ORISSA ECONOMIC JOURNAL

- Long-term Fiscal Policy in India.
- Problems and Prospects of' Industrialisation in Orissa.

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ORISSA ECONOMICS ASSOCIATION
BHUBANESWAR

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SECRETARY'S REPORT

Mr. President, Honourable Chief Guest, reverred Chairman of the Organising Committee, Respected Teachers, Fellow delegates, Ladies and Gentlemen !

I have profound pleasure in welcoming you all to the 20th Annual Conference of the Orissa Economics Association. We are indeed grateful to Mr. B. R. Patel Honourable Vice-Chairman, Central Administrative Tribunal of Cuttack Bench. We deem it a special previlege and offer our heartfelt gratitude to him for his unusual kindness which he has shown by coming over here inspite of his pressing engagements.

I am highly obliged to Dr. Sadasiv Misra, Dr. Debendra Ch. Misra, Dr. Bidyadhar Misra, Dr. Baidyanath Misra and Dr. K. M. Patnaik for having come over here to be with us during the conference.

The Orissa Economics Association was formed in the year 1968 by the eminent economists of the State. Since then it has been nurished by the blessings, goodwill and tender-care of the teachers, administrators and planners of our State.

Ours is the oldest regional academic Association in the whole of the country.

The Association was formed with the following objectives :—

1. to meet from time to time and discuss various economic problems,
2. to improve the standard of the teaching of economics in various colleges of the State, and
3. to stimulate research in the subject with special reference to the economic problems of Orissa.

It is gratifying to note that since its inception, the Association has been making humble attempts to discuss various economic issues with special reference to Orissa and find out appropriate solutions pertaining to these problems.

It has not been possible to realise all of its objectives on account of paucity of resources. However, the Association in its

Annual Conferences has focussed sufficient light on a large number of subjects such as Agriculture, Industry, Transport, Govt. Expenditure, Developmental Planning, Centre-State financial relations and a host of other related issues. The research papers on different aspects of these topics have been recorded in the Joulnals of the Association. The Orissa Economics Association is the vanguard of all the academic Associations at the State level. This is the only Association which is holding its annual conferences regularly right from its inception and has been publishing two issues of the Orissa Economic Journal annually. The deliberations in the Conferences have been highly appreciated by eminent persons. It is said to be almost onpar with the Indian Economic Conference. The success of the Conference has always been due to the presence and participation of all the eminent economists of the State. I cherish their sympathy and good-will in the years to come for the smooth functioning of the Association.

I am happy to mention that both the life and Annual membership of the Association has been on the increase. The total life membership has gone upto 119 in the current year. A notable feature of the membership is that besides teachers in economics, faculty members of other disciplines and officials have shown interest to enroll as members.

Two issues of Orissa **Economic Journal** for the year 1985-86 have been published and distributed among the members. Copies of the same have been supplied to the different institutions and persons of eminence for their reference.

The following topics have been chosen for discussion during the conference.

1) Long-term fiscal policy in India.
2) Problems and prospects of industrialisation in Orissa.

Articles on various aspects of the above issues will be presented and discussed by the members in two subject sessions of the conference. Keynote address on the long-term fiscal policy will be delivered by Dr. Baidyanath Misra, Deputy Chairman, Orissa State Planning Board. A Bhattacharya, the Chairman of IPICOL will present the keynote address on "Problems and Prospects of industrialisation in Orissa".

A symposium on "Monetary policy in India" will be held today. Dr. K. M. Patnaik, Ex-Director of Higher Education of Orissa will speak on the above issue. Many delegates will participate in the deliberations.

A memorial lecture in the name of Bhubaneswar Mangaraj has been instituted from this year with a donation of Rs. 5,000/- by Sri Ashok Singh, the Editor of ECORISSA. Dr. Sadasiv Misra Ex-Vice Chancellor of Utkal University will deliver the memorial lecture. He will speak on "Growth with stability" tomorrow in the afternoon session.

The Association received a sum of Rs. 4,000/- from the State Youth Welfare Board as grant-in-aid for the year 1984-85. I take this opportunity to express my sincere thanks to Dr. Baidyanath Misra, the Secretary, Youth Welfare Board. This grant-in-aid has helped us a lot in holding the conference and publishing the Journals every year.

We received Rs. 3,000/- as grant-in-aid from Director, Higher Education during the current year. This has helped the association to tide over the financial problems to a great extent. I take this opportunity to thank the Director of Higher Education for the timely grant given to the Association.

This conference would not have been possible but for the kind invitation of the Principal of this College. I am thankful to the Chairman, Advisory Committee, Chairman Reception Committee, members of d fferent committees of the conference, members of the staff and the student volunteers for their untiring efforts to organise the conference in a befitting manner. I am thankful to Dr. Sadasiv Misra, Dr. Debendra Ch. Misra, Dr. Bidyadhar Misra, Dr. Baidyanath Misra and Dr. K. M. Patnaik to have shown keen interest in all matters of Association. I am particularly grateful to Dr. Baidyanath Misra to have spared time to edit the Journals.

I am thankful to Mr. R. K. Das the Chattered Accountant to have audited Accounts of the Association without any Audit fee.

I am thankful to the President for his able and active guidance in all matters of the Association, I am thankful to all members of the Executive Body of the Association for their active co-operation in all the activities of the Association and to you all, ladies and gentlemen for your patient hearing.

Thanking you,

B. Nayak
SECRETARY

Presidential Address

My esteemed Teachers, Chairman, Central Administrative Tribunal, Chairman of the Reception Committee, Members of the All-Orissa Economics Association, Ladies and Gentlemen,

I am most grateful to the members of the Orissa Economics Association for having elected me as their President, an honour and distinction which I hardly deserve. I accepted this honour in all humility as I recognised in it the generosity and graciousness of the members of the association.

My present association with the Agricultural research has prompted me to draw your attention to an important aspect of agriculture, i.e the present challenge to the agriculture in our State.

Orissa's agriculture to-day faces a major new challenge. The comparatively straight forward objectives of the past 35 years are now outdated. The problem was so far primarily to increase overall levels of production to be self sufficient in foodgrains. The production of foodgrains has increased from 22 lakh tonnes in the 1st five year plan to about 56 lakh tonnes at present. The struggle for self sufficiency has almost been won. What is needed in the years ahead is an effort to harness improved techniques in ways that not only increase productivity but at the same time bring a better way of life to the rural population of the state.

The fact that an over whelming majority of them still live in abject poverty is indeed Lamentable, But it should not be taken to mean that what has been accomplished so far is in any way insignificant. The state has come out of the days of pessimism of the mid sixties It is now looking for export markets for its marginal surpluses This by any standard is a magnificient achievement. The foodgrain production has recorded a nominal growth rate of 1% per annum during the period between 1967-68 to 84-85. While cereals rose marginally α 0.4% per annum pu'ses recorded the highest growth rate of 6.1%. Among the cereals wheat recorded the highest growth rate (17 3%) followed by maize (8.5%) ragi (4.4%) and small millets (4.3%). Production of gram and tur has risen only marginally while other pulses, particularly urad, moong and Kulthi have increased sharply. The period is chosen since 1967-68 as it marks the beginning of Green Revolution in India. The food grain production has grown only by 0.99% per annum which is much less than the national average growth rate of 2.47%. Productivity of rice has registered a low growth rate of about 0.99% per annum. The reasons for such deceleration in growth rate have been analysed statistically taking various endogenous variables and the natural calamities like drought, flood and Cyclone and is found to be the significant among them. Improvement in Agricultural front has been due to expansion of area under crop and increased in cropping intensity rather than increase in productivity.

Remarkable qualitative changes in the institutions have taken place to sustain the recent spurt in production. Noteworthy among these is the emergence of efficient research and extension systems based on a network of specialised research stations in the state. A decade ago, much of agricultural research and education was carried on in ivory tower institutions whose programmes had little bearing on the farmer's actual problems. In contrast there is now a continuous flow of information from the Laboratory to the field for the benefit of both farmers and research scientist.

This is not all, in some coastal and western districts where irrigation has been assured there has been increase in general prosperity. In Mohanadi Birupa Barrage area the production has increased significantly due to better and effective water management. The average yield of paddy stands at 2.4 tonnes per hectare. A new trend has developed by replacing the traditional paddy crop with non-paddy crops. Intensive cultivation means more work. Wages have been jacked up by over 200 percent and busy season is no longer a matter of days. It spans almost 5 months in a year.

The farmers as well as farm hands are now earning little more and are also spending more. The new demand for a wide range of goods and services has created new opportunities for thousands of black smith, carpenters, masons, brickmakers, weavers, potters, leather workers, washermen, tailors and countless others. The same story is being repeated in other irrigated tracts of Western Orissa

But this is only one side of the picture, the other is sombre. Miraculous transformation has taken place and in a few pockets of the state. The green revolution has done little to ease the many problems of the rest of rural Orissa. The prosperity generated by the new technology in agriculture is still confined to small pockets. For the rest the grind of age old poverty continues because three major factors, have combined to work against them, geography, the size of holdings and the nature of the new technology.

Over 80 percent of the cultivated acreage of the state is rainfed. It lacks assured sources of irrigation and it is clear that these areas would not benefit from the fertiliser based technology needed to produce high yields from the dwarf cereal strains of the green revolution. In addition even in areas that have assured sources of irrigation, the high yielding varieties programme has not favoured the humble and weak. It relies basically on a high cost high yield technology which calls for huge investments that are beyond the means of the overwhelming majority of this country's small and marginal farmers. As a result most of them have so far had little option but to watch and wait whilist others have moved ahead. The Tribals of Orissa which constituted about 23% of the total population of the state have hardly been benefitted by the new technology.

This apart, the swifter and more intensive rhythms of work ushered in by the high yielding varieties have also encouraged profound changes in the traditional alignments of rural society in the irrigated areas. Since the pace of mechanisation has tended to lag behind the increasing demand for more hands, landless labourers have found themselves in a good bargaining position. Wages have risen as a consequence.

Thus the critics are found criticising the modern technology of Agriculture (green revolution) for promoting the emergence of two economies, i.e one that is irrigated, prospering and progressive and another that is poor, dry, stagnant and split up into millions of small and marginal holdings. Diversification is being adopted to provide assurance of a minimum living throughout the year. The poor and marginal farmers in villages are hardly finding jobs off the fa m and as a result are migrating to the nearby towns. The size of operational land holding is very small, and private land ownership, evolved over centuries, has led to progressive subdivision and fragmentation of holdings. The very small size of holdings and acute fragmentation make sound water management, technological improvements, investment in land infrastructure and marketing arrangement very difficult. The situation in tribal areas is not encouraging. Tribals are in occupation of slopy, undulation, rocky or hilly land where some low-value crops are being grown. Shifting cultivation still continues in tribal areas. In absence of commercial outlook and improved infrastructure, the tribals have no incentive to maximise productivity. Owing to extreme poverty and low savings many tribals mortgage their land to non-tribals. This deprives the tribals of their only capital land which is their sole means of livelihood.

The urge to find an answer to the problems mentioned above has led to the emergence of two contending schools of thought. On the one hand there are those who believe that the only way to overcome rural poverty is to extend the process of technological change to cover an ever widening sphere of rural activity. On the other, there are the radicals who have developed a mistrust of technology. In their view the problem calls not for technological change but for drastic institutional reforms. They are in a position to back their case with a formidable array of technical and social arguments. To begin with nearly 75 percent farmers account for 40 percent of area in Orissa. Due to preponderance of small and marginal farmers, the average size of the holding is 1.6 hectares. However, for bulk of the farm operators who are marginal farmers, the average size of the holding is 0.5 hectare. About more than half of the area is cultivated by farmers with 2 hectares or more. Secondly it is becoming increasingly clear that many of the new intensive multiple cropping schedules that are now being developed can be practised efficiently on small irrigated holdings. Technology is scale neutral. Thus on the surface it does look as if the ends of Social justice and higher productivity can be combined by reducing the minimum permissible size of holdings.

This is the rationale behind the State Government's current drive for land reform. But in reality, there are strict limits to what the programme can achieve. The Land Reforms Act has contained a number of myriad loopholes and escape clauses, which have stalled the implementation of the laws to great extent. Political interferences are numerous. In Orissa oral tenancy has become the common practice, mostly in coastal areas. Share cropping is widely prevalent. There is no attempt so far to record the share cropping. It is safely concluded that the Land Reform measures can not make available enough good land for distrubution among even one percent of the landless households of the State.

In these circumstances it is obvious that answers to the problems should be sought elsewhere. The modern Technology has become the high cost-high yield Technology which is designed to boost production in irrigated areas.

Agricultural research has in recent years been moving faster than at any time before Dr. Borlaug released his dwarf wheats. It is today in a position to offer improved methods for the production of everything from pigs, pulses, pineapples and potatoes to groundnuts, and even medicinal plants. It can now be adjusted to suit a wide range of institutional factors.

An attempt has been made since 1981-82 to exploit these new developments in the special centrally-sponsored credit-cum-technical assistance programmes for landless, small and marginal farmers. This is otherwise known as Integrated Rural Development Programme. Large sums have been spent on financing various schemes, i.e goatary, poultry, dairy, plantations, small business, minor irrigation, bullock and bullock cart etc, to provide additional income and employment to the poor farmers. Thus, it is an attempt to reduce rural poverty. A number of agencies have evaluated to find out the impact of the programme on rural development. The common opinion is that the programme is yet to act effectively as an antipoverty one. The usual defects from which the programme is suffering at present in the state are improper selection of beneficiaries, beneficiaries are not given their choicest schemes, defect in purchase of assets, difference in value of assets and their market price and lack of proper supervision. These defects are temporary in nature and will disappear very soon. At the initial stage the programme has not been successful to have effect on reduction of rural poverty. Besides the I.R.D.P. the other fruitful way of overcoming rural poverty is not concerned with institutional changes like land reforms, but is concerned in providing more areas with water, which is the key to intensive cultivation, higher farm incomes, an expanding rural market for goods and services and emergence of growth centres, with revitalised village and agro-based industries based on intermediate technology.

Dr. B. Bhuyan

INAUGURAL ADDRESS

B. R. Patel

Mr. President, Chairman and Members of Orissa Economics Association, Ladies and Gentlemen,

At the outset I would like to thank you for having invited me to be here with you this morning at the inaugural session of the 20th Annual Conference of the Orissa Economics Association. I do not deserve the honour you have done me. I am a layman. You are all experts, researchers, teachers and students of economics. I do not have the discipline of a student of economics and I have no particular experience of the developmental efforts going on in the State barring a few years' association with the Departments of Community Development and Gram Panchayats, Agriculture and Animal Husbandry works and Transport and Industries and Commerce and whatever experience I had is now out of date since that happended quite some time back. I am, however a beneficiary of your success and a victim of your failure. As such, I think, I have the right to be heard. Frankly speaking, I do not know what say I have. All that I would like to say however is that the opinion of people for whom you have all been working should enter into your calculation. Because validity of a theory, in my opinion, largely depends upon its acceptability.

