-borrower are accountable to I.B.R.D. for proper utilization of the loan. Individual sub-loans out of the first loan required prior I.B.R.D. approval in each case. In the second loan, however, I.C.I.C.I was allowed to relend to any single project upto $100,000, with an aggregate free limit of $1 million, without prior I.B.R.D. approval. These free limits were raised in subsequent loans.

State Financial Corporations: After the setting up of the Industrial Finance Corporation to assist the growth of large public limited companies and industrial co-operatives, it was realized that there was need for similar institutions to finance medium and small scale enterprises

and that such institutions could best be set up on a statewise basis. Accordingly, the State Financial Corporation Act was passed in 1951 and it came into force in August 1952. Under this Act, each State except Tamil Nadu has set up a financial corporation. In Tamil Nadu, the Madras Industrial Investment Corporation (M.I.I.C.) established in 1949 as a joint stock company, is deemed to be the State financial corporation. It is now known as the Tamil Nadu Industrial Investment Corporation after the State was renamed in 1969.

The genesis of S.F.C.s goes back to the Central Banking Enquiry Committee which, among other things, reviewed the working of the State aid to Industries Act then in operation in a few provinces. While not ruling out the setting up of an All India Industrial Corporation under the Central Government, it recommended (in vague terms) the establishment of Provincial Industrial Corporations, with limited assistance from Provincial Governments in the form of guarantee of interest on the first issue of their debentures. The initial move in this direction was, however, made by the Tamil Nadu Government when, in consultation with the Reserve Bank, it set up M.I.I.C. under the Companies Act in 1949. In the same year, Bombay and Punjab sought to have State counterparts of I.F.C. and requested the Centre to enact suitable legislation for the purpose, in order to incorporate special provisions in the charters of the provincial bodies. The first S.F.C. registered under the Act was in Punjab in February 1953. By 1960 twelve states had established their finance corporations.

As at the end of October 1971, there were 18 S.F.Cs. one for each state plus one for the Union Territory of Delhi. The Tamil Nadu Industrial Investment Corporation function as the S.F.C. in the State. other Union Territories, Chandigarh is served by Delhi, Goa, Daman As for and Diu by Maharashtra, Dadra and Nager Haveli by Gujarat, Pondicherry by Tamil Nadu and Manipur and Tripura by Assam which is also expected to cover Nagaland. It is likely that the jurisdiction of the West Bengal S.F.C.will be extended to the Andaman and Nicobar Islands.

S.F.C. have so far opened 43 Regional or Branch Offices which have led to increase in business. More such offices would be necessary for building up more and new *entrepreneurs* and for encouraging the development of industries in relatively under-developed areas.

Under the statute, the funds of State Governments and the Reserve Bank are employed in these institutions as share capital and debentures but their ownership is also open to the public, financial institutions, etc. The states have guaranteed a minimum dividend on their share capital and have also guaranteed the principal and interest of their debenture issues as well as the principal of deposits from the public; they have a large say in their management through nomination of directors,

issue of directions, employment of senior personnel etc. S.F.C.s can lend only to industrial concerns, which are defined to exclude housing, trading certain service industries, plantations, etc. The maximum assistance to individual units was at first restricted to 10 per cent of each S.F.C.'s share capital subject to a maximum of Rs. 10 lakhs but was raised in 1962 to Rs. 29 lakhs for public limited companies or co-operatives and Rs. 10 lakhs for others. The minimum has remained constant at Rs. 1 lakh. Security requirements are strict — generally a margin of 50 per cent — though these have been relaxed of late. A series of amendments in 1956 and 1962 relaxed many of the restrictions: S.F.Cs. are permitted since 1962 to underwrite share and debenture issues and retain such investments beyond 7 years with prior Reserve Bank permission, extend guarantees or lend against specified guarantees and to borrow from the Reserve Bank. As a result of the amendments, the Reserve Bank has acquired greater control over their working. They can also seek refinance from the Industrial Development Bank. Refinance facilities are liberal and in recent years there has been increasing reliance on I.D.B.I.

The authorized capital of each S.F.C. has to be between Rs. 50 lakhs and Rs. 5 crores and the States decide on the distribution of ownership between themselves, the Reserve Bank, scheduled banks, insurance companies, investment trusts, co-operative banks and others, the last mentioned not to own more than 25 per cent. The intention is that the States and the Reserve Bank together should have the majority ownership.

TABLE LXXV

S,F.C.s' Sources of Finance as at end of Sept., 1971

Rs. in crores

1.	Share capital	22.08
2.	Reserves	6.60
3.	Bonds	74.48
4.	Deposits	8.82
	Total:	111.98

According to the statements of assets and liabilities as in July/August 1971, the S.F.C.s may be classified under four categories. Two—Maharashtra and Tamil Nadu have resources exceeding Rs. 20 crores. The resources of the S.F.C.s of Andhra Pradesh, Gujarat and Karnataka are between Rs. 10 crores and Rs. 20 crores. Seven S.F.C.s—those of Haryana, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh and West Bengal — between Rs. 7 crores and Rs. 10 crores. The resources of the remaining six Assam, Bihar, Delhi, Himachal Pradesh, Jammu and Kashmir and Orissa are below Rs. 5 crores. These figures reveal that the growth of business of the S.F.C.s has been uneven.

Resources: Of the total paid up share capital of Rs. 22.08 crores, the State Governments contributed Rs. 11.48 crores (about 52 per cent). The share of the Reserve Bank and the I.D.B.I. was Rs. 4.47 crores (20%). The balance was contributed by scheduled banks, the L.I.C. and others.

In order to augment the capital of S.F.Cs., the Reserve Bank in 1970 suggested the private issue of the required capital of each S.F.C. to be subscribed by the State Government and the I.D.B.I. on a 50 : 50 basis and at a minimum guaranteed dividend of 3½ per cent. Accepting the suggestion, Gujarat and Maharashtra S.F.Cs. have raised their capital of Rs. 71 lakhs. Four more S.F.Cs. are expected to follow such to the extent of Rs. 1.4 crores in the aggregate.

The total reserves of the S.F.Cs. amounted to Rs. 6.06 crores or 24 per cent of their aggregate paid up capital as at the end of September 1971. The reserves were made up as follows:

TABLE LXXVI

			Rs. in crores	
			Amount	*% to total*
A.	1.	General reserve	0.75	12
	2.	Special reserve fund	1.40	23
	3.	Special reserve account	2.98	49
	4.	Other reserves	0.93	16
			6.06	100
B.		Total paid up capital	22.80	
		%age of A to B	24	

The reserves increased by Rs. 2.95 crores since the end of March 1969. These are inadequate in relation to, among other factors, their paid up capital and the long period (over ten years) most of them have been in business.

Bond issue has been one of the important resources of the S.F.C.s. The value of bonds outstanding through September 1971 was Rs. 74.48 crores representing 45 per cent of their resources. The bonds are guaranteed by the State Governments. Some State Governments have given exemption to the S.F.Cs. from payment of stamp duty and guarantee commission on the bonds while others have not. The Reserve Bank has been trying to sort this out in consultation with the State Governments concerned.

Refinance from I.D.BI. has been on the increase in the last two years. Aggregate refinance outstandings increased from Rs. 19.8 crores at the end of March 1969 to Rs. 35.5 crores at the end of August 1971. This has been possible because of the concessional fee was offered by I.D.B.I.

Also there has been considerable relaxation of procedures. The refinance scheme makes it possible for I.F.Cs. to provide financial assistance to small industries and those in backward areas at concessional rates of interest.

As at the end of March 1969, the outstanding balance of refinance of each of a S.F.Cs. exceeded Rs. 50 lakhs. As through September 1971, fourteen S.F.Cs. were in this category.

At the end of August 1971, deposits of 11 S.F.Cs. aggregated Rs. 13.24 crores. Of this the Tamil Nadu Corporation alone accounted for Rs. 8.82 crores. Except for two or three deposits have not been a significant source of funds for S.F.Cs.

The total net profit (before making provision for income tax) of the 18 institutions amounted to Rs. 3.08 crores in 1970-71. In the previous two years the figures were Rs. 2.47 crores and Rs. 2.62 crores. As a percentage of the total paid up capital and revenues, the net profit formed 10.2, 10.4 and 11.4 for the last three years. In relation to the level of profits of S.F.Cs. in 1964-65, their profits for 1970-71 were more than doubled in most cases.

The level of profits has not been adequate to enable S.F.Cs. to undertake monetarial functions or build up a satisfactory level of reserves. This is mainly due to the fact that the rate of interest charged on their borrowers, mostly small and medium scale industries, are lower than the prevailing market rates. On the other hand, they pay the ruling

TABLE LXXVII

Capital and Working Funds of S.F.Cs. (as at end of March, 71)

Rs. in lakhs

No.	*State/ Territory*	*Paid-up capital*	*Working funds*	*% of paid-up capital to working funds*
1.	Andhra Pradesh	150	1,153	13
2.	Assam	100	498	20
3.	Bihar	100	424	24
4.	Delhi	50	342	15
5.	Gujarat	150	1,406	11
6.	Haryana	100	699	14
7.	Himachal Pradesh	35	97	36
8.	Jammu and Kashmir	77	225	32
9.	Kerala	100	673	15
10.	Madhya Pradesh	100	750	13
11.	Maharashtra	175	2,472	7
12.	Karnatka	100	878	11
13.	Orissa	100	414	24
14.	Punjab	75	575	13
15.	Rajasthan	100	560	18
16.	Uttar Pradesh	185	860	22
17.	West Bengal	100	846	12
18.	Tamil Nadu (Madras) I.I.C.	300	2,608	12
	Total:	2,097	15,480	

rates for long term funds to raise the money for their operations. Figures for the last three years 1968-71, show that the spread between the cost of raising resources and return of the S.F.Cs. was between 2 and 3 per cent. In a few, it was higher still.

Loan Operations: Total loans outstanding at the end of September 1971 amounted to Rs 137 crores. In 1969, it was Rs 92 crores and in 1970, Rs 107 crores.

Region-wise S.F.Cs. in the western region accounted for 32 per cent of the total outstandings. The southern region came next with 31 per cent, the northern region 22 per cent and the eastern region 15 per cent. Progress in the western and southern region has been impressive while that in the northern region has been picking up. The eastern region has been lagging behind.

Industry-wise classification of loan and advances outstanding shows that a greater share of recent assistance by S.F.Cs. has been extended to the more modern and sophisticated lines such as chemicals, iron and steel, machinery other than electrical machinery etc.

The share of small industries in the loans and advances of S.F.Cs. increased from Rs 23 crores (25% of total) at the end of March 1969 to Rs 57.67 crores (42% of total) at the end of September 1971.

Seven institutions, Bihar, Haryana, Maharashtra, Karnataka, Orissa, Tamil Nadu and Uttar Pradesh have introduced special schemes for assistance to *entrepreneurs*/technicians offering them credit as soft terms. S.F.Cs. in Madhya Pradesh, Haryana, Jammu and Kashmir, Maharashtra, Karnataka, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh have similar schemes of assistance to units to be set up in the backward areas.

Underwriting of shares of industrial concerns of S.F.Cs. has not been significant. Except in one or two cases, the entire shares underwritten have desolved on the S.F.Cs. The investment through underwriting operations (and in the case of Tamil Nadu, through direct subscription as well) amounted to Rs 10 crores at the end of March 1971.

In the field of loan guarantees by S.F.Cs., progress has been unimpressive and the record so far shows that this field of business has yet to level up significantly. In 1970-71, outstanding loan guarantees amounted to Rs 6.47 crores. In the earlier two years, the figures were Rs 4.46 crores and Rs 5.46 crores.

