Industry in the Plan

Some Unresolved Points

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Experience of Indian industries like cement and steel indicate that the investment requirements in the industrial sector will probably be greater than anticipated in the Plan, and that this increase will be felt especially in the public sector, to which are reserved many of the more capital intensive projects.

If there is an underestimation of capital requirements it may prove necessary to tighten priorities further' to extend the Plan over a longer period of time, or finally to change the priorities somewhat to lay greater stress on industries of lower capital intensity.

There is no discussion of price policy in the Plan. This may reflect a belief that price should not interfere with desired social goals. However, there may be some question whether the price system might not be used to a greater degree in assisting in the allocation of resources.

One other industrial area which the Plan skirts is the field of small industries. If While an allocation of Rs, 200 crores is made for these industries' the bulk of the discussion in the Plan is confined to the village, hand industries. Further exploration of the possibilities of starting ancillary industries performing work on a sub-contracting basis for larger firms would have been desirable.

THE two major general characteristics of the industrial programme in the Second Five Year plan are

(1) the great increase -a tripling —of proposed investment for large and medium size industry, compared "to the actual expenditures in the First Plan; and

(2) a pronounced shift to dependence on the public sector for the largest proportion of this increase.

In the Firs? Five Year Plan an actual investment of Rs 57 crores was made for large and medium industrial projects in the public sector, and one of Rs 3-10 crores was made in the Private sector. The investment in the public sector was about 55 per-cent of that proposed at the start of the Plan; that in the private sector was about 75 per cent of that originally proposed. Of the total investment of Rs, 397 crores almost 85 per cent was by the private sector.

The total planned investment in organised industry in the Second Plan is of the order of Rs 1200 crores. It is proposed to invest over Ra 600 crores in investment in the large and medium industries in the public sector (including the National Industrial Development Corporation). The programme of investment in the public sector is envisaged at Rs 570 crores. This is over a ten-fold increase in the investment in the public sector, and about a two-thirds increase in the private sector as compared to the First Plan.

Low Capital Output Ratio

The Second Five Year Plan as piesented in the final version does not attempt to estimate the addition to national income from the industrial sector, anticipated by this great Increase in investment in industry. However, since the total increase in national income is the same as that presented in the earlier Draft Outline of the Second Five Year Plan, it may be assumed that the planned increase in each sector also remains the same as in the Draft Outline.

During the period of the First Plan the increase in net national product, with the investment of Rs 397 crores in factory establishments, was Rs 250 crores. This equals a capital output ratio of approximately 1.6:1. For industry this is a low ratio, and its lowness is best explained by the existence of unutilized capacity in industry which could be used to expand output without major investment. For the Second Five Year Plan period it may be reasonably assumed that there is far less unused capacity. This may be one reason for the somewhat higher capital output ratio anticipated in the Second Plan period. With the investment of Rs 11100 crores it is anticipated that net national product from factory establishments will increase by Rs 540 crores or a capital output ratio of 2.2 : 1 .

Possible Alternatives

It is probable that this higher anticipated ratio is still too low. The Second Plan has a system of priorities laying major stress on setting up or expanding output in the producers goods industries—iron and steel, heavy chemicals, heavy engineering and machine building, aluminium, cement, chemical pulp, and light chemicals and drugs. Almost all the industries in which the public sector is investing are In those areas as also over 50 per cent of the proposed investment by the private sector.

Research has already indicated that the capital output ratios in the cement and steel industries will be of the order of 3:1 for new or expanded plants; for such industries as heavy chemicals and heavy machine building, the capital output ratios are probably at least of equal magnitude. This would indicate that the investment requirements in the industrial sector will probably be greater than anticipated in the Plan, and that this increase will be felt especially in the public sector, to which are reserved many of the more capital intensive projects. If there is an underestimation of capital requirements for this development, this may require various alternative solutions. Additional capital may be attempted to be raised, but this is probably the most difficult of the alternatives. Otherwise it may prove necessary to tighten priorities further, diverting investment from lower priority areas in industry or other section^ of the economy to the higher priority industrial areas. It might also be considered desirable, as several government leaders have already stated, to extend the Plan over a longer period of time, and several of the lower priority industrial investments could be made later. Or finally priorities may be changed somewhat to lay greater stress on industries of lower capital intensity.'