2. As we all know Orissa is at the bottom of the economic spectrum. Not only over 70% of its people live in the villages, the percentage of population below the poverty line touches 45% against 37% of the country's average. It is barely 15% in Punjab and even a hilly State like Himachal Pradesh is much better off. Orissa is also amongst the least urbanised States, next only to Nagaland and Sikkim, may be now also Mizoram. In the context of abundance of natural resources, the staggering poverty of the people seems paradoxical. Its cause may be found partly in the composition of the population, its spatial distribution and partly perhaps in the attitude of the people to work. 38% of the population is accounted for by Scheduled Castes and Scheduled Tribes and another 40% by other backward classes. Such concentration of the poor, under-developed people is not found in other States except those which are wholly or nearly so, tribal States which form a special categoıy receiving special attention. While Scheduled

Castes and other backward classes are more or less evenly distribute throughout the State, the Tribes inhabit in hilly infertile regions where a square meal a day throughout the year is impossible. About 50 to 60% of people are without the basic necessities of existence, i.e, food, clothing and housing. This underlines the point that what is good for other parts of the country may not be good for Orissa and what is good for Cuttack may not be good for Koraput and calls for flexibility in approach and strategy to be adopted to tackle the varied problems of different regions of the State. Such flexibility of approach is necessary even in one region or one community where there is disparity in the economical status or living standard of the people. Amongst the people of Scheduled Castes there are some who are better off than others and are at par with others of advance communities. This is also true of tribal people though there the disparity is not so marked. But the Kutia Kandhas of Belghar, Dungaria Kandhas of Bissamgiri and the Bondas of Bonda hills of Malkengiri cannot be compared with the settled cultivators amongst the Santhals of the district of Mayurbhanj. No rice grows in Belghar and no Bonda woman has ever clothed her torso. They are subjected to cruel social customs and ceaseless exploitation by traders. While therefore accepting the frame work of State level planning, details will have to be worked out very carefully taking into account not only the local needs and possibilities but also the prevalent social customs and attitude of the people. Thia calls for an interdisciplinary approach and cannot be left to any particular Department or agency. Even implementation of the programme needs careful planning. As sufficient thought has not been devoted to this aspect, a programme which succeeded in one area has failed in another. As you know for proper planning both at the macro and micro level adequacy and correctnesa of the data base cannot be over-emphasised. However sophisticated our tool and technique and technology of planning may be and however eager we may be to race to the 21st century or to catch up with the advanced countries, without correct information even the most intelligent computor cannot give us the result we want, for a computer can produce only garbage however intelligent it may be if garbage is fed into it. And like detailed planning and implementation, data collection has to be planned and organised at the micro level. Considering our population as it is and their distribution, it is indeed a daunting task. Though planning "for individual" rather than "group planning" or "area planning" is a better and more effective technique, even in this area, the desired result will elude us unless we take adequate precaution in the collection and processing of data and formulation of micro level programmes.

3. Prof. John Kenneth Galbraith during his visit to India in January last has said in an interview that in the last 30 years he has seen 3 basic changes in the economic development of India, the first change being the enormous improvement in agriculture which he could not foresee in 1956 when he visited India for the first time. Prof. Galbraith stated that "no one ever expected that in 30 years, India would be adding to the world glut in foodgrains". The second thing he witnessed was the vitality of the Indian industry and he bracketed India with Korea, Singapur and Taiwan as the new comers to the industrial scene. Prof. Galbraith has added, "one is becoming increasingly aware of Indian goods on the world market, and some countries have even shown certain protectionist tendencies—not excluding the United States." The third and most predictable change of all has been the doubling of the population. When asked about his reaction to the birth of a consumerist society in India, Prof, Galbraith said" but I certainly hope that India continues to see economic policy as catering to the basic needs of the Indian masses, and not to the still relatively small middle and upper class". While it is reassuring to hear about the progress of our agriculture and industry from an eminent economist of the stature of Prof. Galbraith still the question that arises is how healthy are our agriculture and industry in the context of the population explosion One of the disconcerting features of the Indian economic scene is that in the last one century or so the distribution of the work force among the primary, secondary and tertiary sectors has remained almost stagnant. It is about 72% in agriculture and allied occupations, only 10% in industry and 18% in the service sector. While the shift towards the secondary and tertiary sector is phenomenal in the developed countries, in ours no clear trend is discernible. India still remains largely an agricultural country and agriculture still remains the hope of the ever increasing unemployed and under-employed population. The elasticity of the agricultural sector and its capability to abso b the surplus work force which is ever on the increase is however not unlimited. Even though we still consider land more as a matter of social security rather than a unit of productivity, land being limited and almost all arable land having been brought under cultivation it is a matter of grave concern for all of us as to how to provide for the increasing workforce. There is perhaps no escape from shifting the population to industrial and service sectors. Serious efforts in this direction is still not noticeable. Talking of Orissa, it is doubtful if with all of our efforts towards industrialisation we have been

able to reach the country's average for absorbing the work force in this sactor. I do not know if any systematic survey has been conducted in this direction. In my humble opinion industrial development of the State has not been commensurate with the efforts we are putting in the shape of incentives, capital investment and planning. We do not have indigenous technology. We Import secondhand plant and outdated technology from abroad and aspire to compete in the world market. This is in marked contrast to the Japanese way. Japan buys advanced technology while it is still in the laboratory and develops it at home to meet its requirement. This has helped the development of Japanese technology. As you know, this together with the productivity of labour helped secure for Japan a dominant role in the international economic scene. Productivity of Japanese labour, in turn, is largely due to Japan's social structure. It Is vertical, whereas here as elsewhere social relationship is horizontal. In a firm or factory, in Japan, the manager maintains social relations with all under him starting from the one at the bottom right upto the man at the top. This has helped development of loyalty and discipline in the organisation and consequential constructive attitude to work. A firm or factory in Japan is a more cohesive organisation, each one there bound to the other in a tradition of loyalty and discipline like a family. In India, as in other countries of the world, the executive has his social relation with other executives of the same status either in the same office or in another office or firm. Coming back to Orissa we find that there are a few large scale undertakings in the Central sector in the State, like the Rourkela Steel Plant, Nalco and the Phosphate Fertiliser Factory at Paradeep. We however do not find any fallout effect or multiplier effect. Establishment of these big plants have not led to development of any ancillary or subsidiary industry on an appreciable scale and there is no visible impact on the economy of the State. To draw up a balance sheet of the State's investment and gain wi l be a ve.y interesting exercise and will throw light on the actual state of affairs. In marked contrast, in Punjab, the extent of industrialisation is rather phenomenal, even though there is no Central investment there on a comparable scale and this has resulted in a higher standard of living of the people and in eliminating the familiar dichotomy of rural and urban living standards.

4. It was in the year 1968, when I was Secretary to Government in the Industries Department, the State Government for the first time, brought out an Industrial Policy Resolution giving various incentives and assistance to encourage people to set up

industries in this State. When I presented a copy of this to Shri Wanchoo I.C.S the then Industries Secretary to Government of India at New Delhi, Shri Wanchoo advised me to tour in Punjab to study as to how Punjab has industrialised itself with the help of small and medium entrepreneurs. During that time I was also asked by the State Government to contact some big business houses in Calcutta and Madras to persuade them to start industries in the State. I did meet at Calcutta Mr Narsingh Bangur who had a chemical plant at Ganjam and requested him to help the State Government develop Paradeep port area by establishing some industries there. When I gave him a copy of the Industrial Policy Resolution, he showed me, the resolutions passed by other State Governments promising more or less the same assistance and incentives. Mr. Bangur told me frankly on that occasion that he would prefer some other State to Orissa for investment. When I asked him why, he said his experience of the Jayasri Chemicals has made him wiser. I need not elaborate on this point. I shall be happy to know that things have changed since then for the better.

5. The largest single factor responsible for the rapid industrialisation of Punjab seems to be the dynamic entrepreneurship and hard work, the two essential ingredients of prosperity. As you all know there is no substitute for hardwork and resourcefulness and these are missing in our State. We often hear of lack of savings and lack of capital in the State, which has impeded the industrial growth. To meet this point a quarter of a century ago, as you may remember, the State Government launched what is known as "pilot projects" providing 90% of the capital requirements from the Public Exchequer. Entrepreneurs were selected, sheds were constructed and a number of industries were set up in and around Cuttack. In 1968, as Secretary to the State Government in the Industries Department, I had the dubious distinction of liquidating these projects. We have now what is known as 'Joint Sector Projects' under the auspices of the IPICOL. This is also modelled more or less on the pilot project of yore providing bulk of the capital requirement by way of equity and loans from Banks and national financial organisations. Quite a few of the enthusiastic educated young men have been assisted by the IPICOL in setting up industries. Though there has been no systematic stocktaking it has been my experience after visiting some of the industries that while some are doing well due to the initiative and resourcefulness of the management, others are not doing so well. Some of them have not yet gone into production because of financial difficulties encountered enroute though these industries were started after the feasibility has

been examined at various levels and the requirement of funds provided. I only hope that these industries will not go the way the pilot projects went. We cannot afford the failure of another ambitious experiment. Though the problems vary from industry to industry and an Industrywise survey would indicate the cause of relative success or failure, the fact remains that we are not as enterprising as the people of Punjab and Haryana. Why it is so is a matter for a thorough investigation and the sooner the causes are found and the various factors responsible identified the better it would be for the State.

6. Since industrialisation does not depend on the State Government alone and the State Government has no claim to all the expertise, I would venture to suggest that assistance from eminent industrialists both from within and outside the State, successful managers and eminent economists should be harnessed to the task of formulation of policies and programmes of industrialisation. Institutional backup for such a venture is essential. There are many things which cannot be managed by an industry by itself. Even the IPICOL which is the appex body for promotion of industries and development of industrial atmosphere is not yet fully equipped for the task entrusted to it. I hope you will hear more about this from the Chairman, IPICOL, whom, I understand you have invited this afternoon to discuss with you about the problems and prospects of industrialisation in Orissa. I wonder whether it would not help if a body of industrialists, executives and economists is associated in the formulation of policies at the highest level. This body should be vested with adequate authority so that it will not be merely an advisory body whose advice is subordinated to other considerations on various pretexts. The problem of motivation is however more intractable. You will agree with me that unless the people of the State set up their own industries and opportunities are created for skill and capital formation inside the State whicn will pave the way for establishment of further industries, industrialisation cannot proceed apace and consequently there will be no impact on the economic conditions of the people. How best it can be done is for you to delibrate and decide. In my humble opinion it holds the key to the whole problem.

7. One of the objectives, I am told which your association has set before it is improvement of the standard of teaching of economics in various colleges of the State. Not being an academic myself I do not have any access to the inside knowledge in this respect. I have, however, had an opportunity sometime back of visiting a few colleges in the interior and to my discomfiture I have found that while a few

rooms have been provided and a few teachers appointed, the teaching staff have no where-withal to teach. There is no library worth the name and no journal whatsoever. The teachers, as I was told, bank on whatever they have learnt in the College or University and whatever note they prepared at the time. Porhaps they have some of the prescribed text-books. I do not know whether it is of adequate help for the teacher to enable him to teach and achieve the desired norm of excellence. Though we cannot perhaps prevent increase and haphazard growth of colleges in the State, in fact there has been of late a sort of explosion of college education comparable to the one in population, we should be able to do something to remove this vital deficiency of the colleges by pooling whatever resources are available to enable the teachers to have access to knowledge of latest thinking and to happenings around in the economic field. I doubt very much if most of these colleges have even a copy of the document on the latest Five Year Plan of the country.

8. Before I end I would like to place before you for your consideration an observation—The approach that combines knowledge and experience is perhaps better than the one that is based on either knowledge or experience alone. Knowledge alone may land us in embarrasment of ଅଙ୍କେଂ ଭୁଗ୍ୟନ୍ତୁ ପଣ୍ଡିତାଃ and experience without knowledge is little better than blindness. Mere zeal or enthusiasm is not enough. Those who are in charge of implementation of the policies and programmes and those who are associated with it directly or indirectly in the Universities or in the field must have both knowledge and experience and knowledge has to be updated and the experience periodically renewed so that their participation in the nation-building activity of this nature becomes more fruitful. In this connection I can do no better than recalling what I read a few years back about the Chinese experiment. All those who were incharge of policy formulation and guiding its implementation in China irrespective of their official position were periodically sent back to the collectives and the factories to renew their experience and update their outlook. I wonder whether such a thing is possible in our country. For the success of the cause dear to us joint efforts of all concerned, bureaucrats, academicians, intellectuals, industrialists, executives and above all the people seem to be an imperative need, and for this, mutual give and take, readiness to see each other's point of view, tolerance, appreciation of the constraints under which one has to work and uncompromising dedication, in my opinion is absolutely necessary. Here no loss of face is involved. It is not merely scoring a point in a debate. Excuse me this sounds like preaching and I cannot help laughing, for it rings

hollow, coming as it is from one who has hardly any knowledge and has the minimum of experience. But if it provokes you to scratch your head or to laugh in derision or good humour I would think the purpose has been served.

9. I have taken too much of your time. I thank you for the patience and courtsey you have shown in listening to what I have said, much of which is perhaps too obvious to be said and the rest is not said at all. I close wondericg if I have not wasted your time and why you were so kind to invite me to this learned gathering at all. As for me I have been greatly benefited. For not only do I feel honoured but it is a rare opportunity for me to come in contact with the eminent intellectuals and renowned economists of the State. I wish you all individually, your Association and this Conference all success.

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estructuring Monetary Policy in India

Dr. Khetra Mohan Patnaik

"Monetary Policy is policy that employs the Central bank's over the supply and cost of money as an instrument for ng the objectives of economic policy." In order to have a clear out the exact scope of monetary policy, it is necessary to make a tion between monetary policy on the one hand and fiscal policy, al policy, and economic policy on the other. It is not easy to ear-cut lines of distinction between them. Nevertheless, it is ary to find out whether a measure is aimed at producing mainly ry or non-monetary results. To understand the point, let us the difference between monetary policy and fiscal policy. Fiscal refers to the policy of the government relating to revenue, iture, borrowing, debt repayment and the like. But, generally ng, any measure which affects the budgetary position of the ment will have some effect on the monetary sphere. Therefore, olicy and monetary policy are inter-linked. However, measures tion, items of government expenditure and the like cannot be d as parts of monetary policy.

Monetary policy is a part of the economic policy of a country. nic policy which affects the volume of production in a country is o produce monetary effects, even though it is not primarily at affecting the monetary sphere. Similarly, a policy of redistri- of incomes will affect the monetary situation even though it is a a broad social policy. In all these matters the role of monetary can either be that of a shock absorber or effective supporter.

Monetary policy works through controls exercised over the of money or the volume of bank lending. The chief agency h which such control is exercised is the Central bank of a y. The Central bank tries to control the money supply through truments of credit control, with the aim of controlling total ng in the economy. Thus, the broad and basic objective of ary policy is to secure an appropriate flow of money expenditures r to ensure a high level of employment and output and a relati- table price level. This is also the objective of planned economic policy has to be restructured in our country to make it more effective, the Reserve Bank of India, in December 1982, appointed a Committee consisting of five economists with Prof. S. Chakravarty as its Chairman. The Committee was asked to give their recommendations on specific issues. It submitted its report in April, 1985.

The terms of reference of the Committee were the following :-

a) to critically review the structure and operation of the monetary system in the context of the basic objectives of planned development;

b) to assess the interaction between monetary policy and public debt management in so far as they have a bearing on the effectiveness of monetary policy ;

c) to evaluate the various instruments of monetary and credit policy in terms of their impact on the credit system and on the economy. In this context, links among the banking sector, the non-banking financial institutions and the unorganised sector could be assessed ;

d) to recommend measures for improvement in the formation and operation of monetary and credit policies and to suggest specific areas where the various policy instruments need strengthening ;

e) to make such other recommendations as the Committee may deem relevant to the effective operation of monetary and credit policy.