Inter-Institutional Co-ordination: The S.F.Cs. were set up mostly in the early fifties, to overcome the difficulties of industries in finding adequate credit at reasonable terms, for their development. The situation changed in the sixties when Government and the Reserve Bank reoriented their policies and strengthened the institutional arrangements for term credit to the industrial section. Further the interest rate policy helped the

growth of long term deposits with banks. The setting up of the Refinance Corporation and later the I.D.B.I. encouraged commercial banks to grant term loans without fear of their liquidity being impaired. The banks went all out to lend to the small scale sector. The immediate impact of all this was a reduction in the number of loan proposals received by the S.F.Cs. which had so far not faced any serious competition Negotiations were held between the banks and the corporations leading to the evolution of participation arrangements. Under these arrangements there was a large scope in financing new projects, through Corporation in credit appraisal, recovery of loans, inspection of units and in desiring schemes of rehabilitation of units in difficulties. The follow-up action on these negotiations was not very encouraging for only a few S.F.Cs. considered it worthwhile to enter into participation arrangements with banks. Even in these cases the scope for participation was limited and inadequate. Many S.F.Cs. feel the arrangements are tilted in favour of the banks. An arrangement in depth under which all the three parties the banks, the S.F.C., and the borrowing unit will have a complementary and co-operative role is yet to be evolved.

State Industrial Development Corporation: Most of the states have established State Industrial Development Corporation. Besides, in Maharashtra, Gujarat and Tamil Nadu, there are State Industrial Investment Corporations (S.I.I.C.).

The S.I.D.Cs. most of them formed around 1961, are essentially the result of frustration with the limited functions and moderate success of the S.F.Cs., particularly their viability to sponsor and promote industrial enterprises. They have been established more on State than Central initiative and represent the desire of the States to play a more active role in the promotion and growth of large scale industries. All these aspirations are exclusively State financed.

The Memoranda of Association of these Corporations empower them to undertake a wide range of functions such as underwriting of and direct subscription to shares and debentures of industrial concerns, making loans and advances to them, providing infra-structure facilities including development of land etc. In practice, however, each Corporation restricts itself to a few major activities, keeping before it the primary objectives with which the Corporation was set up.

For example, in Maharashtra and Gujarat, the S.I.D.Cs. are concerned with the question of recovering the concentration of industries in the metropolitan areas.

In Kerala and Andhra Pradesh, the Corporations are engaged in promoting and participating in industrial projects jointly with private parties. In Bihar and Orissa, industrial projects are promoted, set up and managed in the public sector. Several S.I.D.Cs. extend loans and

advances to industrial concerns and also lend support to their capital issues. They also provide guarantees on behalf of industrial concerns.

All S.I.D.Cs. and S.I.I.Cs. except three, Andhra Pradesh, Haryana and Uttar Pradesh grant term loans to industrial units. All of them except Jammu and Kashmir and Punjab handle underwriting of shares and debentures of industrial concerns. Deferred payment guarantees have been given by the S.I.D.Cs. of Andhra Pradesh, Kerala, Karnataka and Tamil Nadu and by the Gujarat Industrial Investment Corporation (G.I.I.C.) and the State Industrial Investment Corporation of Maharashtra.

This shows that there is considerable scope for overlapping of functions between these institutions on the one hand and the S.F.Cs. on the other. The Reserve Bank has been advising against such overlapping. It has suggested S.I.D.Cs. and S.I.I.Cs. should consider proposals only when the S.F.Cs. are unable to grant the facilities.

TABLE LXXVIII

Loans Sanctioned By S.I.D.Cs,/S.I.I.Cs.

Rs. in lakhs

S.I.D.C./S.I.I.C.	*As on*	*No. of units*	*Limits sanction*	*Average limit sanctioned per unit*
1. Karnataka I.I.D.C.	31.3.1970	9	154.48	17.16
2. S.I.I.C. of Maharashtra	,,	38	710.93	18.71
3. West Bengal I.D.C.	,,	19	67.04	3.53
4. Bihar S.I.C.	31.3.1969	11	11.12	1.01
5. Gujarat I.I.C.	30.4.1970	756	1,316.53	1.82
6. Kerala S.I.D.C.	31.3.1970	9	79.75	8.86
7. Madhya Pradesh I.I.C.	31.3.1968	2	13.80	6.90

The above Table shows that the average size of the loans in the case of Maharashtra was Rs. 19 lakhs and in the case of Karnataka Rs. 17 lakhs. They are an indication that the two corporations had assisted units which could not have been financed by the S.F.Cs. The Maharashtra Corporation has a participation scheme with the Maharashtra S.F.C. in terms of which loans are granted jointly by the two organizations. In fact S.I.C. of has similar arrangements with banks as well.

The average amount of loans granted by the S.I.D.C. of Bihar was as low as Rs. 1.01 lakhs, Maharashtra by S.I.D.C. of West Bengal was Rs. 3.53 lakhs and that of the Gujarat I.I.C. was Rs. 1.82 lakhs. Indications are that these three corporations provided bulk of their assistance to small and medium sized units which are eligible for S.F.C. assistance. The Gujarat Industrial Investment Corporation has since taken a decision that financial assistance by way of term loans should be promoted by the S.F.C. and G.I.I.C. would underwrite a part of the public issue of the capital if any and/or make up the balance of the financial assistance required after a unit has granted itself of the maximum facilities from other financing agencies.

In other States, it is possible that some units would have obtained assistance from S.I.D.C. and S.I.I.C. as well as from S.F.C. It is obvious that there should be a clear understanding of the distinctive role of each institution. The I.D.B.I. has recently set up a working group to examine the role and performance of State Financial institutions with particular reference to S.I.D.Cs. and S.I.I.Cs. so that their functions are integrated with the structure of development banking in the country.

S.F.Cs. and All India Finance Institutions: I.F.C.I. and I.C.I.C.I. are all India term lending institutions. Under the statute, I.F.C. can provide financial assistance only to public companies and cooperative societies. Generally I.F.C. finance, medium and large units. The S.F.Cs, on the other hand can assist all categories of units *viz.* proprietory, joint family and partner- ship concerns, private and public limited companies and co-operative societies. The maximum amount of loan together with the loan guarantees which can be given to any one concern should not exceed Rs. 20 lakhs in the case of a public company, or co-operative society and Rs. 10 lakhs in other cases. There have been occasions when S.F.Cs. have offered assistance to units which should really have been provided only by the I.F.C. In some cases S.F.Cs. had tried to overcome the statutory limitation on loans by offering deferred payments guarantees for which there is no ceiling per unit.

In order to bring about co-ordination between the S.F.Cs. and I.F.C., the I.F.C. has been given the right to nominate a Director on the Board of Directors of each S.F.C. The I.F.C. nominee ensures that proposal for large projects received by S.F.Cs. are passed on to I.F.C. for consideration. If the S.F.C. desires, it may be allowed to participate in the transactions to a small extent. This would ensure that projects are scrutinized properly and the concern would be subject to satisfactory financial discipline. In the event of over run of costs, I.F.C. would be in a position to reassess the requirements of the unit and arrange for necessary resources.

I.C.I.C.I. deals entirely with corporate bodies in the large scale sector. Also a large part of its assistance is in foreign currency. I.C.I.C.I. provides foreign currency loans to small units including partnership and proprietory concerns in participation with local financing institutions. However S.F.Cs. do not seem to have taken advantage of such facilities to any significant extent.

L.I.C. assists S.F.Cs. mainly by subscribing to their bonds. S.F.C. bonds held by L.I.C. as on 31 March 1970 totalled about Rs. 20 crores forming 33.3 per cent of the total outstanding bonds of S.F.Cs. as on that day at Rs. 60 crores. As a shareholder L.I.C. has a Director on each S.F.C. In turn, the S.F.Cs. place the bulk of their general insurance with L.I.C.

The Reserve Bank, the I.F.C. and the L.I.C. each have a nominee on the Board of Directors of every S.F.C. A public sector bank is also re-

presented on each S.F.C. However, there is little consultation among these directors about the business of S.F.Cs. This lacuna is to be remedied soon.

S.F.Cs. have been the victims of a vicious circle which began with guaranteed dividends, inadequate resources, absence of tax concessions till 1962, excessive concern with the security and cover offered by borrowers instead of the prospects of the projects to be assisted, and lack of competent staff or outside experts to appraise applications. The dividend subventions received from States have been less than the dividends actually paid to State Governments and the Reserve Bank; dividends to these shareholders are being impounded in special reserves only since 1962. Unlike I.F.C. and I.C.I.C.I. they have not received any cheap and plentiful P.L. 480 funds, while the interest rates which they can charge to borrowers have been kept low as a matter of public policy. Where Governments have agreed to subsidize the low interest rates, the subsidies have been inadequate, partial and delayed.

Statutory restrictions on their working have also been a severe handicap, directly, by narrowing the range of operations and, indirectly, by encouraging subservience to the letter of the law. The ceilings on and floors to the amount of individual loans are such that, in many States, they practically exclude most new industrial activities; underwriting and direct subscription were nearly impossible till 1962 (as for I.F.C. till 1957) and even now they can be undertaken, by and large, only in participation with national institutions, which alone can provide the complementary foreign exchange loans. Dependence on Government personnel for top staff and appraisal of project applications has, among other things, imported attitudes born out of the experience of giving taccavi loans to landowners. The inability of most small borrowers to provide first class or conventional security and to incur the costs of documentation have further come in the way. More recently, the increasing interest of States in S.I.D.Cs. has also served to weaken the potential growth of S.F.Cs.

All these handicaps and problems notwithstanding, the record of S.F.Cs. can be considered as one of moderate success. They could have done better but the record so far certainly does not indicate total failure.

Refinance Corporation for Industry: The Refinance Corporation for Industry was a joint stock company owned by the Reserve Bank, the Life Insurance Corporation, the State Bank of India, and other leading banks. It was set up in 1958 to provide medium-term assistance to medium sized industries through the rediscount of 3 to 7 year bills drawn by member banks. It had total resources of Rs. 31 crores, consisting of share capital of Rs. 5 crores and loan funds of Rs. 26 crores from Government out of P.L. 480 funds at a nominal rate of interest. The rate of interest on the actual amount borrowed was 1½ per cent

TABLE LXXIX

Industry-Wise Classification of Assistance Sanctioned and Disbursed by State Financial Corporations during the Years 1969-70 and 1970-71 (April-March) under Major Heads of Industries
Part A — Assistance Sanctioned

(Rupees in thousand)

	Name of the Corporation	*Food manufacturing except beverage industry* 1970-71	*Textile (including Jute)* 1970-71	*Paper and paper products* 1970-71	*Manufacture of rubber products* 1970-71	*Basic industrial chemicals other than fertilizers* 1970-71	*Other chemicals and chemical products* 1970-71	*Fertilizers* 1970-71	*Cement* 1970-71
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1.	Andhra Pradesh	4,154	3,161	930	99	4,009	—	—	—
2.	Assam	345	215	—	—	—	—	—	—
3.	Bihar	1,010	—	—	450	—	399	—	—
4.	Delhi	500	675	530	160	—	694	—	—
5.	Gujarat	2,622	7,793	713	454	5,638	1,084	—	2,975
6.	Haryana	4,026	2,090	2,630	750	—	936	—	—
7.	Himachal Pradesh	60	—	—	—	—	—	—	—
8.	Jammu and Kashmir	519	80	—	—	—	185	—	—
9.	Kerala	7,575	1,041	100	878	—	1,005	—	—
10.	Madhya Pradesh	1,255	—	—	300	3,005	800	—	—
11.	Maharashtra	7,592	14,386	3,596	575	—	8,936	—	—
12.	Karnataka	11,620	1,039	—	2,400	—	3,018	—	—
13.	Orissa	3,608	—	—	860	—	—	—	—
14.	Punjab	2,341	3,969	310	825	230	—	2,318	—
15.	Rajasthan	4,856	1,856	458	478	176	1,145	1,037	—
16.	Tamil Nadu	8,995	3,411	1,775	1,867	—	2,537	150	—
17.	Uttar Pradesh	6,013	864	2,762	1,626	3,875	4,390	—	—
18.	West Bengal	1,805	110	2,000	420	50	1,552	—	—