The Plan itself says at one point "If due to a stortage of financial resources, a scheme of priorities has to be worked out in connection with NIDC projects, the highest priority will have to be given to schemes connected with heavy machinery. . . . . ." (p 404) -Ed.

public and Private Sectors

"With respect to the relative roles of the public and private sector, to a certain degree policy is circumscribed by two facts first, the Industrial Policy Statement which reserves certain industries, or their expansion, for the public sector, and second, the inability of the private sector to finance certain large projects such as the projected great iron and steel works. However apart from these restrictions, it can be stated, based on the accomplishment in the First Plan, that the private sector was reasonably successful In achieving the desirable social goal of increasing production during the period, while at the same time profits Increased. The First Five Year Plan With the commitment of a delinite government programme of expenditure in the economy, proved highly stimulating to the private industrialist. With the expectation of increased spending in the Second Plan it is to be expected that this stimulus will continue. At the same time the attitudes of the private industrialist with respect to ploughing back profits into industry are increasingly such that, given an atmosphere conducive to this investment, he will continue to re-invest. The private industrial sector is in an early period of self-generating growth, and if this is encouraged, with proper social protection to prevent abuses, it could lead to rapid development of the economy.

The Plan for the private sector as presented in Chapter 19, is inevitably only the rudiments of a plan. It is based largely on the license applications of existing private firms for expansion or production during the next live years. At present rates of expansion, with present plans and attitudes toward further expansion, and with access to capital resources which may be underestimated in the Plan, it would not be surprising if the private sector both exceeded its various targets, and entered into areas of production unforeseen in the Plan.

At the same time the expansion of the government's industrial activities by ten times (in terms of investment), is more difficult to envisage. Apart from the difficulty of raising the capital for the expansion (which may be greater if there is underestimation of the requirements), there is the major problem of whether it will be possible to increase the administrative capacity ofv the government to handle such greatly increased responsibility within such a short period of time.

No Price Policy

It is of some interest that there is no discussion of price policy in the Plan. This may reflect a belief that price should not interfere with desired social goals. However there may be some question whether the price system might not be used to a greater degree in assisting in the allocation of resources. The present system of relatively low fixed prices for certain major manufactured products, such as cement, steel products, and paper, among others, may make it possible for the government to meet its requirements at relatively low cost; but it also may result in encouraging a presently undesirable demand for the price controlled products. This encourages development in certain low priority fields—such as luxury housing—at the same time as It diverts ejearce resources away from higher priority areas. To the degree that such products must be imported, it also contributes to increasing foreign exchange difficulties.

Ancillary Industries

One other industrial area which the Plan skirts is the held of 'small industries. While an allocation of Ra 200 crores' is made for these industries the bulk of the discussion in the Plan is confined to the village hand industries; and the larger part of the investment is planned for these industries. Further exploration of the possibilities of starting ancillary industries performing work on a subcontracting basis for larger firms would have been desirable. With such a large proportion of the investment for large industry, in heavy and light engineering, a system of subcontracting parts of this machinery output to smaller firms might lead to greater increases in employment than currently envisaged from this sector. Since the central government is playing a major role in setting up the engineering works its encouragement of the development of ancillary works around government factories could prove fruitful. Such a programme by both the public and private sectors, however would require a conscious policy both on the part of the government and larger private industry to provide credit, needed raw materials and machinery, and proper inspection of finished products to ensure that the small industrialist would be able to enter production, to produce goods of high quality, and to grow. It may also call for step's to reduce the network of red tape which either exists, or more important, is believed by the small industrialist to exist, and which discourages contact between the small industrialist and the government.

This paper has raised certain questions with respect to the size and direction of the industrial portion of the Second Five Year, as well as certain problems with respect to Implementing the Plan. The purpose has not been to give unsolicited advice, nor to perform the easy task of criticising from an ivory tower from which choices in a political setting do not have to be made. Rather it has been to stimulate discussion of certain unresolved points in the Plan, without in anyway denying its boldness and scope.