The terms of reference of the Committee were far ranging. But it is clear that emphasis had been laid on the following points :—

a) the role of public debt in financing the plans;

b) an appropriate credit policy which would help in raising the productivity of resource use;

c) an appropriate operational dimension together with the proper device for formulating monetary and credit policies.

RECOMMENDATIONS OF S. CHAKRAVARTY COMMITTEE

We will consider here mainly the recommendations of the Committee relating to the second item in its terms of reference.

The financing of the successive Five Year Plans has given rise to certain developments which vitally affect the functioning of the monetary system in our country. Let us try to understand these developments and how they affect the operation of the monetary system. The expenditures of the Central and State governments have gone up steeply since 1970-71 and now constitute roughly 32 per cent of the GNP. We have achieved a gross saving rate which was as high as 22.6 per cent in 1983-84, though it was much higher at 24.7 percent in 1978-79. Savings have risen significantly and the monetary system accounts for a substantial portion of these savings. In spite of this favourable development, Government has been incurring huge deficits which only indicates that its access to savings falls short of its expenditures and is not keeping pace with the growing demands on government. The continuous upward trend in the price level, the rising volumes of interest payments on a growing amount of domestic borrowings have also contributed to a sharp increase in current expenditures, while current revenues have not shown the same degree of buoyancy. The increased recourse to deficit financing is a disconcerting development and it is essential to ensure that deficit financing, measured in terms of recourse to credit from the Reserve Bank, does not exceed safe limits. This implies that plan expenditures should be financed in a non-inflationary manner by tapping the savings of the public to a greater degree than is the case at present, apart from realising larger amounts of surpluses from the public sector enterprises and improving efficiency in revenue gathering and expenditure functions. This analysis constitutes the corner-stone on which the Committee builds up the edifice of its recommendations.

In accordance with this approach, let us look at the recommendations made by it in regard to restructuring of public debt management in India. The average net amount of internal debt raised by the Central Government annually is of the order of Rs. 4,000 to Rs. 4,500 crores, of which nearly 82 percent in 1983-84 was long-dated securities with maturities over ten years. The medium-dated securities formed about 13 percent and the balance was in the form of short-dated securities of maturities under five years. The internal debt of the Central Government in 1984-85 was of the order of Rs. 58,493 crores. It should be noted that the maximum interest rate of 10.5 per cent per annum offered during 1984-85 on Government securities with a maturity of as long as 30 yesrs remained lower than the maximum rate offered by banks on term deposits of more than five years maturity. The major investors in the gilt-edged market are the commercial banks, insurance companies, provident funds and other trust funds. The market is, however, narrow. Investment by households in government securities is negligible, even though more than 75 percent of the total savings in the country arise in the household sector. The financial institutions mobilise savings from the public and investments made by them in government securities represent a transfer of institutionalised savings to the government sector. Investments by these institutions are governed by the respective statutes applicable to their operations. Banks are under obligation to invest a part of their deposit resources in liquid assets, as they are required to maintain the prescribed statutory liquidity ratio which stands at 37.5 per cent today. The L. I. C. has to invest not less than 50 per cent of its accruals in the form of premium income in government and other approved securities subject to a minimum of 25 percent in Central Government securities. Similarly, General Insurance Corporation and its subsidiaries have to invest 35 per cent of their fresh accruals of investible funds in Government and other approved securities, with a minimum of 25 per cent in Central Government securities. Provident funds are required to invest 30 percent of their accruals in Government securities with a break-up of 15 per cent in Central Government securities and the balance in State Government and other approved securities. Thus these financial institutions constitute a captive market for Government securities. Commercial banks hold nearly 45 per cent of Government securities followed by the Reserve Bank of India which holds nearly 28 percent of these securities.

The budgetary deficit of the Government of india is financed by borrowing through the issue of Treasury bills and/or drawing down the cash balances with the Reserve Bank. The Treasury bills are sold on tap at a discount by the Reserve Bank as the agent of the government. At the then current rate of discount of 4.60 percent per annum, a Treasury bill of Rs. 100/- was issued at Rs. 98.85. These bills were rediscounted by the Reserve Bank at the rate of 4.631 per cent per annum.

The major purchasers of Treasury bills are banks and the State Governments. In 1983-84, banks accounted for as much as 94 per cent of the total purchases. An analysis of the ownership of total Treasury bills outstanding, however, shows a different picture. The Reserve Bank itself holds over 90 per cent of the outstanding Treasury bills. This is because purchasers of Treasury bills do not hold them till maturity in view of their very low yield but rediscount them with the Reserve Bank before maturity. The ready rediscount facility afforded by the RBI resulted in a substantial holding of Treasury bills by it in the virtual absence of a market outside the latter. Thus the potential of Treasury bills as a tool of monetary policy as well as an efficient money market instrument has not been explored so far.

The Committee points out that the first major initiative needed to develop Treasury bills as a monetary instrument is to move away from the artificially low discount rate to a flexible rate that would make the discount rate on Treasury bils a pace-setter for other rates in the money market. A flexible Treasury bill rate would enable the monetary authorities to exercise control over money market operations. A flexible rate would also enable the banks to adjust to changes in their short-term liquidity through the purchase and sale of Treasury bills.

Reserve Bank accommodation to the commercial banks could also be provided in the form of rediscounting of Treasury bills. This would also help in fostering the market for Treasury bills. Control on RBI accommodation could be exercised by specifying limits on rediscount facilities and varying the rate of discount for these bills. To the extent the Treasury bills attain wider acceptability and are also held by non-bank investors, a secondary market for the same would grow. In such situation, the operations of the Reserve Bank in Treasury bills very likely would turn out to be in the nature of market intervention rather than passive absorption of the same as is the case at present. With these structural changes, as suggested by the Committee, Treasury bills could be used as an effective instrument for controlling short-term liquidity as well as for raising short-term resources for the government while at the same time reducing the reliance of the latter on the Reserve Bank for credit. Offering a rate of return on Treasury bills that is attractive would also enable the government to raise its required resources without the excessive creation of reserve money that is inherent in the present system. For, such a device will substantially lower the holding of these instruments by the Reserve Bank, thereby leading to a corresponding reduction in Reserve Bank's credit to government and hence in reserve money. As a result, the changes suggested by the Committee in this matter may be helpful as an anti-inflationary means. The increased holding of Treasury bills and other government securities by the public would imply a slower growth in bank deposits and correspondingly in bank credit, reflecting the slower expansion of reserve money.

It has been mentioned earlier that the investments of the household sector in government securitles are insignificant even though more than three-fourths of our savings arise in this sector.

Therefore, as the Committee mentions, there appears to be considerable scope for government to tap the savings of the public through an appropriate interest rate structure and by offering a wider spectrum of savings instruments with attractive features. This will have the desirable consequence of lowering the rate of expansion in reserve money and money supply associated with a given level of borrowing by the government. The borrowing of the government from the Reserve Bank is the most important factor leading to expansion of reserve money in India at present. An aspect of the market borrowing programme of the government that needs to be highlighted is that over the years the Reserve Bank has been called upon to take up a sizeable proportion of the new issues. The Reserve Bank's subscription to the net loans floated formed about 64 per cent in 1981-82. Hence to prevent the emergence of excessive inflationary pressure, the Committee recommends that in the capital market government borrowing would have to contend with market forces but only at the margin after the captive market for government securities has been fully tapped.

Presently, the market for the medium and long-term marketable securities of the government is a captive one. The continued issue of securities in volumes exceeding the capacity of this captive market to absorb has resulted in recent years in the Reserve Bank subscribing to these securities with a consequent rise in Reserve Bank's credit to government and in reserve money. There is, therefore, a clear need to offer marketable government securities to the public at attractive rates of interest. Such securities also constitute an ideal liquid asset in the economy and can meet a genuine demand of the public, including institutions, for liquidity. By offering an attractive rate of return on Treasury bills and dated securities government would be in a position to raise its required resources without excessive creation of reserve money. A strong anti-inflationary bias would thereby be built into the monetary system in as much as the expansionary effects of financing government deficits substantially through creation of reserve money would be avoided to a large extent.

The higher rates on government securities and higher discount rate on Treasury bills are likely to lead to higher absorption of government paper by the public resulting in lower monetisation of debt and a relatively smaller increase in money supply. Consequently the inflationary pressure of debt operations may be considerably reduced. This would very likely have a beneficial effect on government expenditures. Therefore, the rise in interest burden may well be offset by saving in government expenditure in the long run.

MONETARY TARGETING

The restructuring of public debt management, as suggested by the Committee, is likely to ensure greater control over reserve money by the Reserve Bank. This is an important condition to embark on "monetary targeting". So long as the RBI becomes a passive absorber of government paper to finance government borrowing, it loses effective control over reserve money and, therefore, becomes less responsible for controlling inflation. It is important that efforts should be made to put an end to this role of our Central Bank so as to enable it to regulate monetary expansion efficiently. It is in this context that the Committee makes its recommendation about" monetary targeting".

Monetary targeting is an aggregative concept which lends clear direction to the monetary authority in the use of the monetary policy instruments at its disposal. For its successful operation, monetary targeting depends upon three factors. These are :

a) the demand for money is amenable to prediction over the relevant period with reasonable accuracy ;

b) the money multiplier is raasonably stable and predictable ;

c) tha monetary base or reserve money is subject to control by the monetray authority.

Let us take up the demand function for money. The interaction between money, output and prices is very often summarised in one equation which states the demand function for real money balances. Nominal money balances held by the public are deflated by the price index representing the general price level to get the real money balances which are treated as a function of real income and the return on alternative financial assets. Thus the typical demand function for real money balances runs as follows :—

$$\frac{M}{P} = f\ (Yr,\ i) \ldots\ldots\ldots\ldots (1)$$

Where M stands for nominal money held by the public, P for price level, Yr for real income and i for interest rate.

The demand for holding money balances springs from motives, which has been explained by Keynes extensively. The increase in real income necessitates an increase in the demand for money balances and so long as money supply expands to this extent, there would be no rise in the price level. A number of studies have shown that the demand function for money has a reasonable degree of stability.

As regards the supply of money, we may state the following equation determining the same :

$$Ms = m \cdot R.M \ldots\ldots\ldots\ldots (2)$$

Where **Ms** : supply of money

m : money multiplier

RM : reserve money or monetary base.

It follows from equation (2) that the acceptable growth of money supply can be easily determined by determining the growth of reserve money adjusted for changes in the reserve-ratio.

The first two conditions for the successful operation of monetary targeting are present in the Indian situation. The third condition required for this purpose would be ensured if the restructuring of the system of public debt management, as explained already, could be brought about. The Committee points out, "formulation of monetary policy with M_3 as the monetary variable to be targeted thus becomes a feasible proposition in the restructured monetary system envisaged". M_3 refers to broad money including time deposits in addition to M_1.

The observed relationships between money, output and prices in india would suggest a basis for determining the range of targets for monetary growth. The anticipated rise in real output could be taken as the starting point of the exercise. The observed income-elasticity of demand for money and the acceptable rate of increase in the price level during the year will be the other factors to be taken into account. For example, if anticipated real output growth in the forthcoming year is 5 percent, the income elasticity of demand for broad money is 2 and the acceptable rise in prices is 4 per cent, the target for monetary expansion may be set at 14 per cent for the year or a narrow range may be considered around 14 per cent.

Having so derived the monetary target for the year, it is necessary to ensure that the monetary target is duly revised upwards or downwards during the year to accommodate revisions if any in the anticipated growth of real output, subject to the situation on the price front being not too much out of alignment with assumptions made earlier. This provides the necessary flexibility to the monetary targeting exercise and enhances its effectiveness as a monetary policy tool. This is called by the Committee as "monetary targeting with feed back". Monetary targeting with feed back enables changes in the targets to be made in the light of emerging trends in output and prices. The Committee recommends the adoption by the Reserve Bank of monetary targeting as an important tool of monetary policy, which implies setting up of the monetary target in the form of a range rather than a specific magnitude of monetary expansion which may be altered during the relevant period in response to major developments in the real sector. This is the way in which the recommendations bind the Reserve Bank and the Government of India in a common effort to achieve the desired rate of growth of money supply as, in the Indian situation, control of monetary growth is impossible without the full support and understanding of the government.

The level of monetary target has to be determined every year on the basis of the desired rate of growth in output, the tolerable level of the rate of increase in prices and the expected income elasticity of demand for money. It would be necessary also to have an aggregate monetary budget for the period covered by the Five Year Plans in order to have a reasonable co-ordination between the production and credit plans. A credit budget for the banking sector is also to be prepared as part of the exercise relating to the monetary budget. The objective of the credit budget is to determine the permissible level of bank credit to the commercial sector and a broad profile of the sectoral deployment of credit. The announcement of the monetary target is another means of ensuring that the monetary targeting exercise is subjected to public examination and critical analysis by experts. This is indeed a challenging task for the monetary authority. It has been said that this suggestion is based on Friedman's prescription that there should be a constant growth in the stock of money.

Does The Committee Recommend Friedmans' rescription ?

The recommendation of the Committee in this regard is different from that suggested by Milton Friedman for the U. S. The latter favoured the adoption of an automatic formula for monetary expansion. Friedman suggested a steady growth of money supply at a fixed percentage rate of 4 per year for U. S. on the basis of the average rate of increase of physical output there. He also pointed out that if the growth rate of the economy is more or less, the growth rate of the money supply could be adjusted accordingly, and a reduction could be made for a long term increase in v. This was advocated by Friedman to avoid big booms and depressions.

There appears to be a resemblance no doubt between monetary targeting as recommended by the Chakravarty Committee for India and

Friedman's advocacy of growth in money supply at 4 per cent per year for the U. S. . However, Prof. Chakravarty has pointed out later on in his Sir Purushotamdas Thakurdas Memorial Lectures in 1986, that monetary targeting is not necessarjly to be equated with rigid targets. What the Committee advocates is "monetary targeting with feed back". It emphasises the need for the provision of feed back from the real sector and has suggested the specific mechanism by which this can be done. It has recommended a mid-year review of the monetary target range. It has emphasised the need to modify credit expansion targets in the light of the major *Kharif* crop. It has also suggested a revision of the monetary target based on a mid-year assessment of the price situation. All these recommendations imply that the monetary targeting exercise should take into account the forces operating on the real sector of the economy. It is not a rule-oriented mechanical application of money supply regulation procedure. In the case of Friedman's suggestion, there is a rigid monetary approach to targeting in which other sectors of the economy are expected to bear the burden of adjustment. But in the case of monetary targeting with feed back, adjustments have to be made to facilitate the smooth functioning of the other sectors of the economy. This underlines the important difference between the two approaches.

TWO MAIN RECOMMENDATIONS

We have discussed the way in which public debt management and monetary policy should become complementary in our country in order to realise price stability consistent with the other goals of national socio-economic policy as outlined in the Five Year Plans. In this connection, only two important recommendations of the Committee have been explained. The main points in these two recommendations may now be summarised as follows :

a) Government borrowing should be financed to a greater extent by the public than is the case at present.

b) The responsibility to control the overall growth of reserve money and money supply will have to rest on the Reserve Bank. But the later will be in a better position to discharge this responsibility and acquire greater influence over the the banking system if the supply of reserve money is under full control of the RBI ,

c) The control of inflationary pressure will have to be a joint responsibility of the Government and the Reserve Bank.

d) A strong anti-inflationary bias will have to be built into the monetary system by ensuring that the expansionary effects of financing Governmant deficits through creation of reserve money are avoided by a restructuring of public debt management.