TABLE LXXIX *(Contd.)*

Name of the Corporation	*Basic Metal Industries*		Metal product except machinery and transport equipments 1970-71	Manufacture of machinery except electrical machinery 1970-71	Manufacture of electrical machinery, apparatus, etc., 1970-71	Services (including road transports) 1970-71	Other industries 1970-71	Total assistance sanctioned to all industries during 1970-71
	Iron and steel basic industries 1970-71	*Non-ferrous metal basic industries 1970-71*						
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Andhra Pradesh	4,700	3	1,271	3,986	1,446	4,316	7,753	35,828
2. Assam	—	—	320	—	—	—	610	1,578
3. Bihar	2,275	—	1,140	1,755	260	—	3,619	10,908
4. Delhi	1,495	—	1,460	1,185	2,465	—	13,503	22,667
5. Gujarat	1,317	717	2,167	6,065	2,320	16,861	17,847	68,572
6. Haryana	2,000	600	4,363	2,720	440	338	2,902	23,795
7. Himachal Pradesh	—	—	600	—	—	2,920	2,104	5,684
8. Jammu and Kashmir	—	—	115	—	—	11,533	2,913	15,345
9. Kerala	—	—	1,637	3,498	—	563	3,795	20,092
10. Madhya Pradesh	900	—	375	2,575	—	341	1,163	10,714
11. Maharashtra	5,319	—	6,632	4,600	519	30,219	23,720	106,094
12. Karnataka	2,355	—	300	232	3,120	9,583	21	33,688
13. Orissa	290	—	395	100	172	56	2,384	7,863
14. Punjab	1,707	—	1,061	481	1,150	2,596	5,757	22,745
15. Rajasthan	1,222	80	380	765	699	2,797	7,369	23,322
16. Tamil Nadu	814	—	—	331	2,500	—	1,133	23,513
17. Uttar Pradesh	7,253	1,025	5,302	1,335	457	—	1,133	23,513
18. West Bengal	830	—	265	500	300	1,569	5,328	14,739

TABLE LXXIX (*Contd.*)

Part B — Assistance Disbursed

(Rupees in thousand)

Name of the Corporation	*Food manufacturing beverage industry* 1970-71	*Textile (including jute)* 1970-71	*Paper and paper products* 1970-71	*Manufacture of rubber products* 1970-71	*Basic industrial chemicals other than fertilizers* 1970-71	*Other chemicals and chemical products* 1970-71	*Fertilizers* 1970-71	*Cement* 1970-71
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Andhra Pradesh	163	2,117	366	109	3,193	—	—	—
2. Assam	566	—	—	—	—	24	—	—
3. Bihar	1,327	—	145	124	—	119	—	—
4. Delhi	696	699	265	120	—	786	—	—
5. Gujarat	2,281	5,905	718	227	909	1,277	—	—
6. Haryana	570	438	500	579	—	159	—	—
7. Himachal Pradesh	401	—	—	—	—	—	—	—
8. Jammu and Kashmir	690	50	—	—	—	55	—	—
9. Kerala	4,735	1,069	75	379	—	950	—	—
10. Madhya Pradesh	816	85	100	723	1,826	797	—	—
11. Maharashtra	1,113	11,397	8,100	641	—	4,299	—	—
12. Karnataka	5,569	155	—	665	—	1,508	9	—
13. Orissa	1,885	7	—	84	—	5	400	—
14. Punjab	1,150	2,926	269	193	—	—	164	—
15. Rajasthan	2,412	1,543	—	24	40	336	706	50
16. Tamil Nadu	2,594	4,446	1,451	306	—	5,086	150	—
17. Uttar Pradesh	5,541	661	171	609	97	3,777	73	—
18. West Bengal	—	620	570	325	300	440	—	—

TABLE LXXIX (*Contd.*)

Part B—Assistance Disbursed

Name of the Corporation	Basic Metal Industries: Iron and steel basic Industries 1970-71	Basic Metal Industries: Non-ferrous metal basic Industries 1970-71	Metal products except machinery and transport equipments 1970-71	Manufacture of machinery except electrical machinery 1970-71	Manufacture of electrical machinery, apparatus etc. 1970-71	Services (including road transport) 1970-71	Other industries 1970-71	Total assistance disbursed to all industries during 1970-71
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Andhra Pradesh	1,262	—	324	2,156	1,112	3,142	4,965	22,909
2. Assam	10	—	220	—	—	61	1,220	210
3. Bihar	2,620	—	824	560	222	—	1,540	7,481
4. Delhi	923	—	921	1,028	1,701	—	7,962	15,091
5. Gujarat	619	389	8,438	6,910	999	22,467	2,864	55,103
6. Haryana	—	—	117	941	—	114	7,577	10,995
7. Himachal Pradesh	—	—	372	—	—	2,824	2,082	5,679
8. Jammu and Kashmir	—	—	76	—	40	10,671	1,272	12,854
9. Kerala	89	—	412	2,579	—	120	2,761	13,169
10. Madhya Pradesh	829	—	240	169	40	189	1,924	7,738
11. Maharashtra	1,432	—	5,367	3,686	1,553	29,251	15,236	82,075
12. Karnataka	2,133	—	360	113	1,653	7,233	474	19,872
13. Orissa	71	—	144	—	—	56	299	2,951
14. Punjab	519	—	265	303	711	973	2,733	10,206
15. Rajasthan	939	80	818	585	597	996	2,822	11,948
16. Tamil Nadu	1,011	—	11	1,080	528	—	3,737	20,400
17. Uttar Pradesh	1,700	—	2,747	2,241	1,939	—	2,227	21,783
18. West Bengal	25	—	—	755	800	718	1,874	6,427

TABLE LXXXVI

Operations Of State Financial Corporations

(Amounts in lakhs of rupees)

Name of the Corporation	Loans sanctioned during			Loans disbursed during			Loans outstanding as at the end of		
	1968-69	1969-70	1970-71	1968-69	1969-70	1970-71	March 1969	March 1970	March 1971
1. Andhra Pradesh	91	213	358	131	102	229	748	776	948
2. Assam	34	28	16	25	35	21	402	429	446
3. Bihar	31	55	109	48	42	75	320	336	406
4. Delhi	78	125	227	41	80	151	142	203	329
5. Gujarat	248	520	686	246	345	551	557	803	1,213
6. Haryana	100	141	238	127	113	110	565	602	647
7. Himachal Pradesh	32	31	57	7	8	57	22	28	78
8. Jammu and Kashmir	60	60	153	60	74	128	125	152	217
9. Kerala	91	107	201	101	116	132	379	489	601
10. Madhya Pradesh	37	95	107	43	79	77	563	606	630
11. Karnataka	173	163	337	139	136	199	534	630	821
12. Maharashtra	397	817	1,061	300	440	821	1,421	1,665	2,242
13. Orissa	47	48	79	41	45	30	293	289	303
14. Punjab	73	114	227	81	76	102	316	359	420
15. Rajasthan	60	135	233	62	100	119	388	457	513
16. Uttar Pradesh	143	337	429	76	159	218	375	487	653
17. West Bengal	122	92	147	76	65	64	663	677	710
18. Tamil Nadu	118	159	235	138	130	204	1,376	1,467	1,611
Total:	1,935	3,240	4,900	1,742	2,145	3,288	9,189	10,455	12,788

in the first year, rising gradually to $2\frac{3}{4}$ per cent in 1961, 3 per cent in 1962 and to the maximum of 4 per cent in 1963, the last complete year of operations. Critics questioned the need for such an institution as a separate entity but the U.S. Aid Mission, it appears, was eager to place Rs. 26 crores of counterpart funds at the disposal of private industry through private financial agencies. In 1957, the resources of banks were under heavy strain and their borrowing from the Reserve Bank had reached what they believed was the prudent limit. The Government did not want to place a large volume of P.L. 480 funds directly with private banks. By the time the compromise proposition in the form of this Corporation got through, the banks recovered their liquidity, mainly through a large influx of deposits and also through some easing of the demand for credit. This quasi-private institution always worked as a department of the Reserve Bank without any establishment of its own.

Monetary stringency after 1960 and successive steps to relax its lending terms and scope of activities brought about a considerable and useful enlargement of the Corporation's operations through 1964. Initially, it could only refinance the medium term bills of member banks upto a limit of Rs. 50 lakhs drawn by industrial concerns whose paid up capital and reserves did not exceed Rs. 2.50 crores. Later, all scheduled banks were made eligible for such assistance and in 1962, S.F.Cs. also were permitted to approach the Corporation on similar terms. With effect from January 1963, the Corporation was designated as the authority for refinancing of medium term export credits. It also took up the scheme of guarantee of rupee loans by banks and financial institutions to coal companies for their expansion, the foreign exchange for which was provided by a World Bank Loan.

Through 1963, the Corporation received 422 applications for a total assistance of Rs. 63.70 crores, of which 335 applications for Rs. 51.11 crores were sanctioned, and Rs. 28.09 crores was disbursed. Most of the assistance went to new industries like metals, engineering and chemicals but traditional industries like sugar and textiles received about one-third of the total amount sanctioned. Almost one-half of the total assistance disbursed was absorbed in 1963 alone. The effective sanction of Rs. 45 crores at the end of 1963 related to private projects scheduled to cost Rs. 140 crores in the aggregate, of which the Corporation's assistance amounted to 32 per cent.

The Corporation was merged in the newly created Industrial Development Bank in September 1964. The pace of operations picked up further in that year partly because the terms of lending were liberalized further towards the end of August. The limit of refinance in respect of any single unit was raised from Rs. 50 lakhs of total amount sanctioned to Rs. 1 crore of outstanding loan amount, and applications

for still larger amounts were made subject to consideration. Borrowers with paid up capital and reserves of more than Rs. 2.5 crores were also made eligible and term lending institutions (like I.F.C, S.F.Cs, etc.) were permitted to seek refinance for periods longer than 10 years. At the same time, refinance was restricted to 80 per cent instead of 100 per cent of the amount offered for refinance. In 1964, disbursement rose 62 per cent over the previous year's level to Rs. 21.34 crores. Total sanctions from 1958 through 1964 amounted to Rs. 73.77 crores and total disbursements Rs. 49.43 crores, of which Rs. 42.16 crores was outstanding, Rs. 34.46 crores from commercial banks and the rest from other financial institutions.

The lending rate of the Corporation was 5 per cent from inception till March 1963, when it was raised to 5.5 per cent. The concessional rate for export credit was reduced from 5 per cent to 4.5 per cent in December 1963, on condition that the banks charged no more than 6 per cent.

Under the coal loans guarantee scheme introduced in April 1963, 44 applications for Rs. 4.8 crores were received from eleven credit institu-

TABLE LXXXI

Refinance Corporation 1958 — 1963

Industry	*Applications received*		*Application sanctioned*		*Amount disbursed*
	No.	*Amount* (Rs. lakhs)	*No.*	*Amount* (Rs. lakhs)	(Rs. lakhs)
1. Coal	14	210	8	117	11
2. Food	42	730	31	518	331
3. Textiles	92	1,507	68	1,171	492
4. Paper	15	207	12	188	99
5. Rubber products	5	73	4	71	61
6. Chemicals	51	758	45	615	427
7. Artificial fibres	6	164	6	164	97
8. Glass and ceramics	14	160	9	112	70
9. Cement	4	140	4	140	50
10. Ferrous metals	19	270	15	21	146
11. Non-ferrous metals	8	110	7	108	38
12. Other metals	16	149	14	142	83
13. Electrical equipment	35	529	31	409	268
14. Transport equipment	15	272	11	197	156
15. Other machinery	46	679	37	573	317
16. Hotels	6	36	5	29	23
17. Others	34	376	28	346	140
Total:	422	6,370*	335	4,921**	2,809
Export Credits	1	11	1	11***	8
Grand Total	423	6,381	336	5,121	2,817

*Including Rs. 281 lakhs rejected, Rs. 30 lakhs ineligible for refinance, and Rs. 312 lakhs withdrawn, making a total of Rs. 623 lakhs.

**Including Rs. 595 lakhs ineffective.

***Including Rs. 3 lakhs ineffective.

tions. Of these, 32 guarantees for Rs. 3.1 crores were issued till the end of 1964. The losses, if any, on the guarantee are shared between Government and lending institutions in the ratio of 65 : 35.

National Industrial Development Corporation: The National Industrial Development Corporation (N.I.D.C.) was set up in October 1954 as a joint stock company wholly owned by the Central Government. It was to act, in effect, within the (then) Ministry of Commerce and Industry more as a development corporation than as a development bank. Its functions were twofold: (i) the study, appraisal and promotion of new projects, both public and private, to fill gaps in the industrial structure, and (ii) financing the rehabilitation of joint stock cotton and jute mills, to which the development of machine tool industry was added later. The authorized share capital was Rs. 1 crore but the paid up capital in March 1964, when its activities practically came to an end, was Rs. 50 lakhs after being raised in successive stages from the initial capital of Rs. 10 lakhs. The increase in capital enabled the Corporation to invest in its subsidiary, Pyrites and Chemicals Development; when this company ceased to be a subsidiary in 1964, the share capital of N.I.D.C. was sought to be reduced to the original Rs. 10 lakhs. In 1963, Government placed a moratorium on fresh loan appraisals by N.I.D.C.

The share capital of N.I.D.C. was kept low since performance of the first function was financed out of Government grants, and the second from Government loans which were re-lent to approved concerns. The Development Wing (now the Department of Technical Development), then within the same Ministry, actually handled most of the work connected with the promotional function and got reimbursed by N.I.D.C. which in turn recovered the expense from Government grants. Preliminary and promotional work of this nature in the name of N.I.D.C. was carried out for the basic chemicals and intermediates plant at Panvel (Maharashtra), raw films project in Mysore (Karnatak), drugs projects with Soviet aid, the heavy engineering and mining machinery projects with Soviet and Czech aid, and certain other heavy engineering projects (structurals and plates and vessels, etc.). It also worked on proposals for carbon black, newsprint from bagasse, sulphur from pyrites, precision instruments, compressors and pumps, aluminium and rayon pulp, etc. N.I.D.C's. own contribution in this field started only with the setting up of its Technological Consultancy Bureau in 1961 to provide design and consultancy services.

N.I.D.C. loans were on easy terms; it could accept a second mortgage, lend up 80 and 50 per cent, respectively, of the unencumbered value of fixed assets against first and second mortgages, and it charged lower interest rates than other institutions but its loans were repayable over 10 to 15 years. As of March 1964, it had sanctioned 114 applications

for loans aggregating Rs. 28.19 crores, mostly to cotton mills, and disbursed Rs. 14.86 crores, of which approximately Rs. 11 crores was outstanding. The whole of the outstanding amount was financed by unsecured loans from Government.

TABLE LXXXII
N.I.D.C. Loans 1954-64

(Amounts in Rs. lakhs)

		Cotton	*Jute*	*Machine tools*	*Total*
1. Applications received	No.	157	78	5	240
	Amt.	7,312	2,127	106	9,545*
2. Applications approved	No.	67	48	4	114
	Amt.	1,965	754	100	2,819
3. Loans disbursed	Amt.	841	557	88	1,486

*Including rejections of Rs. 21.39 lakhs and Rs. 27.84 lakhs withdrawn.

In 1964, the lending functions of N.I.D.C. were transferred first to I.F.C. and then to I.D.B. Technical Consultancy Bureau continues to provide its services both in the country and abroad. The range of its consultant engineering services covers detailed designs of projects, preparation of project reports, pre-investment and feasibility studies and technical and economic evaluation of schemes. In addition the Corporation has developed a Documentation Centre equipped with price indices for machinery equipment, wage levels, construction costs etc., to assist banks and financial institutions in evaluating loan applications for industrial projects and schemes.

The earnings from consultancy services over a five year period increased by Rs. 47 lakhs to Rs. 69.00 lakhs in 1969-70. Foreign exchange earnings for its services abroad were valued at Rs. 10 lakhs as against Rs. 6 lakhs in the previous year.

The N.I.D.C. acts as the agency of the Government of India for the grant of loans to cotton textile and jute industries for the purpose of rehabilitation and modernization of machinery and to machine tool units for expansion and rehabilitation.

Industrial Development Bank of India: The Industrial Development Bank of India was established as a statutory body on July 1, 1964. It is a wholly owned subsidiary of the Reserve Bank of India. Its functions are:

(i) to act as an apex industrial finance institution for refinancing the institutions already in existence,

(ii) to provide direct financial assistance of all kinds to industrial concerns, defined to include manufacturing and processing, shipping, mining, hotel, transport and power undertakings, and

(iii) to refinance credits extended by commercial banks to industrial borrowers.

It can undertake research and surveys for evaluating and dealing with marketing or investments, carry out techno-economic industrial studies, provide technical and administrative services to industry, plan, promote and develop industries to fill up gaps in the industrial structure, from subsidiaries *and do any other business* which Government, on the recommendation of the Reserve Bank, may authorize. In a word, it is expected to see that no worthwhile priority project suffers for lack of funds. It has been endowed with adequate potential resources and operational flexibility.

Apex Role and Co-ordination: The I.D.B.I., through a variety of mechanism, functions as an apex bank and a sa co-ordinator of institutional activities in the development of finance for industry. On the one hand, it has granted substantial financial assistance besides assuming the role of leadership in several cases. Because of technological compulsions, certain projects have to be large ones in which investment is substantial. For example, six major fertilizer projects, two cement expansion schemes, four petro-chemical projects, an alloy steel plant and two aluminium projects have received assistance.

As co-ordinator, on the other hand, it holds a monthly Inter-Institutional Meeting at which the Life Insurance Corporation of India, the Unit Trust of India, the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India are represented. At these meetings, broad policies in project financing are discussed and co-ordinated and proposals are considered for financial and technical assistance on a consortium basis for large and medium industries.

In respect of small project all over the country, I.D.B.I. fulfils its role of purveyer of supplementary resources and co-ordinator — through refinancing of industrial loans and rediscounting of machinery bills. It has also been giving direct assistance to comparatively small projects where the talents of technician-*entrepreneurs* come into play. Textiles, fertilizers, electronics and light engineering industries are some that have been given direct assistance. These schemes have enabled the Bank to facilitate industrialization in many places.

In the field of medium and long term export financing for engineering goods, I.D.B.I. again has been playing a dual role through its scheme of refinancing assistance by banks as well as direct participation with the banks in providing export finance.

Further, I.D.B.I. has been taking a hand in strengthening the financial structure of State Finance Corporations and the other loan lending institutions like I.F.C.I. and I.C.I.C.I. through subscriptions to their bonds and shares.

The authorized share capital is Rs. 50 crores which can be increased by the Reserve Bank with prior Government permission to Rs. 100 crores. Paid up capital in the first instance was Rs. 10 crores and was increased to Rs. 30 crores in January 1971. The Central budget in 1965-66 provided for a Government loan of Rs. 45 crores. It can borrow, free of interest, Rs. 10 crores from Government, repayable over 30 years, repayment commencing 15 years after the date of receipt, and can get further loans from Government as and when required. Net borrowings at the end of June 1971 stood at Rs. 146.7 crores. It can issue bonds with or without Government guarantee, borrow from any approved institutions in India, accept long term deposits and receive foreign currency loans with prior Government permission. It can borrow from the Reserve Bank (i) against trustee securities for ninety days, (ii) against genuine commercial bills for 5 years and (iii) out of the National Industrial Credit (Long Term Operations) Fund. The N.I.C. Fund was simultaneously established at the Reserve Bank with an initial sum of Rs. 10 crores, which now amounts to Rs. 80 crores. The Fund is used exclusively for the purchase of I.D.B.I. bonds and loans to I.D.B.I. for its purchase of shares and bonds of financial institutions.

TABLE LXXXIII

Principal Sources of Funds 1964-1971

(Rs. in crores)

No.	*Source*	*Amount*	*Percentage to total*
1.	Increase in paid up capital and reserve/surplus	48.2	12.1
2.	Borrowings from Government	145.0*	36.4
3.	Borrowings from Reserve Bank	55.0	13.8
4.	Borrowings by way of debentures	—**	—
5.	Repayment of assistance	137.0	34.4
6.	Sale of investment	2.7	0.7
	Total (including cash/liquid resources and other items)	398.2	100.0

*Includes Rs. 1 crore borrowed by R.C.I. between July and August 1964 but excluding Rs. 32.5 crores borrowed by it upto the end of June 1964.

**I.D.B.I. has provided for Rs. 15.0 crores in 1971-72 estimated.

I.D.B.I. has set up a Development Assistance Fund as required in the Act. Assistance out of this Fund would be extended to high priority industrial concerns with prior Government permission which cannot raise funds in the normal course. This revolving fund is built up through Government loans and grants. Since its establishment on March 27, 1965 with a token amount of Rs. 1 lakh, the fund now totals Rs. 27.9 crores and its profits stood at Rs. 98 lakhs in 1970-71.

During the first six months of operations from July to December 1964, I.D.B.I. sanctioned 10 applications, all for underwriting, with a total

mitment of Rs. 1.15 crores but no amount was disbursed. Its first ventures have been in underwriting because I.F.C. is traditionally chary of such activity and its experience of such activity after taking it up at a late stage has not been too happy due to the state of the capital market, while I.C.I.C.I. has been tending to run short of rupee funds. Participation of brokers and other private agencies is being deliberately encouraged and organized by giving them a share in I.D.B.I.'s own underwriting commission in order to broaden the base of the capital market. No direct loans were sanctioned during the first six months.

During the year as a whole, the total sanctions amounted to Rs. 44.5 crores. This was exclusive of guarantees but inclusive of direct loans and underwritings (47.4%), refinance of industrial loans (47.0%), subscription to shares and bonds of financial institutions (4.9%), export-finance (0.5%) and rediscounting of machinery bills (0.2%). Cash disbursals were Rs. 23.9 crores.

Since its inception till the end of June, 1971, I.D.B.I. sanctioned assistance to 3,706 units amounting to Rs. 466.2 crores. Disbursals totalled Rs. 358.4 crores. This excludes subscriptions to the shares of I.F.C.I. and the newly created Industrial Reconstruction Corporation of India.