SUMMING UP

The Indian situation of debt management is one in which government debt operations have a direct effect on money supply. Let us compare this situation with that seen in a highly developed country like the United States. A text-book, "Money & Banking", written by J. M. Culbertson, analyses in a chapter in the book, public debt management in the U. S. . In this chapter, a question is posed in a sub-heading; what is the direct effect on the money supply of debt management ? The answer given is : "there is no effect". Culbertson gives this answer with reference to the U. S. but not India.

The money borrowed by the Treasury in the U. S. when it sells securities is **not newly created money** but is money given up by those who buy the same. The basic transaction on the books of the commercial banks is a reduction in the demand deposits of the purchasers of securities and an increase in the Treasury balances. But a question may be aaked : What happens if the securities are purchased by commercial banks ? The answer is, it will not necessarily imply any effect upon the money supply. For the bank that maintains a given reserve position, the purchase of an additional Government security means that the bank will acquire less of some other earning asset. As a consequence, the Federal Reserve is enabled to have control on a desired rate of growth of the money supply as debt management does not affect the monetary base or reserve money.

The Indian situation is just the opposite. And so long as this situation is not brought on a par with that found in the developed countries, public debt operations in India will go on adding fuel to the inflationary fire.

The recommendations of the Committee in regard to restructuring of public debt management and monetary targeting are aimed at enabling the monetary system to function effectively. In the words of the Committee, "It is essential to ensure that there is no mismatch between the responsibility of the central bank, i. e., the RBI to supervise and control the financing of the monetary system on the one hand, and its authority to do so on the other."

The implications of these recommendations have to be clearly understood. As the situation stands today, the authority to control the money supply virtually rests with the Central Government. The acceptance of the recommendations of the Committee will reverse the situation. In other words, government will not be able to control monetary expansion.

Again the setting up of a monetary target involves the assumption of acceptance of fiscal discipline on the part of the Govern-ment. Will the Government agree to this ? In the absence of statutory powers which confer on the RBI the right to deny credit to govern-ment, monetary targeting in practice would imply persuasion by the RBI to government to limit its recourse to credit from the central bank, having regard to the underlying trends in the economy in relation to credit and price behaviour. In other words, government must be prepared to co-ordinate its fiscal policy with the requirements of monetary policy. Government should be prepared to get resourcse from public savings to meet its budgetary requirements, generate more surplus in public sector undertakings and review the entire tax struc-ture and expenditure programmes. Is government prepared to accept these measures of fiscal discipline so as to restrain the monetary impact of fiscal operations ? Will government be willing to give up the line of least resistance and undertake a journey on a more difficult and hazardous path ? But monetary targeting will not be meaningful in the absence of fiscal discipline. Therefore, the success of monetary targeting as a tool of monetary policy will depend upon the **political will** of the government to restrain non-productive expenditure and its readiness to play the game according to rules.

Monetary targeting rests also on the assumption that the demand for money is predictable and stable. If this assumption turns out wrong, the recommendations of the Committee in this matter will also lose validity.

Resuscitation of Non-socialistic Traits in Indian Economy

Dr. Kumar Das

This paper seeks to disseminate understanding about socialism and non-socialistic traits and tendencies prevailing in Indian Economy. Here it is tried to produce analytical evidences for making out a case for stronger socialistic and centralised planning with a decentralised approach in order to reduce inequality and promote greater sectoral and spatial balance.

In the process of accepting instant imported developmentalism, we have fallen into the subtle but dangerous habit of relying on remedies without diagnosing our disease. The transplantation of growth models without taking into consideration the resource endowment of the country and imperatives of socio-economic settings, institutional and structural characteristics have no substantial effect on poverty and inequality subsisting in the economy.

In the initial years, planning had raised high expectations and generated tremendous enthusiasm. It had become an integral part of our economic system. But unfortunately the planning which is one of Nehru's greatest legacies to the independent India, is at crossroads today. The very idea of it is now in disrepute in certain quarters.[1] Despite its several achievements in many fronts that old enthusiasm is no longer present. For over 36 years of planning the country has been struggling hard to extricate herself from the abysmal troughs of poverty and squalor and to emerge out of the undulated terrain of lopsided growth and unequal distribution of income and wealth. In spite of massive investments undertaken in the wake of planning during such a long period a large proportion of population is subject to grim contributions of poverty and unemployment—each day being a hard toiling for survival The actual growth rate falls woefully short of its warranted rate. India's economic status in the committee of nations has worsened. An international comparison portrays an equally depressing picture. India's economic performance while a definite improvement over that in the pre-independence period is less than satisfactory whether one takes the capitalistic index of growth rate or socialistic indices of poverty, unemployment or inequality.[2]

Apart from the failure of planning to create an autonomous selfpropelling and dynamic economy the slow growth in percapita income combined with tremendous rise in the cost of living has tended to push many people down the poverty line.[3] The persistent gaps between targets and achievements leading to non-fulfilment of several crucial objectives have generated a stronger feeling of despondency and helplessness.[4] The planning process itself has become more or less routine, stale, a wishful thinking unable to cope with the changing realities. Indian Planners still continue to harp on same old tunes despite their proven irrelevance and ineffectiveness.[5] It is really perplexing and disappointing to note that after 36 years of planning; after several tinkerings with planning techniques, our economy has remained closer to the subsistense level and painfully sensitive to the vagaries of monsoon and other natural calamities. The ratio of rural population dependent on agriculture to the total population has more or less remained unaltered at about 72 percent, the proportion of value added in agriculture has remained constant at 49% or so. There has been no basic change in the structure of the national economy.[6] The growth rates of the economy has also been declining. The linear growth rates during 1950-51 to 1975-76 was 3.4% p. a. but it declined to 2.9% during 1963-64 to 1975-76. There has been similar fall in growth rates of value added in various sectors of the economy.[7]

The growth euphoria had provided the basis for the expectation that increase in output would ensure a 'trickle down' sharing of the benefits for all. But the expected benign fall out did not materialise. During the second development decade poverty profile dethroned the GNP as the centre piece of development strategy, unfortunately both have been marred by a lack of proper understanding about the relationship between underdevelopment and poverty because of the failure to approach the phenomenon of poverty and backwardness historically.[8] A number of strategic deficiencies are revealed in the planning process. The specific problems and requirements of the rural poor are not properly reflected in the project formulation. The identification process of the target groups has been woefully faulty, for which the benefits of the development have not filtered down to the majority of people. The social, political and economic subsystems are so strongly interlocked that the poor remain outside the enclosure. The institutional arrangements howsoever democratic, has turned to be oligopolistic in which the rural poor hardly get an entry.

1.2 Imperialist Exploitation :

The direction, rates and regional pattern of development in India were determined to a large extent by the legacy of a stunted agricultural sector within the structure of colonial underdevelopment. The requirement. 'Imperialist exploitation' disrupted the symbiotic relationships between the agricultural sector and small household and village industries. The colonial rule exerted considerable influence and imposed serious constraints on the available technological options during the post-independent period which in turn determined the space relations, while in the developed countries the indegeneous development of improved technology led to the liquidation of inferior ones, the exogeneous imposition of high technology in isolated enclaves of dysfunctional development in India permitted the persistence of lower forms. They coexist in an imperfectly integrated organism. The bullock cart, the wooden plough on the one hand and the jumbo jet, the tractors on the other exist simultaneously in the amophorous and f agmented system of modified underdevelopment. This dualism in the technological front has its inevitable manifestation in the space in the form of urban-rural dychotomy.

1.3 Economic Concentration and Industrial Stagnation :

After the colonial era India launched a programme of planned economic development with massive public sector investment and a system of control imposed on the private sector. The result of these efforts has been the persistence of a huge but unproductive primary sector, a weak concentrated industrial sector and a bloated tertiary sector in the economy. The process of industrialisation through public sector investment continues to be inefficient disarticulated and regi nally concentrated in and around few urban conurbations. The growth impulses generated through market mechanism at a few urban nodes get impounded mostly within the urban limits instead of being diffused to the neighbourhood.

The performance of the Indian economy in terms of balanced regional and sectoral development has been unsatisfactory. Abating concentration of economic power and achieving equi-distribution of GNP has not made any significant progress. There are about 75 to 100 big industrial houses which dominate the industrial scene of India. These big business groups closely resemble each other in their origin and in the economic, social and political power exercised by them. The consequences of such power for the economy need no elaboration. The successful entrepreneurship in these countries is usually confined to a number of groups organised along family, caste or ethnic lines. The groups operate under common entrepreneurship and financial control. They own and/or control a multiplicity of firms transacting in different often technically unrelated markets. Two essential features of this pattern of industrial management are : first the groups draw their capital and managers from a number of business families. The main distinguishing feature of this institution is that the owner-managers from other families also participate. The participants are bound together by a bond of interpersonal trust based on a similar personal, ethnic and communal background. In some cases the activities have been chosen on the basis of backward or forward integration. As regards diversification data of 37 of the largest Indian domestically owned groups show an average of five activities per group. Excluding the 2 largest, Tata and Birla, the average is still four activities per group. Most of these groups exercise considerable market power.

There are a lot of research works which analyse the extent of concentration of monopoly capitalism in India. Hazari, identifies 20 large houses, Mahalnobis committee and Monopoly Enquiry Commission analysed the data on the nature and extent of concentration of economic power. Then the industrial licensing Policy Enquiry Committee also made some effort to highlight its impact on the economy. From all these studies it is clear that the groups pattern of production in diverse, vertically integrated activities also enables them to avoid a potential offset to their market power in the form of countervailing power of any sort. On the contrary such market power tends to get intensified to embrace the modern industrial sector as a whole as capitalist development progress in the economy. The groups raise their capital far beyond the limit of an individual family's own possession. Many of the groups have their own banks and insurance companies through which they draw upon the saving of the community as whole for their investment projects. These groups display dominance in the so-called modern sector of the economy. So there has been concentration of assets in the industrial scene and there is a failure of public policy to curb monopolies. The Monopoly Commission itself feels incapacitated owing to the complacent attitude of the government. The damage done by the liberalised relaxation policy of the Govt. is always enormous. This leads to investment propositions entirely decided by the private entrepreneurs without any considerations for priorities. As a result there has been a gradual shift of investment in favour of commodities which have relatively low social priorities. A number of examples could be cited of the brisk investments and sweep operations in low priority areas with official support : cosmetics, T. V., car, baby food, refrigerator, soft drinks, air conditioner, computers etc. Growth of large scale industries in a few urban centres has accentuated the hiatus between rural and urban sectors. Large scale industries need skilled manpower which the villages cannot provide and they produce such goods which the rural bulk do not consume. This provides the raisen de tre for controlling monopolies in the large industries and promoting rural small scale industries. The imperatives of the socio-economic setting can find a lasting solution in the diversification and dispersion of rual small scale industrial sector.

1. 4 Inefficient and Inequitable Process of Urbanisation

The inherited technological dualism has given rise to urban process which has an inherent tendency to agglomerate in a few urban centres. All kinds of economic activity tend to concentrate in big cities, it becomes easier to add than to locate elsewhere. Its outcome however is very much regressive. [9] Sectoral and regional balance have been severally emphasised. But pitiably the policies required for restoring such a balance were not pursued in a consistent analytical frame. Severe urban bias persists in several forms. Prices of foodgrains are depressed for the sake of cheap supplies to the urban organised class in the name of price stability, agricultural wages are kept low while industrial workers continue to get rising wages, in the name of 'wage stability'. Power shortage in the urban sector is always drummed up but power and water shortage in agricultural sector never gets to the fore. In the name of tourism development huge resources are poured into building up a 'five-star' culture. The rural urban conundrum is bound to lead to further accentuation of inequality and class conflict. [10] In the rapid process of urbanisation, friction and maladjustment occur affecting the efficiency and equity of the outcome. [11]

The urban process has been essentially constrained by anaemic agricultural base and disarticulated process of industrialisation. The centres of urban agglomeration continue to be stultified, mainly concerned with distribution and other services rather than with production. They continue to be the focal points of the 'suction mechanism' for commodities, income, capital and flow of labour force. Redistribution of population in space has merely led to urban accretion rather than true urbanisation. The great majority of Indian towns are floundering in the quicksands of 'bazzar economy' which continues to devour without digesting the surplus labour from the hinterland. Their growrh happens to be unproductive and economically irrational. The problem of urban beggary and poverty has multiplied during last two decades. And the urban informal sector and slums are expanding beyond imagination in the urban nodes.

In India the sociological, economic and political dimension of backwardness and inequality are closely interwoven. The social, political and economic structure form the parts of the entire social system. Each one of these structures functions as a subsystem of the organic whole. The socially and economically dominant castes are in a position to influence the administrative machinery both by easy entry and effective access. In the same vein they are able to exploit the machinery so as to derive maximum possible benefit. The three subsystems are so strongly interlocked that the poor find no entry, it is biased in favour of urban elites. The rural poor is not only among those who occupy, low social status in the hierarchical setup but hardly enjoy any participation in the policy formulating and programme implementing machinery.

The plans and policies have infact excessively concentrated on the modern sector at the expense of traditional rural and urban informal sector where the majority eke out their living. This route will lead to utter disaster.[12] So the planners have to recast the strategic planning with a close look at the beam in the Indian eye.[13] It is high time for India to resurrect serious planning. It has to bring the large majority residing in remote villages into the vortex of economic development. For the long term steady process of development the basic parameters of the rural economy have to be geared through the process of planning. Planning can not be successful unless and until the 'Commanding Heights' are in the public hands. Without expanding the public sector or without nationalising the 'core' sectors it is not possible to shape the destiny of the economy. Strong integrated central planning with a decentralised approach can ensure equity and growth. Through this process only consistent decisions can be undertaken to coordinate the different disintegrated and independent sectors. It can only help in ensuring internal consistency, sectoral balance and spatial harmony. Decentralised approach can promote 'social synergy' which is very crucial for ensuring virtuous circle of prosperity. It can only help to remove the 'strongly feudal and status conscious society' which stands on the way of socialistic principles. The planning authority must undertake the task with honest purpose and sincere determination.

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New Industrial Policy and Industrialisation of Orissa

Kishore Samal

The State Government of Orissa adopted a new Industrial Policy in August 1980 which provided a large number of incentives mainly in terms of subsidies for factory sheds, capital investments, power and so on to attract entrepreneurs to the State. There is further change in the latest Industrial Policy of Orissa announced on April 25, 1986. The major features of the New Industrial Policy of 1986 are :

i) Subsidy for preparation of feasibility report, on technical know-how fees, capital investment, interest and cost of generating sets.

ii) Exemption from Sales Tax, Octroi, Stamp Duty, Registration charges, Water charges and Electricity Duty, particularly exemption from Sales Tax of products of all existing and new Khadi, Village and cottage industries, new Electronic units and of new small units for a period of 5 years replacing the earlier practice of Sales Tax loan upto a limit of Rs. 1 lakh.

iii) Classification of districts into three different zones with different types of subsidies and incentives, giving special importance to the industrial development of underdeveloped ones.