TABLE LXXXIV

I.D.B.I. Operations from 1964 to June 1971

(In Rs. crores)

No.	*Type of Assistance*	*Units*	*Sanctions*	*Disbursals*
1.	Direct loans to industrial concerns (other than for exports)	112	148.1	89.6
2.	Underwriting of and direct subscription to shares and debentures	103	28.5	19.6
3.	Refinance of industrial loans	3,188	123.3	118.1
4.	Rediscounting of bills	209	89.9	77.0
		3,612	389.8	304.3
5.	Direct loans for exports	32	29.1	14.9
6.	Refinance of export credits	45	24.0	16.6
	Total:	3,689	442.9	335.8
7.	Subscriptions to shares and loans of financial institutions	17	23.3	22.6
	Total 1 to 7	3,706	466.2	358.4
8.	Guarantees for loans and deferred payments	14	29.3	19.1
9.	Export guarantees	3	1.7	1.6

Since the bank started its operations, there has been, over the years, some shift in the composition of I.D.B.I. assistance from direct financing of industrial concerns (other than for exports) to channelizing of finance through the intermediary of other financial institutions as well as direct

assistance for exports in participation with banks. The substantial assistance in the form of refinance, and subscription to bonds and shares of other financial institutions that the I.D.B.I. now extends, emphasizes its growing responsibility as an apex institution in this field. This role as a catalytic agent would continue to grow in the future in promoting and financing industrial development in the backward regions.

The rate of interest charged by I.D.B.I. is 8½ per cent on direct loans, 6.75 to 7% on refinance, rediscounting of bills 5 to 6 per cent, export credit refinance against medium term export credits — 4.5 per cent.

Organization and Management: Management is vested in a Board of Directors, same as that of the Reserve Bank. The Governor is Chairman and one of the Deputy Governors is Vice-Chairman. Actual superintendence and management are vested in an Executive Committee of the Board, consisting of ten members including the Chairman and Vice-Chairman who meet once a month. Project applications are appraised by *ad hoc* groups, one for each project, consisting of technical, financial and managerial experts drawn from a panel of specialists working in public and private enterprises. The Deputy Chairman heads each *ad hoc* group. This procedure, which differs from that both I.F.C. and I.C.I.C.I., has, according to the Bank, proved efficient, quick and satisfactory during the limited period for which it has been in existence.

With the establishment of I.D.B.I., the share capital of I.F.C. was raised from Rs. 7 crores to Rs. 8.35 crores. The entire additional share capital, together with the shares held by Government and the Reserve Bank, were transferred to I.D.B. to enable it to hold 50 per cent of the total share capital. The power to issue directives to I.F.C. has also been transferred from Government to I.D.B. These changes notwithstanding, I.F.C. remains as autonomous and distinctly separate organization.

Under its charter, I.D.B. can lend to other financial institutions only through refinance of their loans which are repayable on the expiry of not less than three years and not more than 25 years, or by subscribing to their bonds and share capital. Ultimately, I.D.B. will entirely replace Government as a source of rupee funds but the transition will be smooth.

I.D.B.'s Promotional Functions: In order to develop live and intimate contact with the economic situation and potentialities in different regions in the country, the Bank took the first step. The Bank established three Regional Offices, at Madras in South, Calcutta in the east and New Delhi in the north with a committee for each. In the west the Regional Committee will function in Bombay.

A Committee of Directors comprising senior officials of the I.D.B.I., I.C.I.C.I., the Agricultural Refinance Corporation and of the Reserve

Bankhas been set up to initiate surveys of industrial possibilities in relatively oackward States. The next step will be to discuss the project ideas that have emerged from the surveys with the State Governments concerned. The other steps relate to identification and search for *entrepreneurs*, preparation of detailed project reports and actual implementation of such projects with the technical and financial assistance of financial institutions. Towards this end, a move has been initiated to bring together State level institutions like the S.F.C.S., S.I.D.C./ S.I.I.C., the "lead" banks in the States, Industries Department of State Governments and the All-India term-lending institutions such as I.F.C.I., I.C.I.C.I., and the A.R.C. under the leadership of I.D.B.I. to form an Inter-Institutional Group to further facilitate this work, a jointly sponsored and financial Technical Consultancy Service Centre (TCSC) for each State.

TABLE LXXXV

Classification of Export Finance* Sanctioned by the I.D.B.I. upto the end of June 1971 according to Destination of Exports and Commodity Exported

(Rupees In crores)

Name of the country	*Value of Exports financed by I.D.B.I./ banks*	*Amount of I.D.B.I. assistance*	*Commodity*			
			Transmission line towers and conductors	*Textile machinery*	*Steel rails, bars and railway track equipment*	*Steel construction aids*
1	2	3	4	5	6	7
Iran	37.0	20.8	11.9	—	6.4	—
U.A.R.	14.0	9.5	—	8.4	—	0.6
Burma	6.9	3.0	—	—	3.0	—
Ceylon	1.1	0.8	—	—	—	—
Thailand	0.5	0.2	0.1	0.1	—	—
Czechoslovakia	0.4	0.3	—	0.3	—	—
West Germany	0.3	0.3	—	—	—	—
Poland	0.1	0.1	—	0.1	—	—
Uganda	3.0	1.4	—	—	—	—
Sudan	2.5	0.2	0.2	—	—	—
Nigeria	5.3	3.7	0.2	—	—	—
Kenya	0.02	0.02	—	—	—	—
Indonesia	0.9	0.5	—	—	—	—
G.D.R. (East Germany)	0.4	0.4	—	0.4	0.2	—
Hungary	8.3	4.3	—	—	—	—
Republic of Korea	9.4	5.0	—	—	5.0	—
New Zealand	1.3	0.5	—	—	0.5	—
Lebanon	0.01	0.01	—	0.01	—	—
Others	2.8	2.1	—	—	—	—
Total:	94.2	53.1	12.4	9.3	15.1	0.6

*Comprising direct loans for exports and refinance of medium term export credits.

TABLE LXXXVI

Classification of Export Finance* Sanctioned by the I.D.B.I. Upto the end of June 1971 according to Destination of Exports and Commodity Exported

(In crores of rupees)

Name of the country	Commodity						
	Railway wagons	*Diesel engines*	*Sugar mill machinery*	*Auto-mobiles and spares*	*Water treat-ment plants*	*Fire fighting equip-ments*	*Others*
Iran	2.5	—	—	—	—	—	—
U.A.R.	—	—	—	0.2	0.2	0.1	—
Burma	—	—	—	—	—	—	—
Ceylon	—	—	—	0.8	—	—	0.5
Thailand	—	—	—	—	—	—	—
Czechoslovakia	—	—	—	—	—	—	—
West Germany	—	0.3	—	—	—	—	—
Poland	—	—	—	—	—	—	—
Uganda	—	—	1.4	—	—	—	—
Sudan	—	—	—	—	—	—	—
Nigeria	—	—	—	3.5	—	—	—
Kenya	—	—	—	—	—	—	0.02
Indonesia	—	—	—	—	—	—	0.3
G.D.R. (East Germany)	—	—	—	—	—	—	—
Hungary	4.3	—	—	—	—	—	—
Republic of Korea	—	—	—	—	—	—	—
New Zealand	—	—	—	—	—	—	—
Lebanon	—	—	—	—	—	—	—
Others	—	2.1	—	—	—	—	—
Total:	6.8	2.4	1.4	4.5	0.2	0.1	0.8

*Comprising direct loans for exports and refinance of medium-term export credits.

TABLE LXXXVII

Industry-wise Classification of Financial Assistance Sanctioned and Disbursed by I.D.B.I., since Inception upto June 1971

(Rupees in lakhs)

Industry	*Total assistance sanctioned*	*Percentage of totals availed for all industries*	*Total disburse-ments*
1	2	3	4
1. Coal mining	81.1	0.2	231.5
2. Stone, quarrying, clay and sand pits	43.9	0.1	30.3
3. Metal mining	50.9	0.1	48.1
4. Food manufacturing industries, except beverage industries:			
(a) Sugar	291.0	0.7	260.5
(b) Others	617.2	1.4	526.6
5. Tobacco manufacturing industries	2.6	—	1.1
6. Manufacture of textiles:			
(a) Cotton textiles	3,163.5	7.1	2,975.7
(b) Others	1,064.5	2.4	951.9
7. Manufacture of wood and cork except manufacture of furniture	56.0	0.1	74.9
8. Manufacture of furniture and fixtures	14.8	—	9.8
9. Manufacture of paper and paper products	1,433.8	3.2	798.5

TABLE LXXXVII (Contd.)

Industry	*Total assistance sanctioned*	*Percentage of totals availed for all industries*	*Total disbursements*
1	2	3	4
10. Printing, publishing and allied industries	134.8	0.3	119.9
11. Manufacture of leather and leather and fur products except foot-wear and other wearing apparel	10.4	—	4.0
12. Manufacture of leather foot-wear and wearing Apparel	61.3	0.1	45.7
13. Manufacture of Rubber Products	236.2 (241.5)	0.5	153.3
14. Manufacture of Chemicals & Chemical Products:			
(a) Basic industrial chemicals other than fertilisers	3,597.4 (1,081.4)	8.1	2.893.3 (1,081.4)
(b) Fertilizers	4,977.8 (1,085.0)	11.2	3,769.3 (573.1)
(c) Vegetable and animal oils and fats (except edible oils)	76.4	0.2	61.9
(d) Manufacture of artificial fibres	857.1 (90.0)	1.9	236.4
(d) Manufacture of chemical and dissolving pulp (rayon grade)	200.0	0.5	200.0
(f) Manufacture of paints, varnishes and lacquers	116.8	0.3	76.7
(g) Manufacture of miscellaneous chemical products	1,114.7 (8.4)	2.5	973.4 (8.4)
15. Manufacture of Products of Petroleum and Coal:	45.5	0.1	38.6
16. Manufacture of Non-Metallic Mineral Products except Products of Petroleum and Coal			
(a) Manufacture of structural clay products	143.1	0.3	68.9
(b) Manufacture of glass and glass products	336.7	0.8	269.6
(c) Manufacture of pottery, China and earthen ware (ceramics)	97.3	0.2	87.1
(d) Cement	1,341.0 (248.5)	3.0	1,163.9 (248.5)
(e) Grinding wheels and abrasives	0.3	—	4.0
(f) Asbestos	42.5	0.1	40.8
(g) Not elsewhere classified	116.6	0.3	61.5
17. Basic Metal Industries:			
(a) Iron and steel basic industries	4,864.8	11.0	2,564.5
(b) Non-ferrous metal basic industries	1,295.5 (171.0)	2.9	506.2
18. Manufacture of metal products except machinery and transport equipment	581.2	1.3	414.1
19. Manufacture of machinery except electrical machinery	12,929.9 (1.1)	29.2	10,611.2 (1.1)
20. Manufacture of electrical machinery, Apparatus, Appliances and supplies	2,769.3 (169.1)	6.3	2,042.0 (156.6)
21. Manufacture of transport equipment	419.6	1.0	385.8
22. Miscellaneous manufacturing industries	324.3	0.9	267.2
23. Electricity, gas, water, and sanitary services, gas manufacture and distribution (industrial gases)	12.7	—	19.8

TABLE LXXXVII (contd.)

Industry	*Total assistance sanctioned*	*Percentage of totals availed for all industries*	*Total disburse-ments*
1	2	3	4
24. Services:			
(a) Hotel industry	150.8	0.3	141.2
(b) Road transport	585.7	1.3	421.6
(c) Others	30.9	0.1	30.9
Total:	44,290.0 (3,095.9)	92.0	33,589.4 (2,069.1)

Unit Trust of India: The Unit Trust of India was set up on February 1, 1964 as a statutory body. As laid down in the Act, the Reserve Bank has contributed one-half of the initial capital of Rs 5 crores, L.I.C. Rs. 75 lakhs, the State Bank of India and its subsidiaries another Rs. 75 lakhs, and 30 other scheduled banks, Rs. 66 lakhs. By affording the relatively small investors a means of acquiring a share in industrial development at minimum risk and at a reasonable return, the Trust is expected to tap a significant volume of savings which may not have otherwise sought employment in industrial investment.