There is a provision of capital investment subsidy of 25 per cent subject to a limit of Rs. 25 lakhs for the districts of Balasore, Bolangir, Phulbani and Kalahandi, 15 per cent subject to a limit of Rs. 15 lakhs for the districts of Keonjhar, Mayurbhanj, Dhenkanal, Koraput and Ganjam and 10 per cent subject to a limit of Rs. 10 lakhs for the districts of Cuttack, Puri, Sambalpur and Sundargarh.

I. Incentives to Particular Regions :

Conditions in developing countries may call for special incentives to be given for development of some regions : (i) owing to immobility of labour in particular regions, (ii) or to check undesirable migration from rural to urban centres, (iii) or for equalisation in the rate of regional development, (iv) or for development of some backward community in particular under-developed areas.

The Government of India has declared about 250 districts as industrially backward. Various fiscal incentives are given to new units especially in small-scale sector in backward regions of the country. But these incentives have not been taken advantage of in many cases. In some cases, these incentives have been misused as no proper caution has been exercised nor follow-up survey made.

In Orissa, if earlier outright subsidy of 15 per cent on fixed capital up to a limit of Rs. 15 lakhs by Government of India did not help in industrialisation of backward districts; how can the present 25 per cent of investment subsidy help in industrialising the backward districts.[1]

For instance, the under-development of industrially backward district like Kalahandi is structural in nature and a total neglect of proper agricultural practices in the district leading to drought once in ten years which occured in 1954-55, 1965-66, 1974-75 and 1985. The under-development of Kalahandi and consequent recurrence of droughts cannot be combated by providing an extra 10 per cent subsidy to prospective industrial entrepreneurs under the 1986 Industrial Policy of Orissa. Total neglect of agriculture in the name of industrialisation is a blunder.

II General Tax Incentives :

General tax incentives such as tax exemption and other fiscal relief have encouraged capital intensive techniques in India in the past. So what is needed in Orissa where unemployment is the greatest problem, is a form of tax relief designed to encourage labour intensive techniques. The subsidies and period of exemption from tax may be based not only on the basis of capital invested but also on the number of full-time workers engaged in production activities of the firm. Further, wage subsidies might be given either directly or through wage bill credit. Investment policies should also take care of infrastructure like power, transport etc.

III. Incentives to Small-scale Units :

Besides general investment incentives and incentives to particular regions have been done, as in the past, to encourage small-scale units. Usually "smallness" of a unit is defined on the basis of investment in plant and machinery. But there is a need of defining a

not only on the basis of investment but also on the basis of
o of the unit. It is wrong to treat a unit investing less than a
level of investment in plant and machinery (viz : Rs. 35 lakhs)
olled by a big monopoly house or multinational as 'small'.
in case of small units acting as "sub-contractors" or anciliary
ig firms, the benefit and concessions given by the Govern-
not reaped by the "small owner" of the "small" units but
by the big units. In case of sub-contracting, the parent
o avoid labour laws, to save capital and labour cost, to adapt
fluctuations by shifting the production processes to their
actors. They not only avoid labour laws but also exploit sub-
rs. The workers in the sub-contractors' units are just like
orkers" of big parent companies, working in piece-wage and
by the parent companies through low wages and deprivation
ts under labour laws. So small units controlled by big
houses and multinationals and anciliary units/sub-contractors
ts may not be treated equally with small units owned by
ners."

ccording to one study, the small scale units owned by "small-
n Orissa are not able to prosper in spite of subsidies, conces-
exemptions by Government of Orissa under its 1980 Industrial
he problems of SSI units in general are :

i) Inadequate and irregular supply of some controlled raw materials.

ii) Problems in marketing their products even to the Government of Orissa because of its shrinking financial capability.

iii) Big consuming industries turning sick.

iv) Problem of finding sufficient amount of working capital.

rmal Sector Units :

Moreover, the very small units—the tiny ones in the informal
re totally ignored in 1980 and 1986 Industrial Policy, statement
eir condition is far more precarious. In fact, their condition
rating further because of various restriction and regulations.
raises a more pertinent question : should encouragement first
to the so-called new units which get subsidies and conces-

The importance of informal sector can be gauged by its contribution to employment. For instance, about 64 per cent of workers in urban centres in Sambalpur district and about 79 per cent in Sambalpur town were in the informal sector in 1971. Moreover, the share of the informal sector in employment in the town has increased from about 79 per cent in 1971 to about 82 per cent in 1984. The growth of informal sector employment in Sambalpur town is due to both horizontal as well as vertical expansion but mostly owing to new units.

There are mainly two types of constraints for the growth of informal sector units; (1) internal such as lack of entiepreneurial or managerial skill and (ii) external interms of exploitation by large firms through various mechanisms and difficulties in access to product markets, technology, raw materials credits and benefits of Government policy. According to a study in Orissa, the external factors are the major constraints of expansion of informal sector units. As expressed by the entrepreneurs of the establishment in the sample, the main problem faced by the informal sector units is the harassment by the government departments. This study further reveals that about 40 per cent of the sample units reported that due to their small size, they are not facing any particular problem, though the small size may be a problem in itself in general. Only one-fourth of the sample units reported that they face difficulties due to non-availability of institutional finances but most of them (84 per cent) expressed their need for credit when asked about the future prospects of their business.

The problem of the informal sector units is not the availability of institutional finance at concessional rate as some think but availability of credit in adequate amount even at a rate at which the formal sector gets loan from the bank and the other financial Institutes. Instead of special help they need the removal of prevailing negative discrimination against them.

NOTES

1 For instance. Kalahandi has already been declared by Govt. of India as industrially backward districr, .In this respect it is eligible for 15 per cont investment subsidy from Govt. of India. So, earlier claims by Govt. of Orissa in its 1980 Industrial Policy of giving 15 per cent subsidy to industrial units in industrially backward districts is not of its own but of Govt. of India.

Industries in Mayurbhanj—its Problems and Prospects

Shri Manmohan Das
Shri Mohit Kumar Sarangi

Introduction

Mayurbhanj is a virgin ground for industrialisation. This district covers an area of 10412 Sq. Kms. and has density of 151 persons per Sq. Km. with a population of 1576937 according to 1981 Census. The total tribal population comes to 912320 which accounts for 57.67 percent of the total population. The district is endowed with plenty of dense forests, bountiful store of minerals, adequate river water resources, enough human resources, net-work of all weather roads which provide ample scope for industrialisation of the district.

Mayurbhanj occupied an important place in the industrial map of India during the regime of Maharajas of Mayurbhanj prior to 1949. During the medieval period the Terracotta industries of Mayurbhanj was famous in Eastern India, handloom industry also earned name and fame. Weavers of Bahalda, Kulqi, Mahulpani, Dalima in Bamanghaty Sub-division and Sirsa, Deuli in Sadar sub-division were technically efficient in Tassar manufacturing. The Darbar Administration provided patronage for the development of Tassar industries in the district. It had also the foresight of planning for industrial development in the district which can be proved from the establishment of industries like Mayurbhanj Potteries at Kuldiha, the Glass factory near Bahalda, the Natural Vanadium Trust at Rairangpur, the Mayurbhanj Textiles at Baripada. These industries acquired reputation for quality. Unfortunately these industries were closed down before merger with Orissa except the Mayurbhanj Textiles.

Mayurbhanj was noted in establishing some industries in the district at the time when there was no sign of any industrial establishment in Orissa, for example, the Mayurbhanj Textiles was the first hosiery factory in Orissa. After merger, a few industries such as Manoroma Foundary Works, Khandelwal Iron and Steel Co., Ispat Udyog, Mayurbhanj Bucket, Manufacturing Co., Mayurbhanj Industries, Mayurbhanj Oil and Oil Products etc. were established by Private Concerns and subsequently they were also closed down.

Aim :—From the above analysis, It is clear that, there was industrial atmosphere in Mayurbhanj during Durbar Administration, though later on sufficient development did not take place. Although Mayurbhanj is one of the richest districts in India in both forest and mineral resources, the development of heavy and medium scale industry is negligible. This article is intended to analyse the present position of (medium, heavy and small scale) industrialisation in the district, their problems and the future prospects.

The following table (Table—I) gives an idea about the present state of industrial position in the district.

TABLE—1

Sl. No.	Type of Industries	No. of Units (in 1979-80)	No. of Units (in 1985-86)
I.	Heavy & medium Scale	3	11
2.	Small Scale ...	310	1370

The table indicates that the No. of heavy, medium and small scale industries has increased during the last six years but the number is not sufficient to utilise the existing resources available for industries in the district.

Details regarding heavy and medium Scale industries along with their products are given below :—

TABLE—II

Sl. No.	Name/Location	Product	Owership	Entrepreneur belonging to District/ Out-side
1.	M/S NiCCO, Orissa Pvt., Ltd., Baripada	XL. Cable	Private Company	Both
2.	Spinning Mill, Kathpal (Baripada)	Thread	Corporation	State
3.	East Coast Ferti-lizers & Chemicals, Kalama	Sulphuric Acid	Private Company	Outside

4.	Kerbs & Cei India Pvt. Ltd., Kalama	Basic Chromium Sulphuric Acid	Private Company	Outside
5.	Chemical & Dyes Pvt. Ltd. Baripada	H. Acid	Private	District
6.	Mayurbhanj Metals Pvt. Ltd. Rairangpur	Automobile Parts	Private	Outside
7.	Teeserv Metal & Metal Moulding Pvt., Ltd. Rairangpur	Sewing Machine Parts	Private	Outside
8.	Ferro Alloys Pvt., Ltd. Rairangpur	Ferro alloys	Private	Outside
9.	Konark Paper & Industries, Jharia	Handmade Paper	Private	District
16.	Orissa Oil Industry Pvt. Ltd. Rairangpur	Sal Seeds Oil Products	Private	Outside
11.	Utkal Wood Products Pvt. Ltd. Jashipur	Ply Wood & Veneers	Private	District

The Table indicates that the entrepreneurs have chosen diversification of industries which is a good sign but it is to be noted that most of the entrepreneurs do not belong to the district.

Table-III shows different categories of industries and numbers existing in the district under Small Scale Sector as on 31-3-86. Among the Small Scale, bucket, chemical units, synthetic fibres, match making, carpentry, plastic products, saw mills, china clay, rubber products, sewing machine parts, crockery, refractory, oil mill, engineering units etc. are prominent in the district. There are also coventional type of industries such as rice hawlers, furniture units etc. Most of these Small Scale industries are concentrated in Baripada, Rairangpur, Betnoti, Karanjia, Jashipur and Udala. Among the different categories Electric Bulb (Utkal Lamp) and Hawai Chappal (Unique Rubber) can be treated as sophisticated industries.

TABLE—III

Category-wise break up of SSI units gone into production in Mayurbhanj District

Sl. No.	Category	Till 31-3-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
1.	Food and Allied.	93	88	58	34	48	07	15	38	28
2.	Chemical and Allied.	14	01	05	04	03	02	05	10	06
3.	Electrical & Electronics.	05	00	04	02	02	02	04	04	00
4.	Engineering & Metal.	21	00	16	46	15	15	18	18	07
5.	Forest and Wood.	30	07	15	17	25	27	23	25	34
6.	Glass & Ceramics.	45	04	36	12	04	10	18	23	04
7.	Live Stock & Leather.	00	05	03	01	03	01	02	04	02
8.	Paper & Paper Products.	00	00	01	00	01	00	01	00	01
9.	Rubber & Plastic Products.	01	01	00	01	04	00	02	00	02
10.	Textiles.	08	00	00	03	07	09	03	37	59
11.	Miscellaneous Mfg.	25	03	10	13	63	133	99	65	18
12.	Repairing & Servicing.	05	00	07	31	32	26	66	56	99
	UNits	247	109	155	164	207	232	256	280	260
	CAPITAL INVESTMENT (Rs. in Lakhs)	134.08	20.30	51 54	101.64	57.93	122.20	90.05	100.59	227.35
	EMPLOYMENT GENERATED	3089	133	685	835	765	1049	1287	1643	1070

Besides these heavy any medium scale and small scale industries, there are also cottage and village industries undertaken by Co-operative Societies, Panchayat Samities (Industries) and individuals. Prominent among them are Stone carving, Bell metal, Cycle basket and Flower making, Sabai furniture making, Dhokra casting and Sabai Rope making etc.

The Government have declared Mayurbhanja as one of the specially industrially backward districts in the country which avails 15 percent Central Investment subsidy. Further, as per the Industrial Policy of the Government of Orissa, certain facilities and concessions have been awarded to this district and they are—(i) Sales Tax Exemption, (ii) Sales Tax Loan (iii) Octroi Tax Exemption (iv) Electricity. Duty Exemption (v) Electricity Duty Loan (vi) Transportation subsidy and (vii) Margin Money Assistance to sick units. In addition to these concessional facilities, the outside entrepreneurs are also interested (due to their problems particularly Power and Labour) and are given facilities to set up their industrial ventures in Mayurbhanj. Besides, under the Special Drive Programme of the Directorate of Industries, Orissa, construction of the new Industrial Estates has also been started in Mayurbhanj i. e. at Baripada and the other is at Rairangpur with 25 and 15 sheds respectively by IDCO, in addition to the old established Industrial Estate at Takhatpur by Industry Department.

Problems :—Inspite of the facilities provided for the development of industries in the district, the industrial progress is not upto the mark due to the following problems faced by them. The problems are broadly divided into pre-implementation and post-implementation. Former type includes delay in disbursement of financial assistance, incomplete sheds, accumulation of interest and lack of power. Among these problems, the most important ones are incomplete sheds and accumulation of interest. The IDCO has built sheds without infrastructure, for instance the sheds at Baripada are without electricity whereas sheds at Rairangpur are without water facilities. It is observed that majority of the entrepreneurs are facing the pinch of accumulation of interest. They are to pay interest from the date of disbursement of loan, but there is a long time gap between the disbursement of the loan and the implementation of the Scheme due to lack of necessary infrastructure This difficulty is mainly man-made i. e. want of co-ordination between concerned departments and financial institutions.

The post-implementation problems are mainly concerned with marketing, proximity to cities like Calcutta and Jamshedpur, quality of products, technique of production and entrepreneurial ability etc. Becauseof the peculiar position of this district i. e., close proximity to these cities of Calcutta and Jamshedpur, the industries are not able to compete with their products in respect of price and quality. The price is high due to high cost of production caused by lack of sophisticated technique of production and substandard entrepreneurial ability. Inspite of routine type of entrepreneurial training programmes of D. I. C. and other financial institutions to develop entrepreneurship in the district, the quality of entrepreneurship has not improved. Moreover, the non-implementation of the instructions issued by the Government of Orissa for the purchase of materials from the S. S. Units by the Government Departments has added to the problem of marketing. Thus the above factors are responsible for large scale failure of the industries in the district.

Sickness : It is a matter of regret that out of 260 Small Scale Units, more than 75 Units have become sick by the end of 1986 due to causes more than one. The various causes of sickness of Small Scale Industries in the district are (i) inadequate working capital (ii) non-availability of raw materials, specially soft wood for safety match units (iii) under-financing during implementation (iv) managerial inefficiency (v) delay in implementing the revival programme (vi) problems of marketing finished products (vii) natural calamities (viii) non-availability of skilled labour (ix) credit squeeze of financial institutions. The most important of these causes are—(a) non availability of stock yard of OSSIC at Baripada (b) close proximity to Calcutta and Jamshedpur (c) less Central subsidy to the industries.