The sale of Trust Units commenced on July 1, 1964. The first year's sales amounted Rs. 19.1 crores. Repurchases were Rs. 41 lakhs. Together with the initial capital of Rs. 5 crores, a sum of Rs. 24 crores was available with the Trust for disposal.

In the seventh year of its operations, sales during the year ended June 30, 1971 totalled Rs. 18 crores. Less repurchases, the net investment was Rs. 14.80 crores. Sales in the previous year were higher by Rs 4.84 crores and repurchases were also less by Rs, 1.16 crores. The sales in 1970-71 were, however, higher than those in any of the earlier year, 1965-66 upto 1968-69.

The modest setback in 1970-71 reflected mainly the hardening of interest rates in the economy which resulted in the upward revision in the pattern of yields in the market, increase in the interest rates in rival channels of investment and also the change in the scheme of tax concessions.

The aggregate value of units sold and outstanding as on June 30, 1971 was over Rs. 92.25 crores. The total number of unit holders registered with the Trust were more than 3,80,000. In 1970-71, almost the whole of the investments in Units was by individuals who accounted for Rs 17.36 crores. Institutions invested Rs 63.50 lakhs only.

The Trust has introduced four schemes to popularize investment in units among different segments of the community. These are the

TABLE LXXXVIII

State-wise Distribution of Financial Assistance Sanctioned and Disbursed by the I.D.B.I. during July 1964—June 1971

(Rupees in lakhs)

State	Assistance Sanctioned (Effective)						
	Loans other than for exports	*Loans for exports*	*Under-writing and direct subscriptions*	*Refinance of industrial loans*	*Rafinance of export credits*	*Redis-count*	*Total*
1	2	3	4	5	6	7	8
1. Andhra Pradesh	1,228.5	—	151.5	919.0	—	59.7	2,358.7
2. Assam	—	—	—	19.9	—	—	19.9
3. Bihar	1,020.5	—	246.0	165.7	—	303.3	1,735.5
4. Gujarat	3,727.5	38.6	505.6	1,469.6	—	595.8	6,337.1
5. Haryana	143.2	—	71.0	444.9	—	53.9	713.0
6. Himachal Pradesh	—	—	—	29.6	—	—	29.6
7. Jammu and Kashmir	—	—	—	10.1	—	—	10.1
8. Kerala	207.0	—	49.0	409.2	—	24.7	689.9
9. Madhya Pradesh	98.0	713.7	88.5	384.5	285.7	450.2	2,020.6
10. Maharashtra	2,661.6	1,203.1	696.4	3,360.3	1,470.1	4,131.8	13,523.3
11. Meghalaya	—	—	—	—	—	—	—
12. Karnataka	379.8	—	221.0	603.3	—	622.6	1,826.6
13. Nagaland	—	—	—	—	—	—	—
14. Orissa	880.0	—	44.0	66.6	—	37.0	1,027.6
15. Punjab	—	—	—	175.2	—	2.6	177.9
16. Rajasthan	366.0	62.5	5.0	221.8	251.3	—	906.6
17. Tamil Nadu	1,610.5	179.0	179.6	2,102.7	78.8	1,027.1	5,177.7
18. Uttar Pradesh	774.0	—	179.0	498.9	—	118.9	1,570.8
19. West Bengal	1,512.6	714.0	117.6	1,088.3	125.1	1,498.3	5,055.9
20. Union Territories	200.0	—	292.5	363.8	188.7	64.2	1,109.2
Total:	14,809.2	2,910.9	2,846.7	12,333.4	2,399.7	89,901.1	4,4290.0

Note: (1) Classification based on location of projects assisted in each State. In a few cases, assistance was sanctioned for expansion of existing units/setting up of new units in more than one State; such assistance has been included in the State where the assistance has gone predominantly. In the case of rediscounts, the classification is based on the location of machinery manufacturer/seller.

(2) Figures are exclusive of subscriptions to shares and bonds of financial institutions.

TABLE LXXXVIII (Contd.)

State	Guarantees	Assistance Disbursed							
		Loans (other than for exports)	*Loans for exports*	*Under-writing and deirect subscription*	*Refinance of industrial loans**	*Refinance of export credits**	*Redis-count*	*Total*	*Guarantee executed*
	9	10	11	12	13	14	15	16	17
1. Andhra Pradesh	—	1,055.0	—	106.1	887.8	—	51.2	2,100.1	—
2. Assam	—	—	—	—	24.4	—	—	24.4	—
3. Bihar	—	453.0	—	14.6	199.5	—	259.8	926.9	—
4. Gujarat	601.9	1,840.0	19.0	378.9	1,400.6	—	510.4	4,148.9	—
5. Haryana	8.4	81.0	—	28.6	417.5	—	46.2	573.3	8.4
6. Himachal Pradesh	—	—	—	—	15.7	—	—	15.7	—
7. Jammu and Kashmir	—	—	—	—	34.9	—	—	34.9	—
8. Kerala	—	155.0	—	3.9	397.7	—	21.2	577.8	—
9. Madhya Pradesh	—	42.0	382.2	70.7	364.4	285.7	385.6	1,530.6	—
10. Maharashtra	1,499.0	2,295.1	564.4	611.3	3,206.3	878.2	3,539.3	11,094.6	14,86.5
11. Meghalaya	—	—	—	—	—	—	—	—	—
12. Karnataka	—	271.0	—	156.5	576.2	—	533.3	1,537.0	—
13. Nagaland	—	—	—	—	—	—	—	—	—
14. Orissa	—	142.0	—	43.5	114.4	—	31.7	331.6	—
15. Punjab	—	—	—	—	198.8	—	2.2	201.0	—
16. Rajasthan	278.1	175.0	52.9	4.6	250.3	245.0	—	727.8	278.1
17. Tamil Nadu	172.0	1,257.7	177.5	150.8	1,890.9	45.2	879.8	4,401.9	1.1
18. Uttar Pradesh	295.0	492.8	—	78.6	404.0	—	101.9	1,077.3	295.0
19. West Bengal	241.5	504.9	292.7	88.1	1,107.7	21.1	1,283.4	3,297.9	—
20. Union Territories	—	200.0	—	224.1	321.3	187.4	54.9	987.7	—
Total:	3,095.9	8,964.5	1,488.7	1,960.4	11,812.4	1,662.4	7,700.9	33,589.4	2,069.1

*Inclusive of disbursements in respect of refinance sanctioned by the Refinance Corporation for Industry Ltd. prior to its merger with the I.D.B.I.in September 1964.

Reinvestment Plan 1966, the Voluntary Savings Plan 1969, the Children's Gift Plan 1970 and the latest Unit Linked Insurance Plan 1971.

Investments: The total investments of the Trust as on June 30, 1971 were Rs. 105. 14 crores, an increase of Rs. 16.96 crores over the previous year. There has been no significant change in the pattern of investments which continues to reflect the overall investment objectives of the Unit Scheme 1964—safety of capital and a regular and growing income.

TABLE LXXXIX

Pattern of Overall Unit Trust Investment from 1964 to June 30, 1971

(Rs in crores)

Type of investment	*Investment* 1964-65	*%age of total*	*Investment* 1970-71	*%age of total*
1. Ordinary shares	8.67	35.5	39.66	37.7
2. Preference shares	1.76	7.2	13.08	12.4
3. Debentures	9.93	40.7	40.89	38.9
4. Bonds of public operations and Government securities	3.85	15.8	0.45	0.4
5. Treasury bills	—	—	—	—
6. Advance deposits in respect of purchase of debentures	—	—	7.15	6.8
7. Advance call deposits	—	—	*	**
8. Application money	—	—	0.47	0.5
9. Money at call with banks	0.20	0.8	3.43	3.3
Total:	24.41	100.0	105.13***	100.0

Note : *Less than Rs. 5 lakhs

**Less than 0.05 per cent.

***Inclusive of stamp duties, commission, transfer fees etc. capitalized.

Certain guidelines have been provided for the regulation of investments. The Trust's investment in any one company is not to exceed 5 per cent of the Trust's total investible funds or 10 per cent of the securities issued by the company and outstanding, whichever is lower. Not more than 5 per cent of the investible funds can be invested in the initial issues of new industrial undertakings, *i.e.* investments which do not yield any current income.

The expenses and total gross income of the Trust are allocated between the initial and unit capital on the basis of the proportion which each bears to the other at the end of the accounting year, but the expenses charged to unit capital earnings are not to exceed 5 per cent of the earnings. At least 90 per cent of the net income earned by unit capital has to be distributed to unit holders. The income of the Trust is entirely tax free and dividend together with income from certain specified securities upto an amount of Rs. 3,000 to an individual is also free of income tax.

All scheduled banks which have contributed to the initial capital of the Trust act as agents for receiving applications and monies for the purchase of units. The Trust has emerged as one of the leading buyers of debentures since it began operations in June 1964, when investment in debentures accounted for the largest percentage (9.93) of the Trust's total investment. In 1970-71 debentures continued to remain at the top places with Rs. 40.89 crores making 38.9% of total investments for the year. Besides underwriting fresh issues, it has also purchased debentures in the open market, mainly from banks to help them release funds for industrial advances.

The management of the Trust is vested in a board of trustees which is required to 'Act on Business principals, regard being paid to the interest of the unit holder'. There is no explicit reference to the public interest as in the charters of L.I.C., I.F.C., etc. Of the ten trustees, the chairman, executive trustee and four other trustees are nominated by the Reserve Bank, one each by L.I.C. and the State Bank of India, and the remaining two by other contributors to the initial capital. The board has to meet at least once every two months but routine work is carried on by an executive committee, consisting of the Chairman, executive trustee and to other trustees nominated by the Reserve Bank. The Reserve Bank, and not Government, has the power to issue policy directives to the Trust.

The business of the Trust is restricted to sale and purchase of units, with a minimum face value of Rs. 10 and maximum of Rs. 100, investment in securities, and keeping deposits with scheduled banks. It is authorized to borrow monies in any form and from any institution, and from the Reserve Bank for ninety days against trustee securities.

TABLE LXXXX

U.T.I.'s Resources as on June 30, 1971

(Rs in crores)

1.	**Capital**	
	(a) Initial capital: 1,000 certificates of Rs 50,000 each	5.00
	(b) Unit Capital: 9,22,51,443 units at Rs 10/- each	92.25
2.	**Reserves and Surplus:**	
	(a) Unit premium reserve	.90
	(b) Other reserves	.05

Industrial Reconstruction Corporation of India: Several industrial units, especially in the Eastern Region have been facing difficulties and some have even stopped functioning. They have to be rehabilitated because of their importance to the national economy and the needs of employment of a large work force.

At the invitation of the I.D.B.I., the Industrial Reconstruction Corporation of India (I.R.C.I.) was set up in April 1971, under the Companies

Act with headquarters at Calcutta. To begin with, the I.R.C.I. will deal with urgent industrial problems of Calcutta and the Eastern Region especially, problems of rehabilitation and revival of 'sick' and closed industrial units. A major part of its work is likely to be to provide risk and loan capital on soft terms so as to enable the closed units to restart soon.

The Corporation's other activities would include restructuring of companies, labour management problems, change in product mix and related matters. It may also have to encourage, promote, assist and finance merger, amalgamation or reconstruction of industrial undertakings and change of management in appropriate cases and take all such action that will revive industrial development.

The authorized capital of the Corporation is Rs. 25 crores. Its issued capital is Rs. 10 crores and paid up capital Rs. 2.50 crores. This paid up capital is held by I.D.B.I., I.F.C.I., L.I.C.I., I.C.I.C.I., the State Bank of India and the 14 nationalized banks. It will also receive loans from the Government of India on soft terms.

The Corporation has received 85 applications for assistance aggregating Rs. 6.99 crores. Sanctions upto June 1971 amounted to Rs. 1.05 crores for six industrial units, two each in the textile and engineering groups and one each in the mining and foundry industries.

IX. — Foreign Aid and Investment

External financial assistance to industry takes three forms: (1) official assistance, *i.e.* loans from foreign Governments and international institutions, (2) investment by foreign private investors in Indian enterprises, and (3) supplier credits or deferred payments facilities for import of equipment. There is also supply of technical assistance and know-how which goes under the generic label of technical collaboration. Since industrial enterprise is an intrinsically commercial proposition, it does not normally qualify for grants or interest-free loans or cheap long term loans.

Official Assistance: Upto the end of 1969-70, India was sanctioned total external loans of Rs 6,662.5 crores, of which Rs. 4,742.7 crores or more than two-thirds was almost directly for industrial development. The principal sources of loans were U.S.A., U.S.S.R., West Germany, U.K., and the World Bank.

Foreign Investment in India: Total foreign investment in India in the corporate sector (including State enterprises) as of June 1948, which was estimated by the Reserve Bank of India for the first time, amounted to Rs. 265 crores, wholly from private sources. It rose to Rs. 563 crores

TABLE LXXXXI

External Loans for Industrial Development as at the end of March 1970

(Rs in crores)

S. No.	*Source*	*Steel and steel products*	*Other programmes and projects*	*Total*
1.	I.B.R.D./I.D.A.	106.4	443.0	549.4
2.	U.S.A.	40.1	1,453.5	1,493.6
3.	U.S.S.R.	173.6	569.1	742.7
4.	West Germany	142.1	343.3	485.4
5.	U.K.	69.3	490.3	559.6
6.	Japan	—	266.1	266.1
7.	Czechoslovakia	—	61.0	61.0
8.	Yugoslavia	—	78.2	78.2
9.	Poland	—	36.1	36.1
10.	Switzerland	—	22.8	22.8
11.	Canada	0.8	52.4	53.2
12.	Hungary	—	25.0	25.0
13.	Bulgaria	—	11.2	11.2
14.	Austria	—	13.6	13.6
15.	Belgium	—	24.3	24.3
16.	Denmark	—	6.4	6.4
17.	France	—	124.7	124.7
18.	Italy	—	116.9	116.9
19.	Netherlands	—	54.3	54.3
20.	Sweden	—	16.6	16.6
21.	Norway	—	1.6	1.6
	Total:	532.3	4,210.4	4,742.7

in 1958 and to Rs. 1,543 crores in 1968. This includes small amounts of short term liabilities consisting mainly of debit balances in the company accounts and net unremitted dividends accruing to non-residents on their investments in Rupee Companies.

TABLE LXXXXII

External Debt Servicing

(Rs in crores)

	Amortisation	*Interest payments*	*Total debt servicing*
1	2	3	4
First Plan	10.5	13.3	23.8
Second Plan	55.2	64.2	119.4
Third Plan	305.6	237.0	542.6
1966-67	159.7	114.8	274.5
1967-68	210.7	122.3	333.0
1968-69	268.5	144.0	412.5
1969-70*	282.5	152.2	434.7

*Provisional

The increase over the 20-year period has been steady though not spectacular, nearly six times the 1948 figure. The amount of investment in plantations, the traditional field, has more than doubled from Rs.

TABLE LXXXXIII

Overall External Assistance ended on March 31, 1970

(Rs. in crores)

	Loans and credits repayable in		*Grants*	*Total 2+3+4*	*P.L. 480/665 etc. aid repayable in Rs.*	*P.L. 480 aid repayable in convertible currency*	*Grand total*
	Foreign Currency	*Rupees*					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. **Authorizations**							
upto the end of Third Plan	3,540.3	287.6	392.0	4,219.9	1,510.9	—	5,730.8
1966-67 to 1969-70	2,586.1	15.0	190.3	2,791.4	687.9	234.2	3,713.5
Total authorizations	6,126.4	302.6	582.3	7,011.3	2,198.8	234.2	9,444.3
B. **Utilizations**							
upto end of the Third Plan	2,493.1	275.5	337.0	3,105.6	1,403.2	—	4,508.8
1966-67 to 1969-70	2,757.2	23.5	246.1	3,026.8	826.8	165.9	4,019.5
Total utilizations	5,250.3	299.0	583.1	6,132.4	2,230.0	165.9	8,528.3

52.2 crores to Rs. 122.5 crores, while that in petroleum went up nearly nine times from Rs. 22.3 crores to Rs. 196.4 crores and constituted the largest single item of investment, manufacturing industries recorded the highest rate, nearly 12 per cent — from Rs. 70.7 crores to Rs. 821.6 crores. Services accounted for Rs. 107.9 crores in 1948 and Rs. 392.7 crores in 1968.

The main contributors were nine countries with the United Kingdom continuing to remain the largest single investor. It accounted for Rs. 625 crores or 40 per cent of the total foreign investments in corporate enterprises together with all suppliers' credits at the end of March 1968 a year earlier, Britain's share was 44 per cent but the decline was due to devaluation of the sterling in November 1967 and a sharp reduction from Rs. 38 crores in 1966-67 to Rs. 2 crores in 1967-68 in the net inflow of capital from this country. Gross private other capital rose to Rs. 41 crores in 1966-67 and declined to Rs. 7 crores the following year.

The U.K. again headed the list in direct investments with Rs. 505 crores or 72 per cent. Its other private capital was Rs. 120 crores which was 25 per cent of the total other capital. Almost, the whole of the foreign investments in plantations in India came from Britain, mainly in branches of sterling tea companies. These accounted for 19 per cent of Britain's total investments and 23 per cent of its direct investments. Manufacturing accounted for 45 per cent of Britain's total investment in India, petroleum 17 per cent and service industries 18 per cent.

Next comes the U.S.A. with Rs. 422 crores or 27 per cent of the total foreign investments. Its investments rose by Rs. 47 crores in 1967-68 as against Rs. 67 crores in the previous year. The decline was mainly due to a fall in drainings on loans from official sources. The net inflow of direct investment and other capital increased by about Rs. 10 crores and Rs. one crore respectively. Of the total investments from U.S.A. at the end of March 1968, direct investments were 26 per cent, loan capital from U.S.AID and EXIM Bank 53 per cent and other capital from private sources 21 per cent. Sixty-four per cent (Rs. 273 crores) of U.S. investments, were in manufacturing industries, Rs. 70 crores in petroleum and Rs. 79 crores in services industries.

As at the end of March 1968, West Germany's investments in India stood at Rs. 100 crores or 7 per cent of all foreign investments in India. The net inflow declined from Rs. 28 crores in the previous year to Rs. 15 crores. The decline was mainly due to reduced gross inflow of supplier's credit and loans. Direct investments from West Germany totalled Rs. 16 crores; Rs. 55 crores came as capital from private sources and Rs. 29 crores from the German Kreditaustalt. About 44 per cent of West Germany's total investments were in the manufacturing industries and the balance in the services industries, mainly shipping and in officially organized financial institutions.

The share of International Institutions, the World Bank and the International Finance Corporation fell by one per cent in 1967-68. This was because of larger amortization payments which more than off set the inflow. The outstanding liabilities to these institutions aggregated Rs. 98 crores and represented 27 per cent of loans and credits from official sources. About 59 per cent of the investments by these institutions were in the service industries — power projects and in financial institutions and the rest in the manufacturing industries mainly iron and steel.

Japanese investments increased by Rs. 17 crores totalling Rs. 82 crores representing 5 per cent of the total foreign investments in India, almost the whole of the net inflow came as suppliers' credit. Similarly, inflows from Italy (Rs. 4 crores) and France (Rs. 2 crores) were suppliers' credits. Among the other countries net inflow from Sweden, Belgium and the Netherlands aggregating Rs. 13 crores was largely suppliers' credits and Rs. 3 crores from Switzerland was mainly in the form of direct investment.

Industry-wise, Rs. 822 crores or 53 per cent of the total investments in India plus all suppliers' credits as at the end of March 1968 went to the manufacturing group. Chemicals and allied products accounted for Rs. 54 crores. Investments in petroleum industries stood at Rs. 196 crores or 13 per cent, Service industries had Rs. 393 crores or 25 per cent of the total investments. Bulk of this money went into construction, utilities and transport and to specialized financial institutions.

TABLE LXXXXIV

Outstanding Foreign Investment by Category

(Rs in crores)

As at end of March	1964	1965	1966	1967		1968
				(a)	*(b)*	
I. Direct Investment Capital	565.5	611.3	627.6	639.0	684.6	701.2
1. Branches	259.7	262.2	244.1	241.4	273.4	259.1
2. F.C.R.C.	305.8	349.1	383.5	407.6	411.2	442.1
(i) Subsidiaries	239.9	267.6	288.2	305.5	307.8	324.7
(ii) Others	65.9	81.5	95.3	102.1	103.4	117.4
II. Other Capital	328.3	389.8	441.7	578.0	781.3	841.6
1. Equity	53.0	54.7	57.0	63.2	63.2	75.2
2. Creditor	275.3	335.1	384.7	514.8	718.1	766.4
(i) Securities	10.5	10.9	10.9	11.1	11.1	11.3
(ii) Loans	188.1	233.9	268.6	350.4	484.2	495.3
(iii) Suppliers' credits	76.7	90.3	105.2	153.3	222.8	259.8
Total I + II	893.8	1,001.1	1,069.3	1,227.0	1,465.9	1,542.8

TABLE LXXXXV

Long Term Foreign Investments — Industry-Wise

(Rs. in crores)

	1948 (*June* 30)	1958 (*Dec.* 30)	1968 (*March* 31)	
I. Plantations	52.2	95.1	122.5	
II. Mining	11.5	11.8	9.6	
III. Petroleum	22.3	118.1	196.4	
IV. Manufacturing	70.7	214.9	821.6	
(a) Food, beverages, etc.	10.1	30.4	44.1	
(b) Textile products	28.1	21.1	66.4	
(c) Transport equipment	1.0	5.7	84.8	
(d) Machiurey and machine tools	1.2	5.9	49.6	Rs. 821.6
(e) Metals and metal products	8.0	76.0	155.3	
(f) Electrical goods and machinery	4.8	17.1	64.7	
(g) Chemicals and allied products	8.0	25.9	241.4	
(h) Miscellaneous	9.6	32.8	115.3	
V. Services:	107.9	122.3	392.7	
(a) Trading	43.0	29.6	53.6	
(b) Construction utilities and transport	31.8	51.4	221.9	Rs. 392.7
(c) Financial	15.7	16.6	96.1	
(d) Miscellaneous	17.7	24.3	21.1	
Total	264.6	562.5	1,542.8	

Foreign Collaborations: Between 1957 and 1971, 3,374 foreign collaboration agreements were approved by the Government of India. The U.K. topped the list with 885, followed by the U.S.A. 608, West Germany 524, Japan 307, Switzerland 158, France 154 and others 738.

An industry-wise classification reveals that foreign collaboration approvals for industrial machinery (other than textile machinery) were the highest as 471. Then came electrical equipment, apparatus, components etc. 420, machine tools and accessories 244, transport equipments 227, basic chemicals 187, chemical products 195 and other industries 1,630.

Policy on Collaboration: Jawaharlal Nehru's statement in Parliament on April 6, 1949, remains the authentic exposition of Government's policy on participation of foreign capital in India's economic development. The State recognized the role of foreign capital in supplementing national savings and also in making available to the country the scientific, technical and industrial knowledge, as also the capital equipment which foreign capital brings with it. At the same time, the statement emphasized the need to regulate the scope and mode of foreign capital in the national interest with the object of utilizing it most advantageously.