(a) The industries are facing the problems of raw materials (particularly iron and steel) due to the non-establishment of stock-yard by OSSIC at Baripada which creates the following difficulties—(i) the entrepreneurs are depositing money and they are not getting their raw materials in proper time from the stock yard at Balasore, (ii) their money is unnecessarily blocked, (iii) the cost of transport of raw materials increases the cost of production (iv) the non-availability of raw materials at proper time results in failure of supplying the finished products to the market.

(b) Close proximity to cities like Calcutta and Jamshedpur has resulted in lack of competitive strength of the district based industries.

(c) It is peculiar to note that Mayurbhanj district is getting only 15 per cent Central subsidy whereas adjoining Balasore district with more developed infrastructural facilities than Mayurbhanj is getting 25 per cent subsidy This discriminatory and unjust treatment in the grant of subsidy to a deserving industrially backward district like Mayurbhanj puts unsurrmountable difficulties on the way of industrial progress. Besides these factors, some entrepreneurs with evil motive make the units sick, even though the units are not supposed to be sick.

The above bottlenecks have resulted in the sickness of large number of industries especially iron and steel based, food and allied, agro-based, chemical based industries.

Potentiliatles :—The abundant forest resources and mineral wealth provide enough potentialities for the development of the industries in the district like industries based on bamboo, sabai grass, safety match industries, Sal seed oil industries, Charcoal units, broom stick unit, tassar unit, china clay, Quartizite, ferrovandium, venadium, pigiron, glass etc.

Suggestions :— In order to remove the obstacles for the industrisl development in the district, following steps may be taken.

(i) Development of transport particularly conversion of the narrow gauge railway to broad gauge.

(ii) Establishment of stock-yard for raw materials of OSSIC at Baripada.

(iii) Establishment of Testing Centre (for quality testing) at Baripada.

(iv) Attachment of priority to the establishment of Sabai Grass Units and provision of finance to the artisan members engaged in sabai rope manufacturing.

(v) Provision of complete infrastructure facilities by the IDCO authorities at different industrial sheds.

(vi) Increase of subsidy rate from 15% to 25%

(vii) Adequate and regular power supply to the industries at concessional rates.

(viii) Strict adherence to the instructions of Govt. of Orissa by the departments for the purchase of materials from S. S. I. Units.

(ix) Promptness in sanctioning and disbursing loans by the concerned authorities.

(x) Proper co-ordination among different departments and financial institutions.

(xi) Development of entrepreneurial ability by providing more technical and general education facilities.

(xii) Diversification of industries.

If all these suggestions are carried out in practice, it will help to reduce the cost of production and enable the industries in Mayurbhanj to compete with industries of neighbouring cities.

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(We are grateful to D. I. C., Mayurbhanj for their help in providing informations).

Impact of Turmeric Milling Industry on Farm Price Marketing Costs and Margins of the Turmeric Trade in Phulbani District, Orissa

By **Dr. Dibakar Naik**

Dr. B. Bhuyan

For balanced development of any economy, there is need to have harmony in the primary (represented by agriculture), secondary (represented by industry of processing and tertiary (represented mainly by services) sectors. In Indian Economy, the primary sector accounted for 39 percent, secondary sector 21 percent, tertiary (transport, Communications and trade 19.2 percent, finance and real estate 6.4 percent and community social and personal services 14.4 percent) aggregating 40 percent in the national income during 1984-85. The shares of labour force in these sectors are 69 percent, 13 percent and 18 percent respectively. Although 77 percent of the population depend upon agriculture they have hardly a share of 39 percent of the national income. This explains the high incidence of poverty in rural areas and the overall distortion in development. This is mainly due to lack of marketing support, price incentives and processing industries for the agricultural produce.

Turmeric is one of the important cash crops for tribals in Orissa. Its area, which was 12.73 thousand hectares in 1971-72, increased to 24.94 thousand hectares during 1982-83 recording 150 percent rise over the period. Its production increased from 14 thousand tonnes to 28.44 thousand tonnes during 1971-72 to 1982-83. The yield of turmeric declined marginally from 11.47 quintals to 11.38 quintals during 1971-72 and 1982-83, implying that the productivity has become stagnant during the period.

Phulbani District comprises of 57.50 percent of the scheduled caste and scheduled tribe population. Turmeric is one of the important cash crops particularly for scheduled castes and scheduled tribes in this district. This district contributes about 72.35 percent of the state area under turmeric followed by Koraput (7.16 percent), Balasore (4.53 percent) and Mayurbhanj (3.10 percent) etc. It alone shares 51 28 percent of the total turmeric output in the state It records a very low yield i.e., 8.13 quintals per hectare as compared to the State average i.e., 11.38 quintals per hectare (during 1981-82 to 1983-84) and national average of 16.98 quintals per hectare (during 1976-77 to 1978-79). A study indicates that both the growth of area and production of turmeric during 1970-71 to 1983-84 are found to be statistically significant in Orissa. But the linear growth of yield rate is not statistically significant over the years. This shows that the growers are losing interest in allocating their scarce resources for turmeric cultivation due to lack of marketing support and suitable price policy. In this paper an attempt is made to analyse the impact of turmeric processing industry on farm price, marketing costs and margins in different marketing channels in the marketing of turmeric in Phulbani district.

METHODOLOGY :

In this study, G. Udayagiri block, which contributes 7.28 Percent (1100 hectares) of the turmeric area in the district is selected as the wholesale market and Lingagarh, the important turmeric producing village in the block having one turmeric milling industry is selected as primary market in research project. During the investigation three different marketing situations are identified for analysing the impact of turmeric milling industry on farm price, marketing costs and margins in the turmeric trade of the district.

Situation-I

Marketing Channel consists of three middlemen having a milling industry at the wholesale market.

Producer—Village trader—Wholesaler - cum - mill owner—retailer—consumer.

Situation-II

Marketing channel consists of two middlemen with milling industry at the primary market.

Producer—Mill owner—Retailer—Consumer.

Situation-III

Marketing channel consists of two middlemen without milling industry in the process of marketing of turmeric.

Producer - Trader - Retailer - Consumer.

Mode method is adopted for this research study. In this method average or model prices are compared at different points in the marketing channel to obtain the gross margin. The costs incurred by the intermediaries are deducted from the gross margin to obtain the net margin of the concerned agency. This method is used, as comparable prices are available for the same quality of produce at different points of the market. For each situation, 5 respondents are contacted at each stage except the mill owners for collecting data. As there is only one milling industry in the primary market and two milling industries in the wholesale market, they were all contacted for the study. Thus, 15 producer-sellers, 5 village traders, 5 traders, 15 retailers, 3 mill-owners and 15 consumers were contacted during the month of November, 1986.

RESULTS AND DISCUSSION :

In the marketing of turmeric, a long chain of agencies (middlemen) operate on the distribution path for the movement of turmeric from producers to consumers. Marketing costs and margins are not uniform under all situations. In the present study, one pair of markets (one primary and one wholesale market) in the district is studied under three different market situations. The producer's price (farm price), marketing costs and margins in different market situations are presented below in rupees per quintal and as percentage to consumer's price (Consumer's price =100.00) for comparison.

Situation-I

With 3 middlemen in the marketing channel having turmeric milling industry at the wholesale market (Table-1), the producers receive Rs. 488-00 (40.67 percent) per quintal of turmeric from consumer's price. In this marketing situation both the wholesalers and retailers sell the turmeric powders without polythin packing. Table—1 indicates that the total marketing expenses incurred by producer, village trader, wholesaler-cum-mill owner and retailer amount to Rs. 189.00 (15.75 percent) and the margins received by the intermediaries is Rs. 523-00 (43.58 percent) of the Consumer's price. The total marketing costs and margins account for Rs. 712.00 (59.33 percent). Thus it indicates that marketing margins received by the intermediaries are more than the price obtained by the producers per quintal of turmeric.

Situation-II

Producer's share, marketing costs and margins in the marketing channel having two middlemen with milling industry at the primary market are presented in Table-2. It indicates that the total marketing costs and margins account for Rs. 674-00 (56.17 percent) per quintal of turmeric. Marketing costs and margins separately amount to Rs. 187-00 (15.58 percent) and Rs. 487.00 (40.50 pe cent) respectively in the marketing of same quantity of turmeric. In this marketing situation the producers receive Rs. 526-00 (43.83 percent), is Rs. 38-00 (3.16 percent) more than the price availed of by the producers per quintal of turmeric in the marketing channel having three middlemen with turmeric milling industry at the wholesale market.

Situation-III

In this situation the marketing of turmeric is made in pieces without milling. The producer's share, marketing costs and margins account for Rs. 505-00 (56.11 percent), Rs. 92-00 (10.22 percent) and Rs. 303-00 (33.67 percent) respectively per quintal of turmeric. This situation does not provide turmeric in powder form to the ultimate consumers and for which the producer's share in the consumer's price is more in comparision with other two marketing channels.

Thus the marketing situation-I, Situation-II and Situation-III reveal that the farm price is influenced by Rs. 21-00 to Rs. 38-00 per quintal by milling the turmeric at the primary market (central village of the producing area). The total marketing costs and margins are also reduced by Rs. 38-00 per quintal of turmeric by selling through the marketing channel having 2 middlemen with milling industry at the primary market.

CONCLUSION AND POLICY IMPLICATIONS

Tu meric milling industry in producing areas has got significant impact in raising its farm price. At present, the mill owners, who are in the producing areas charge a profit margin of unduly high amount due to lack of Government control over them. Therefore, a policy decision should be made to establish processing and milling industries for the turmeric particularly in the selected producing areas through co-operatives. This will tend to create employment opportunities among tribals.

The price fixation for the procurement of turmeric as well as for selling its powders after milling may be made in consultation with the Government and producing organisations. In the existing marketing frame work the wholesalers and Traders extend credit to the turmeric growers before the crop is harvested. Even they facilitate credit for their social functions. Hence, tribals sell their produce to those wholesalers and traders at low price without considering the market price and thus the intermediaries exploit the growers. This can be checked if the credit can be extended through the processing and milling industries organised under co-operatives.

The study shows that the turmeric milling industries in the producing areas have significant impact in reducing marketing costs and margins At present, the margins received by the intermediaries are more than the price obtained by the growers. This can be checked by selling the produce through regulated markets. Expansion of milling industries in such areas may provide price incentives and better marketing support through raising farm price for turmeric.

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TABLE—1

Producer's Share, Marketing Costs, and Margins in the Marketing of Turmeric (Situation-I) when the Processionig Industry is at wholesale market.

Sl. No.	ITEMS	In Rs. per quintal	Percentage of Consumer's Price
1.	Producer's gross price	488-00	40-67
2.	Expenses incurred by producer	6-00	0-50
3.	Producer's net price	482-00	40-17
4.	Expenses incurred by Village Trader	8-00	0-67
5.	Margin of the Village Trader	31-00	25-83
6.	Expenses incurred by the wholesaler-cum-mill owner	150-00	12-50
7.	Margin of the wholesaler-cum-mill owner	242-00	20-17
8.	Expenses incurred by the retailer	25-00	2-08
9.	Margin of the retailer	250-00	20-83
10.	Consumer's Price	1200-00	100-00
11.	Total Marketing Costs	189-00	15-75
12.	Total Marketing Margins	523-00	43-58
13.	Total Marketing Costs and Margins	712-00	59-33

TABLE—2

Producer's Share, Marketing Costs and Margins in the Marketing of Turmeric (Situation-2) when the Processing Industry is at Primary Market.

Sl. No.	ITEMS	In Rs. per quintal	Percentage of Consumer's Price
1.	Producer's gross price	526-00	43-83
2.	Expenses incurred by Producer	6-00	0-50
3.	Producer's net price	520-00	43-33
4.	Expenses incurred by Mill owner	156-00	13-00
5.	Margin of the Mill owner	243-00	20-25
6.	Expenses incurred by retailer	25-00	2-08
7.	Margin of the retailer	244-00	20-33
8.	Consumer's price	1200-00	100-06
9.	Total marketing costs	187-00	15-58
10.	Total marketing margins	487-00	40-59
11.	Total marketing costs and margins	674-00	56-17

TABLE—3

Producer's Share, Marketing Costs and Margins in the Marketing of Turmeric (Situation-3) when there is no Processing Industry in the Marketing Channel

Sl. No.	ITEMS	in Rs. per quintal	Percentage of Consumer's price
1.	Producer's gross price	505-00	56-11
2.	Expenses incurred by the producer	12-00	1-33
3.	Producer's net price	493-00	54-78
4.	Expenses incurred by the trader	45-00	5-00
5.	Margin of the Trader	112-00	12-44
6.	Expenses incurred by the retailer	35-00	3-89
7.	Margin of the retailer	191-00	21-22
8.	Consumer's price	900-00	100-00
9.	Total marketing costs	92-00	10-22
10.	Total marketing margins	303-00	33-67
11.	Total marketing costs and margins	395-00	43-89

Role of the State Financial Corporation (SFC) in the Industrial Development of Orissa

BY
Surendranath Behera

The Orissa State Financial Corporation was established in 1956 under the SFC, Act of 1951. It is a landmark in the field of Institutional Finance and Development Banking in Orissa. The Annual Report of Development Banking 1984-85 says that there are 18 SFCs in India operating in their States and Union territories, of which five have jurisdiction of neighbouring States/Union territories. The OSFC completed 29th year of its operation in 1985-86.

Purpose :

The purpose of the Corporation is to provide financial assistance to small and medium sized industries. In its mission to develop small and medium scale industries it has assumed the role of financier, promoter and pioneer in the diversified industrial activities. Its flow of financial assistance is meant for construction of factory building, purchase of plant and machinery and renovation and modernisation of existing plant and machinery. The industrial concerns eligible for assistance, are many and varied. The various promotional schemes undertaken by the corporation have the goals of providing much needed guidance in identification, formulation, implementation and operation of industrial projects to new small and medium scale entrepreneurs to catalyse the promotion of technological research and development in the industry; ensuring a better deal to the weaker and underprivileged sections of the society, and modernisation, expansion and spread to backward areas.

Schemes Operated :

(i) Composite loan scheme for upliftment of weaker sections, artisans and craftsmen, and development of village and cottage industries and tiny units. Under this scheme, financial assistance limiting to Rs. 25,000 is being provided to cover both block and working capital. The scheme is in operation since 1979-80.

(ii) Soft loan scheme provided to technically qualified or rwise suitable entrepreneurs proposing to set up technically ible and economically viable projects. It is the Technical Entre- eur Scheme. The assistance is limited to Rs. 2 lakhs or 15% of fixed assets whichever is less. The scheme is in operation e 1978-79.

(iii) Seed capital assistance scheme made available to persons ng entrepreneurial traits, alongside professionally qualified persons, posing to set up small scale industries. It is the scheme for self loyment of educated unemployed young and enthusiastic persons their self development.

(iv) Scheme for self-employment of medical graduates.

(v) Scheme of assistance to SC, ST and physically handicapped epreneurs.

(vi) Special refinance schemes for modernisation and upgrada- of technology and revival and rehabilitation of sick units.

RKING :

The Industrial Development Bank of India (IDBI) is a major re-holder in SFC along with the State Government and is a major rce of finance to them. The Corporation also raises its funds from re Capital. The Corporation has close rapport and liasoning with nmercial Banks for timely provision of working capital essential for lthy industrial growth. The Corporation has been functioning with twin objectives of term lending and promoting industrial growth. ough the developmental objective is important, the Corporation has to ensure profitable working.

The OSFC has 16 branches over Orissa, one in each District and more at Bhubaneswar and two at Cuttack. The activities of the Cor- ation over about three decades have been spectacular in the field of ction and disbursement of loans. The total effective sanction has reased to Rs. 317.53 crs. involving 31,272 units since its inception up the end of the year 1985-86, as against Rs. 278.03 crs. by the end of 34-85. The cumulative disbursement also increased to Rs. 208.21 crs. 1985-86 as against Rs. 172.67 crs. up to 1984-85. The operation of the rporation in the field of sanction and disbursement is shown in ble-1.

TABLE—1

Sanction			Disbursement	Rs. Lakhs
Year	*No.*	*Amount*	*No.*	*Amount*
1	2	3	4	5
1984-85	2085	5250.21	755	3371.36
1985-86	1819	4991.69	728	3553.24

The Corporation has followed a cautious policy in regard to sanction of new loans and as a result there has been a depression in the total amount sanctioned during the year as against the previous year. In 1985-86, 1819 out of 2496 i. e. 63.69% of the enthusiastic entrepreneurs were sanctioned, 21.09% were rejected or withdrawn and 15.22 % were pending at the end of the year for various reasons such as linked-up with indepth study, inadequate information by the entrepreneur, proposals under process and other reasons. Out of 728 units to whom loans are disbursed 478 are small units and 250 are other than small units, road transport opeators and other units. The share of the small scale units is 67% and of road transport operators 17% out of the total amount disbursed. The share of small scale units amounts to Rs. 24.22 crs. and other units Rs. 11.31 crs. of the total of Rs. 35.53 crs. The sanction disbursement gap arises because the sanctioned units are not availing or partially availing the sanctioned amount.

The total financial sanction includes sanction to small scale units, other than small scale units and other units like road transport operators, hotels, rural medical practioners, consultancy services etc.

TABLE—2

Break up of the financial assistance sanctioned to different units.

Rs. Lakhs.

Type of Unit	Effective sanction as on 31-3-1985.		Effective sanction as on 31-3-1986	
	Amount	% to total	Amount	% to total
1	2	3	4	5
1. Small Scale Industries (SSI)	15049.37	54.13	17786.52	56.02
2. Other than small Scale (Medium)	4163.08	14.97	4418.07	13.91
3. Road Transport Operators.	4898.93	17.62	5648.67	17.79
4. Other Units	3691.85	13.28	3899.95	12.28
Total :	27,803.23	100.00	31,753.21	100 00

The Corporation's effort for providing adequate financial assistance to small scale sector has shown an appreciable increase. Assistance to medium sized units and other units had slowly declined as percentage of total but has gone up in amount in comparison to previous year. In case of road transport operators there is a substantial increase in amount, not in percentage of the total.

TABLE—3

Disbursal of Loan to different Units in different years.

Types of Units.	1981-82	82-83	83-84	84-85	85-86	Since its inception till 31-3-86
1. SSI	3521	1733	831	419	478	11,731
2. Other than SSI	7	1	7	7	6	107
3. Road Transport Operators	275	235	162	304	223	2,839
4. Other Units	836	51	49	25	21	444
Total :	4639	2020	1040	755	728	15,121

In 1985-86 restrictions are put on the financing industries like printing press, ceramics, hotels at selected locations, polyfilm, almunium utensils, bakery, biscuit manufacturing, card board packaging boxes etc. in addition to the restrictions imposed by the SSI Development Commissioner and IDBI.

A review of the different promotional schemes of the Corporation has proved a satisfactory performance. The total number of loan sanctioned in Composite Loan Scheme as on 31-3-1986 is 9702 involving Rs. 393.94 lakhs and in Soft Loan Scheme it is Rs. 296.26 lakhs in respect of 579 units covering a wide range of sophisticated industries like Resin, Alloy Casting, Super enamelled copper wire etc.

Though Table—3 shows that the total number of beneficiary units by the end of March, 1986 is the highest, if we go through the sanction of financial assistance since its inception it shows that the small scale sector has never received the requisite priority in its operation, probably due to apprehension of high cost. Since its inception to the end of March, 86 the OSFC has sanctioned Rs. 89 23 crs. to 27,016 units each getting an amount of Rs. 2 lakhs or less. But 13.5% of bigger units has covered 70% of loan assistance whereas 87% of the small units have been offered 30% of loan assistance.

The total disbursement of loan during the Sixth Plan period is Rs. 14024.29 lakhs covering Rs. 13889.43 lakhs term loan and 134.86 lakhs soft loan involving 10,726 units. The Corporation in collaboration with IPICOL, Commercial Banks and All India Financial Institutions provides assistace under Joint financing or Consortium financing to medium scale industries, like manufacturing Razor blades, Insulated bricks, Alloy casting, Foam leather, Stainless steel watch cases etc. where the term loan requirement exceeds Rs. 6 million.

There has been liberal assistance to technical entrepreneurs and industrial units in the backward areas. Eight districts of the State treated as backward including three no industry districts (NIDs), Balasore, Bolangir, and Phulbani, with effect from 1st April, 1983 as per the Govt. of India classification. The additional facilities provided to the entrepreneurs in these areas include higher investment subsidy, lower rate of interest, lower promoter's contribution, longer repayment period and lower commitment charges. The restrictions imposed by IDBI are not applicable to certain type of industries in these areas. The NIDs are provided the Central Investment subsidy at the rate of 25% in addition to other concessions.

TABLE—4

District-wise loans disbursed during, 1985-86

(A) Other than Backward.

Sl. No.	Name of the Dist/Branch	Total no. of Units.	% of total loan disbursed.
1.	Cuttack	149	27.19
2.	Puri	59	4.51
3.	Bhubaneswar	59	14.42
4.	Ganjam	65	6.55
5.	Sambalpur	30	3.69
6.	Sundargarh	54	9.12
Total :		416	65.48

(B) Backward Districts :

1.	Dhenkanal	5	4.83
2.	Keonjhar	39	2.71
3.	Kalahandi	38	3.14
4.	Koraput	26	3.39
5.	Mayurbhanj	31	4.04
	Total :	139	18.11
(C)	No Industry Districts : (NIDs)		
1.	Balalsore	60	9.66
2.	Bolangir	89	5.64
3.	Phulbani	24	1.11
	Total :	173	16.41
	Total (A+B+C)	728	100.00
	Backward area (B+C)	312	34.52

Among all the districts Cuttack district has received the highest during 1985-86 amounting to Rs. 966.01 lakhs and Phulbani the lowest only 1.11%. Among the backward districts Dhenkanal has received the highest amounting to Rs.171.73 lakhs.

TABLE—5

A Break-up of the Total Disbursement among the different Categories of districts

Rs. Lakhs

	Till the end of March, 86 since inception.		During 1985-86	
	Amount	% Total amount	Amount	% Total amount
1	2	3	4	5
Backward area excluding NIDs.	3303.87	15.87	643 52	18.11
NIDs	2148.88	10.32	583.13	16.41
Sub Total	5452.75	26.19	1226.65	34,52
Other than Backward area	15368.29	73.81	2326.59	65.48
Total	20821.04	100.00	3553.24	100.00

It is evident frhm Table—5 that the investment of the Corporation is increasing steadily in the backward areas and at a higher rate in the NIDs. The above trend of investment will gradually reduce the existing regional imbalances.

The OSFC has entered an agreement with Indian Reconstruction Bank of India (IRBI), Calcutta, for availing a line of credit which is utilised for revival, rehabilitation and modernisation of sick units. A special refinance scheme is formulated for this purpose. By the end of March, 1986, 985 industrial units are identified as sick or developing sickness. The main reasons for their sickness as identified are non-sanction or inadequate sanction of Working Capital, shortage of raw materials, marketing constraints, managerial deficiency, technological change and obsolescene of machinery etc. Since inception till march '86 revival assistance involving an amount of Rs. 64.24 lakhs have been sanctioned in favour of 73 units out of which 37 have been fully revived and they are now able to repay the loan. For nursing sick units it extends term loans assistance and hire purchase finance facility to sick units to meet essential capital expenditure for renovation, installation of equipment, diversification, expansion and modernisation and for bridging the liquidity gap and provide margin for working capital. Taking the cases recommended by the DICs the percentage of sanction by OSFC is much larger than by Commercial Banks. Hence there should be a joint and simultaneous appraisal of both term loan and working capital loan of a prospective entrepreneur as suggested by Bhide Committee.

Besides providing long-term loans for development of industries, the corporation also acts as an agency of the State Government and Government of India for releasing incentives in the form of subsidies. The Govt. of India provides central investment subsidy (CIS) to the extent of 15 % of the cost of fixed assets subject to a maximum of Rs. 1.5 million in five specified backward districts in addition to the Govt. of India declaration of NIDs subsidy to the extent of 25% of the cost of fixed assets, subject to a maximum of 2.5 million, besides the other concessions available to backward areas. For Kalahandi District additional 10% of State Investment subsidy (SIS) is advisable in addition to 15% central subsidy. Further, the Orissa Govt. has also formulated a scheme of providing subsidy (SIS) to the units located in Cuttack, Puri, Ganjam, Sambalpur and Sundargarh districts to the extent of 10% to 15% of the cost of fixed assets. Among the NIDs the financial assistance sanctioned during the year, in Balasore district 1985-86 is Rs. 883.44 lakhs. It has invoked a credit Guarantee amounting Rs 1.54 crs in respect of 635 units during, 1985-86. During 1985-86 a sum of Rs. 629.04 lakhs has been disbursed as CIS and SIS.

Recovery overdues is one of the main problems of the corporation and efforts are being made to achieve target of collection branch wise and month wises collecting from hotel, transport, nursinghome, backeries etc. There are openings of recovery cells for the purpose.

Outstanding defaults are due to disproportionate investment in transport operators of trawiers etc. The transport operators are defaulters due to increasing price of the fuel, and unhealthy competition among them in the same region. The fact remains that there is a propensity of the borrowers to default deliberately resulting in mounting overdues. However concentrated efforts are made in this regard as for example collecting the dues of trawler owners by keeping link with the port authorities, seizures of trawlers and transport operators etc. There has been a gradual improvement in the recovery performance of loans by the corporation. The amount of recovery has been increased from Rs. 1711.62 lakhs in 1984-85 to Rs. 2040.62 in 1985.86. The percentage of recovery of the corporation in 1985-86 is 53. It has shown a profit of Rs. 6.82 lakhs in 1985-86.

The follow-up programme of the assisted units in the implementation as well as Post-implementatian stage goes a long way in removing and preventing industrial sickness. The corporation is working in coordination with banks. It has been observed that personal contacts, persuation and discussion in a regular and systematic manner at all level, have developed a genuine awareness and interest among the entrepreneurs about the corporation's objective of sound development. It was realised that mere provision of fiscal incentives did not have the desired impact in correcting the regional imbalances. There is a dearth of sufficient enthusiastic entrepreneurs coming from the backward regions. Hence the basic challenge of the corporation is how to activate and develop latent entrepreneurial talents by the follow-up measures for the aasessment of feasibility projects, identification of entrepreneur, preparation of feasibility report, initial guidance and liason service to prospective entrepreneurs. We have the Orissa Industrial and Technical Consultancy Organisation (ORITCO) for preparation of feasibility reports. Industries are to be chosen in specific areas on the basis of resource endowment and infrastuctural facilities like feeder roads, railways etc. The industrial backwardness of Phulbani is a case in point. Primarily as a development bank, the corporation has taken active steps in balanced promotion of industries, jointly with DICs and Lead Bank officers for identification of industries. Motivational camps are undertaken as a part of promotional and developmental function to tag-up suitable entrepreneurs, followed by an intensive campaign .at district level with officers of OSFC, Directorate of Industries, Orissa, O.S.E.B.· IDCO to sort out the problems of the entrepreneurs and find solutions to remove bottlenecks. Participation of officers on Entrepreneurship Development Programmes (EDPs) organised jointly with IDBI, SISI and ORITCO for Science & Technology

Graduates and Lady entrepreneurs. Since most of the entrepreneurs after training do not comeforward to set up industries and the'e is superficial identification of projects, there is a need for constant evaluation of the EDP programme to avoid wastage of trained manpower. Sometimes the EDP trainees overestimate their financial support. Only EDP trainees from richer section are eligible to supply the margin money. The development activities coupled witn publicity can create awareness among prospective entrepreneurs. The corporation's close rapport and liasoning with commercial Banks for timely provision of working capital is essential for healthy industrial growth It is expected that by constant and continuous review and co-ordinated efforts the time lag between sanction of term loan and release of working capital will be considerably reduced. Constant monitoring of HRD Programme will go a long way for achieving the desired goal.

It is seen that the major portion of the assistance has gone to the propretorship and partnership concerns. Besides granting of term loan as the main form of assistance the corporation also helps in underwriting of shares, subscribing to debentures, deferred payment guarantees and other guarantees. Small scale industries which depend on local resources as their raw materials and the local areas as the market outlet, face financial constraints in the matter of timely arrangement of working capital, for the operating cycle of such manufacturing units. While these industries are now able to get timely assistance for fixed capital investment in plant machinery & building with heip of OSFC the entrepreneurs still face enormous problems in getting working capital.

A review of the growth performance of the OSFC has shown that it has improved its relative rank from 11th in March, 1980 to 8th in March, 1984 among the SFCs in India. We have yet to raise its rank above, for which there is a need for active involvement, continued assistance, Co-operation, guidance and support from the Central and State Governmenrs,Finance and Industry Departments and organisations like IDBI, RBI, IFC, SISI etc. A well integrated financial structure and deyelopment banking will lead the OSFC to streamline the activities in line with tbe planned objectives.

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Problems and Prospects of the Jute Industry in Orissa—

A Case Study of Konark Jute Mill, Dhanamandal.

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&
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The jute industry is a traditional agro-based industry having a dominant bearing on the economy of the eastern region of the country employing as it does around 2 lakh workers in mills and supporting about 4 million families dependent on cultivation of jute which is the most commercial crop in the region. This industry contributes over Rs. 326.75 Crores annually to the economy of the country and provides over Rs. 130.7 crores as budgetary support to the government by way of taxes and levies (1). For decades it has been one important foreign exchange earner for the country. But unfortunately, this gigantic industry is now showing signs of decay due to industrial sickness, high cost of production, uncompromising trade unions and competition from the synthetic fibres. In this context it is pertinent to study the problems and prospects of the jute industry in general and that of Orissa in particular with reference to the Konark jute Mills Limited.

The Indian jute industry suffers from the ailments which are enumerated below.

The rough weather attending on the jute industry can be traced back to the partition of the country which left most of the quality jute growing areas in East Pakistan, now Bangladesh To make the matter worse, Bangladesh has emerged as a formidable competitor not only in production of high quality jute at lower cost, but also a manufacturer with modern technology.