The conditions under which foreign capital is welcome are:

1. All undertakings, whether Indian or foreign, have to conform to

TABLE LXXXXVI

Country	Plantations: Private direct capital	Plantations: Private other capital	Plantations: Official other capital	Mining: Private direct capital	Mining: Private other capital	Mining: Official other capital	Petroleum: Private direct capital	Petroleum: Private other capital	Petroleum: Official other capital	Manufacturing: Private direct capital	Manufacturing: Private other capital	Manufacturing: Official other capital	Services: Private direct capital	Services: Private other capital	Services: Official other capital	Total
1. Canada	—	—	—	—	—	—	—	—	—	13.0	0.5	1.1	—	—	—	14.6
2. France	—	—	—	—	1.2	—	—	1.5	—	0.3	14.3	—	0.1	29.0	—	46.4
3. Germany (West)	—	—	—	—	—	—	—	—	—	16.0	16.4	12.0	0.5	38.3	17.0	100.2
4. Italy	—	—	—	—	—	—	—	15.0	—	2.4	22.5	—	—	0.2	—	40.1
5. Japan	—	—	—	—	—	—	—	2.1	—	2.4	42.9	—	—	34.4	0.7	82.5
6. Switzerland	—	1.1	—	—	—	—	—	—	—	19.9	5.6	—	1.0	1.0	—	28.6
7. Sweden	—	—	—	—	—	—	—	—	—	8.0	8.0	—	1.6	0.8	—	18.4
8. United Kingdom	117.5	3.5	—	3.9	2.4	—	89.2	16.8	—	214.8	63.7	—	79.7	34.0	—	625.5
9. U.S.A.	—	0.1	—	—	—	—	41.7	28.3	—	62.9	24.2	185.8	4.8	35.6	38.9	422.3
10. Other countries	—	0.3	—	—	0.8	0.9	—	. 1.8	—	16.3	27.1	2.2	5.2	7.9	3.7	66.2
11. International Institutions	—	—	—	—	—	0.4	—	—	—	—	—	39.3	—	—	58.3	98.0
Total:	117.5	5.0	—	3.9	4.4	1.3	130.9	65.5	—	356.0	225.2	240.4	92.9	181.2	118.6	1,542.8

1. Direct Capital	701.2
2. Private other capital	481.3
3. Official other capital	360.3
	—
Total	1,542.8

1. Plantations	122.5
2. Mining	9.6
3. Petroleum	196.4
4. Manufacturing	821.6
5. Services	392.7
	—
Total :	1,542.8

TABLE LXXXXVII

Approved Foreign Collaboration Agreements — Country-Wise

No.	*Country*	1957	1961	1967	*June* 1971
1.	United Kingdom	17	349	757	885
2.	U.S.A.	6	158	484	608
3.	West Germany	2	146	413	524
4.	Japan	1	81	237	307
5.	Switzerland	—	35	126	158
6.	France	2	37	119	154
7.	Italy	4	34	78	92
8.	East Germany	—	10	60	73
9.	Sweden	1	15	42	55
10.	Netherlands	1	17	42	54
11.	Denmark	—	12	29	38
12.	Czechoslovakia	—	11	28	39
13.	Austria	—	9	25	29
14.	Belgium	—	8	24	28
15.	Canada	—	5	19	22
16.	Poland	—	7	18	18
17.	Hungary	—	3	12	17
18.	Yugoslavia	—	1	12	14
19.	Finland	—	3	4	6
20.	Others	47	183	229	253
	Total:	81	1,124	2,758	3,374

TABLE LXXXXVIII

Approved Foreign Collaboration — Industry-Wise

No.	*Industry*	*Rupee in Crores*				
		1957	1961	1967	*June* 1971	*Total*
1.	Electrical equipment, apparatus, components, etc.	4	134	351	420	909
2.	Industrial machinery other than textile	6	98	338	471	913
3.	Machine tools and accessories	—	71	201	244	516
4.	Transport equipment	5	86	192	227	510
5.	Basic chemicals	7	95	164	187	253
6.	Chemical products	3	35	159	195	382
7.	Heavy electrical equipments (generation and distribution)	7	79	132	154	372
8.	Iron and steel products	2	60	129	151	342
9.	Instruments	—	29	114	125	268
10.	Textile machinery	1	36	89	107	133
11.	Material handling and construction equipment	1	43	89	107	240
12.	Castings and forgings	1	21	77	80	179
13.	Drugs and pharmaceuticals	4	34	68	82	188
14.	Ceramics and glassware	2	28	58	69	157
15.	Paper and paper products	2	23	45	53	123
16.	Metal and metal products	2	13	39	47	101
17.	Technical consultancy	—	3	29	42	74
18.	Agricultural machinery and implements	1	10	25	51	87
19.	Fertilizers	—	2	10	12	24
20.	Pesticides	1	7	8	12	28
21.	Others	32	217	439	521	1,209
	Total:	81	1,124	2,756	3,357	7,008

the general requirements of the declared industrial policy.

2. Foreign enterprises would be treated on a par with Indian enterprises.

3. Foreign enterprises would be free to remit profits and repatriate capital subject to foreign exchange regulations.

4. In the event of nationalization of a foreign undertaking, fair and equitable compensation would be paid.

5. As a rule, the major interest, ownership and effective control of an undertaking should be in Indian hands.

In the last two decades, India's industrial base has been broadened and its manufacturing sector widely diversified. Also, there has been significant development of indigenous know-how and consequently, Government exercises a greater degree of selectivity. Foreign collaboration/investment is accepted only in fields of relatively high priority and in areas where sophisticated foreign technology would become available to the country. Foreign investment is welcome primarily in manufacturing industries in which Indian enterprise is not fully developed and the products of which could help increase India's foreign exchange resources either by increasing exports or by reducing current inputs.

Since 1968, a Foreign Investment Board has been functioning as a local agency within Government for expeditiously dealing with all matters relating to foreign private investments/collaboration.

Certain recent policy trends in respect of foreign investment and collaboration may be noticed:

(i) Equality: Generally, the policy is to allow minority participation, the usual preference being upto 40 per cent. In very exceptional cases, majority participation may be considered if a project requires sophisticated technology not available in India or involves substantial amount of foreign exchange, which is not available from alternative sources or is essentially export oriented.

(ii) Royalty: Payments, subject to tax, are allowed upto a maximum of 5 per cent. Royalty is calculated on the basis of the ex-factory selling price of the product less landed cost of import content, irrespective of the country of supply. Government does not normally allow any minimum guaranteed royalty. No royalty payments are allowed in case of collaboration between a wholly owned subsidiary in India and the parent company.

(iii) Duration: The duration of collaboration agreements is restricted to five years from the date of agreement or five years from the date of commencement of production. However, such a date should not exceed three years after the signing of the agreement, which means a maximum of eight years are allowed. Renewals are considered on the merit of each case.

(iv) Exports: Foreign investment and collaboration are welcomed

liberally in industries which are predominantly export-oriented and where the link with the collaborating party will provide an avenue for export.

In January 1969, policy decisions were taken aimed at increasing exports involving foreign collaboration. Units with substantial export performance to their credit would be allowed, on merits, to expand their production capacity to enable them to step up their exports.

Tax Incentives: The Indian tax laws offer a wide range of tax incentives and special incentives for foreign/non-resident tax payers.

Among incentives for savings and investment are a five-year tax holiday for new industrial enterprises, tax exemption for 'priority' industries, depreciation allowance development rebate, deduction of expenditure on scientific research, export markets development allowance, agricultural development allowance, concessional treatment of inter-corporate dividends, tax-free dividends, wealth tax exemption, tax credit certificates, and exemption of income from provision of technical know-how or services.

Special incentives for the foreign or non-resident tax payers are:

(1) Concessional tax on royalties and technical service fees received by a foreign company.

(2) Exemption from surtax or royalties, interest and technical service fees of foreign companies.

(3) Tax exemption to foreign technicians employed in India.

(4) Tax free interest on loans from specified foreign sources.

(5) Deduction of expenses on education of children outside India.

(6) Exemption of leave passage money.

(7) Exemption for foreign employees for services rendered in India.

(8) Exemption from tax on export income.

(9) Exemption on remittances to India out of foreign profits or capital.

The growing number of collaborations owes a great deal to Government policy, both deliberate and undesigned. By means of import restrictions, the Government has raised profits on home production; and among the foreign firms that wish to share in the protected market, the Government has shown hostility towards those that are entirely owned abroad. So collaboration has become more or less a *sine qua non* for foreign firms wishing to enter the Indian market. Similar hostility towards foreign control reduces the attraction of financial investment in India, and correspondingly increases the advantage of the sale of know-how for royalties.

The object of the Government in encouraging collaboration is fourfold:

(a) By their means we would be replacing the import of goods by the

import of capital and know-how, substituting domestic for foreign labour and materials and thereby saving exchange.

(b) The import of know-how would educate our countrymen in industrial techniques and take the country towards technological self-dependence.

(c) Finance brought into collaborations from abroad would be free from political strings unlike Government grants or loans.

(d) The outflow of returns on imported equity capital would be more flexible than on foreign loans and could be more easily adjusted to our payments circumstances.

Foreign technical help can be obtained in three forms: employment of foreign technical personnel, technical consultancy arrangement, and technical collaboration arrangement. The first two are essentially personal in nature, while the third is institutional. The growing phenomenon noticed since 1957 is the rise in this third form of technical assistance arrangement.

The advantages of a collaboration arrangement are that it enables the country to take a start on its development effort at a higher level of technology than if it were to seek to develop on its own. It thereby enables development not only to take place faster but also helps avoid waste of capital, both as a result of experimentation and of delays in obtaining output from equipment. The agreements have also helped many new *entrepreneurs* to take up industry. The large number of new *entrepreneurs* who have come up in recent years have been greatly helped by their collaboration with well-known foreign firms, often in technically difficult industries. An essential advantage, particularly where the foreign partner also participates in the capital and management of the Indian company, is the adherence to improved management practices and strict quality control that it ensures.

Repetitive Collaboration: On the subject of foreign collaboration, the Committee of Inquiry on Industrial Licensing Policy, has discussed at length what it calls "repetitive collaboration". This phenomenon it says, arises in the form of collaborations being entered into for a product irrespective of the fact that it is already being produced on the basis of another foreign collaboration agreement. As a result, agreements are entered into by a number of Indian firms either with the same foreign party or with a number of foreign parties for the same product.

Analysing the list of foreign collaborations, the Committee has found that 363 categories were involved in repetitive collaborations. Of these, there were 50 products for which collaborations in multiple numbers have been granted in the same year. Also there has been significant difference in the terms of approval in many cases. It gives the example of how in calculating the payment of royalty, several bases have been

accepted in different agreements.

The Committee has enumerated areas of production, mostly of consumer goods, where there is no great advantage in obtaining foreign know-how, much less granting repetitive collaboration. Some of the items are loudspeakers, toys, sports goods, spectacle hinges, ball point pens, tooth paste, readymade garments etc.

Similarly, multiple collaborations have been permitted and renewed in respect of items like domestic refrigerators, radio receivers, transistors, tape-recorders, gramaphones, record changers and cameras. These non-essential goods the Committee concludes, lead to outflow of foreign exchange over long periods of time.

On the question of indigenous production of these items contributing to import substitution, the Committee says it is inconceivable that such goods would have been at all imported in view of the difficult foreign exchange situation. Further not all imports need to be substituted.

The Committee has also been critical of another type of collaboration-items in which production has already been well established and no further major import of technology is necessary.