Production of raw jute has remained uncertain varying from year to year with immediate reflection on the prices of raw jute. The cost of raw jute at the farmer's level increases by about 30% when it reaches the factory godown. Besides, there are taxes on the commodity or the movement of the commodity levied by different authorities. Raw jute comprises more than sixtyfive percent of total cost of production of jute goods which varies with different items. The result of high cost and high prices has affected the long term prospects of the industry. (2)

TABLE—1

Area, production and productivity of Jute Crop

Year July-June	Orissa Area	Orissa Crop	Orissa Yield	India Area	India Crop	India Yield
1971-72	52	380	7.30	815	5684	6.97
1972-73	42	381	9.07	700	4978	7.11
1973-74	57	401	7.03	792	6220	7.85
1974-75	47	333	7.08	664	4470	6.73
1975-76	38	291	7.66	585	4440	7.59
1976-77	47	405	8.78	737	5353	7.26
1977-78	49	420	8.57	797	5361	6.73
1978-79	49	439	8.96	884	6470	7.32
1979-80	46	320	6.96	834	6072	7.28
1980-81	44	310	7.04	941	6508	6.92
1981-82	53	410	7.74	827	6817	8.24

Note : Area in '000 hectares, crop in '000 bales, yield in bales/hectare.
Source : Annual Summary of Jute and Gunny Statistics 1981-82, IJMA, P-4.

Table-1 presents details regarding area, production and productivity of jute crop in Orissa and India. There has been marginal increase in area under jute crop in Orissa to 53,000 hectares in 1981-82. On all India basis the area rose from 8,15,000 hectares in 1971-72 to 8,27,000 hectares in 1981-82. The lowest was in 1975-76 and the highest was 9,41,000 hectares in 1980-81.

The table presents productivity per hectare. In case of Orissa it has increased from 7.30 in 1971-72 to 8.96 in 1978-79, but again declined to 6.96 in 1979-80 and then improved to 7.04 and 7.74. The All India yield rate has fluctuated very much from 6.97 in 1971-72 to 8.24 in 1981-82. Thus, a lot of variations in yield has been noticed indicating the indifference towards improvement in yield. Jute has not received the proper attention in terms of high yielding varieties, methodology of retting, improvement in the texture of the fibre and organised distribution of the fibre. Growers donot adopt line sowing and they donot apply fertiliser in proper doses. Sometimes fertiliser is not at all used for fear of inundation.

The Committee on Public Undertakings (1977-78) in the Eighth Report on Jute Corporation of India Ltd., (3) made an estimate of cost of production of jute and mesta. The cost of production of jute per acre comes to Rs. 2,377.27 and that for mesta comes to Rs. 1,596.00. Taking the average yield of 6.30 quintals per acre in case of jute and 4.90 quintals in case of mesta, cost of jute per quintal comes to Rs 344.34 ~~excluding by-products and the same is Rs. 283.71 in case of~~ mesta. While estimating they have taken cost of family labour and hired labour in case of jute at Rs. 829.83 and in case of mesta at Rs. 615.60. Interest on capital has been estimated at Rs. 623.84 for jute and Rs. 229.40 in case of mesta, per acre. They have taken management charges at the rate of Rs. 80/- per acre per month for six months. The cost of production could be reduced substantially, if the interest charges could be reduced and the imputed costs could be excluded. A comparison of cost of cultivation of jute in India and Bangladesh is given in Table-2.

Table-2. Costs of Cultivation of Jute in India and Bangladesh, 1983-84.

	India	Bangladesh
Full Costs (Dollars/hectare)	492	370
Cash Costs (Dollars/hectare)	191	155
Full Costs (Dollars/tonne)	332	211

Source : Burger et al (1985), P. 24.

Another problem is marketing of jute goods. Many agencies operate between the manufacturer and the consumer, both in the domestic and foreign markets. At each transaction that takes place, taxes get accumulated. Secondly, jute goods do not have any brand names. Thus individual products cannot be tracked down to their producers. The middlemen exploit this situation.

High raw jute prices and high prices of jute products have resulted in lower exports. During the period 1971-72 to 1981-82, the share of jute and jute products has declined from 17.36 percent to 3.47 percent. At the time of independence about 60% of the total production was being exported, but now the position has been reversed. India has become a residual exporter in the sense that when capacities of other countries are exhausted only then Indian products are imported by consumers abroad. Table-3 explains the export trend of Indian jute.

TABLE-3

Share of jute and jute goods in the Export Trade of India, 1971-72 to 1981-82.

Year	Lakhs of Rs.	Percentage
1971-72	2,78,31	17.36
1972-73	2,54,85	12.97
1973-74	2,31,89	9.21
1974-75	3,14,71	9.47
1975-76	2,61,34	6.49
1976-77	2.02,24	3.95
1977-78	2,47,25	4.58
1978-79	1,68,06	2.95
1979-80	3,39,57	5.30
1980-81	3,35,41	5.03
1981-82	2,70,84	3.47

Source : Annual Summary of Jute and Gunny Statistics 1982-83, Page 50-51;

The producers of jute goods have not given attention to the diversification of the product-mix.[4] A close look at the production figures for the last thirty years suggests that it was only since 1956 that new products like Carpet backing and Cotton bagging were included in the product mix. Most of the time the emphasis of the industry was on two traditional products—hessian and gunnies, both of which have depended on the cheapness of the fabric.

Besides other jute producing countries, the golden fibre of India is also facing a threat from paper bags, cotton bags and ultimately polypropylene bags because of their relative cheapness The synthetic bag has already captured the cement and fertilizer market.

The jute industry of India comprising 60 mills, 7 managed by public sector and 20 managed by multiproduct corporations, leaves 33 to private ownership. Most of the mills have become obsolete and some of the units have become century old. To revive the decaying industry, a modernisation plan has been taken up by the Government and the industry. Both the Government and the managements have agreed to work on a modernisation plan in which the industry would produce a new product called polypack which will be partly jute and partly synthetic. This product is said to be better than 100% Synthetic bags and it has been accepted by the cement-industry. But unfortunately the workers and the Left Front Government are opposed to this scheme for fear of retrenchment of workers. They are for a total ban on the use of synthetic material for packaging purposes, whatever may be the proportion.

As per the estimates of Indian Jute Mills Association for internal consumption of jute packaging, the requirement of Orissa by the year 1978-79 was expected to be around 38,000 tonnes, on the assumption of 5% overall rate of growth per annum. In addition to internal demand the requirement of the neighbouring states like TamilNadu, Karnataka and Kerala was also taken into account and a decision was taken to set up 3 jute mills, each with a capacity of 10,000 tonnes. As a first step in this direction, a joint venture by NAFED, New Delhi and IDCOL, Bhubaneswar was incorporated in October 1975. The enterprise christened Konark Jute Limited was licensed for a total capacity of 13,240 tonnes out of which the share of DW Tarpaulin was 2,462 tonnes and that of sacking 10,778 tonnes. The mill was set up at Dhanamandal in the Cuttack district which produces 3/4th of the jute in the State of Orissa. This is how the jute industry, in its manufacturing sector, came to Orissa. Besides this mill, there are now two other jute mills in the districts of Balasore and Dhenkanal which have specialised in the production of twine only.

The company started trial production in February '79 and commercial production in November 1979. The main products of the company have been B. Twill Bags, D. W. Flour bags, Heavy cess cement bags, Hessian Cloth and twine. The mill is changing product range from time to time depending on market condition and price-cost relation. The production of hessian cloth has been discontinued since December 1980 and from May 1983, the production of D. W. Flour bags has also been suspended. Now the mill is producing only heavy cess cement bags and B. Twill bags by engaging all the 200 looms. The mill employs 1853 regular workers, 969 temporary workers and 133 supervisory staff as on 23-1-87.

The year-wise production and capacity utilisation of the mill since the commencement of commercial productions are as follows :=

TABLE- No.4

Production and Capacity Utilisation.

Year	Total Weaving production during the year (in Metric Tonnes)	Capacity Utilisation	Operating Profit/ Loss (Rs. in lakhs)	Cash Gain/ loss (Rs. in lakhs)
1979-80	1152	45%	(–) 11.99	(+) 15.99
1980-81	5802	45%	(—) 63.12	(—) 28.08
1981-82	6356	46%	(–)108.91	(–) 78.62
1982-83	8119	53%	(–) 89.24	(—) 53.25
1983-84	4042	51%	(–)129.59	(—) 92.79
1984-85	6581	55%	(—) 96.93	(—) 62.14
1985-86	9039	68%	(—) 19.77	(+) 15.03
1986-87 (upto January)	9460	70%	—	—

Source : Official Records of Konark Jute Limited.

Table-4 indicates that weaving production of the mill is increasing continuously except in the year 1983-84. The decline in production in 1983-84 was caused by labour unrest for a period of six months during which the factory was locked out. Capacity utilisation has also registered continuous growth from 45% in 1979-80 to 70% in 1986-87. The maximum capacity utilisation that can be achieved in a jute mill is 75% as per the standard developed by the Jute Manufacturing Development Council, Calcutta. So the capacity utilisation position of the mill comes very close to the maximum installed capacity in 1986-87. In spite of the realisation of physical targets, the mill is constantly incurring losses except in 1979-80 and in 1985-86. In 1985-86, it has made a net profit of Rs.15.03 lakhs.

The capacity utilisation has been lower compared to the industries norms due to :

a) Low productivity of workers. Most of the workers are recruited locally who have no experience in the industry.

b) Go-slow, stay-in-strike etc. during 1980-81, 1981-82 and 1983-84.

c) High rate of absenteeism, ranging from 15% to 30%.

d) Power shortage. During the year 1982-83 there was a lot of power interruptions & low voltage problems which resulted in substantial loss in production. In the year 1982-83 the mill sustained production loss of 1019 Metric Tonnes due to power failure of 937 hours. Similarly, in 1983-84 the loss in production has been due to power failure.

TABLE 5

Loss of Production

Years	Power Failure Hours	Production loss in (MT)	Absenteeism (MT)	Labour Unrest (MT)
1979-80	88	62	Nil	Nil
1980-81	168	196	232	273
1981-82	230	257	628	367
1982-83	937	1019	835	Nil
1983-84	687	725	275	6 months closed
1984-85	398	401	402	15
1985-86	1268	1701	2788	Nil

Source : Official Records of Konark Jute Ltd.

The table-5 reveals that power failure has been a chronic problem with the mill. In the year 1985-86, there was a heavy power cut which compelled the mill to instal a 1350 K. V. generator set costing Rs. 70 lakhs. Labour unrest is the most important factor responsible for the loss incurred by the mill. Political interference in trade union affairs and inter-union rivalry have been responsible for the labour trouble. The ESI leave rules and the provision of "fall-back wage" have often induced workers to dishonest practices. The time rate of wages prevalent in the mill from the beginning was a constant cause of labour unrest. This was replaced by productivity linked wages (piece wage rate) from 1984. After the introduction of new wage rate, production and productivity of workers have gone up substantially and the company is very close to achieving the minimum target of 65% efficiency level. During 1982-83, average level of loom efficiency was 52%. In the month of September, 1984 the factory achieved a record production of 862 MT and the average efficiency was 59.40%. The efficiency would have been further improved if sufficient raw jute could have been made available in time. The normal working of the factory has also been disrupted due to lack of finance.

TABLE 6

Production and Sale of Gunny Bags with Raw Jute consumed.

Year	Production of Gunny bags in MT	Sales of Gunny bags in MT	Raw Jute consumed in MT
1979-80	1600	1488	2605
1980-81	5955	5295	5674
1981-82	6495	6336	5551
1982-83	7874	7727	7526
1983-84	3866	4412	3828
1984-85	6483	6286	7626
1985-86	9412	9324	9017
1986-87 (by end of January)	9130	9121	8887

Source : Official Records of Konark Jute Ltd.

The table shows that the mill has no problem so far as the sale of the product of the mill is concerned. The NAFED has been appointed as the sole selling agent with a commission of 3/4% on the total value of sales except the sales made to IDCOL. Heera Cement Works of IDCOL is one of the mill's major consumers and the mills supplying the entire requirements of gunny bags of the Heera Cement ranging from 6 to 8 lakh bags per month. The balance production is sold on the open market particularly to the cooperative organisations in M.P., Orissa and to the DGS & D of Orissa. The gunny bag price is determined by the Gunny Traders Association of Calcutta.

TABLE 7

Utilisation of Jute Produced in Orissa.

Years	Jute production Orissa (in MT)	Raw Jute consumed by K. J. L. (in MT)	Percentage of Raw Jute consumed by KJL
+1979-80	57,600	2605	4.5%
+ 1980-81	55,800	5674	10%
+ 1981-82	73,800	5551	7.4%

Source : +Commerce Annual Number 1984, Page-95.

Table-7 indicates that the mill utilises less than 10% of the jute produced in Orissa. It is gathered from the Project Estimate of the

Mill prepared by IJMA for the year 1978-79 that the requirement of Orissa is 38,000 tonnes of jute bags. According to the IJMA "marketing therefore, will not present any problem for the Jute Industry of Orissa". In view of the above, there is ample scope for establishment of additional jute mills in Orissa.

Impact of the Mill on the development of ancilllary and subsidiary industries :

Four subsidiary units have sprang up around this mill at Dhanamandal. These units utilise the jute fabric of the mill to stitch gunny bags for the mill and get stitching charges. Total employment generated by these 4 units is around 363 per day. There are also two bobbin manufacturing units one at Dhanamandal and the other at Jagatpur.

Suggestions :

1. Steps should be taken to produce better quality fibre at lower cost of production. This would be possible by providing irrigation facility, easy and cheap credit, HYV seeds and scientific methods of cultivation and processing. Jute research laboratories should be linked with farmers through extension service programmes.

2. Labour should be made to understand the importance of his efficiency for the survival of the industry in view of the threat from synthetic products. Labour should co-operate with management in any rationalisation or modernisation programme.

3. The product-mix of the industry has been mostly traditional-limited to the production of hessian and bags only. Steps should be taken by the mill to produce "other jute goods" like decoratives and try for maximum diversification of the product.

4. Since it is not possible to ban the production and use of synthetics for its relative cheapness, the jute industry should readily accept the new blended technology of "polypack" by which synthetics become complimentary to jute. The demand for jute would increase by this.

5. Representatives of the government and the industry should explore new markets abroad and try to re-capture the markets lost to Bangladesh and others. The industry should participate in international fairs for this purpose. In this context special attention may be given to the markets in USA, USSR, Canada, UK and African countries. Besides attempt should be made to exploit the domestic market also.

6. The jute corporation of India should be prepared to
ise all the jute offered by the farmers at the rates fixed by the
iment in-order to maintain stability in the jute prices.

7. Jute fibre should be free from all taxes inorder to reduce
f production in the mills,

Leaving aside the above suggestions which are general in there are a few points to be reiterated in case of the Konark ill. It is equipped with modern machineries, unlike the old and ded mills of Calcutta; there is an assured market for its product s located in a fertile jute growing area which enables the mill to raw material at a low transport cost. Therefore, there is no for the mill to incur losses persistently. It is the responsibility management and labour to make the industrial climate congenial healthy growth of the industry so that jute would not go digo-way".

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Industrialisation in Orissa— Retrospect and Prospect.

Dr. R. K. Choudhury
&
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Industrialisation has a major role to play in the economic development of an underdeveloped region. The wide gap in per capita income between the developed and the underdeveloped areas in india is largely reflected in the disparity in the economic structures of such economics. While the developed areas are largely industrial, the under developed areas are primarily agricultural. Besides the trade gap, the underdeveloped regions are facing incessant increase in population and relentless diminishing return in agriculture. These two are instrumental in setting the poverty-trap. In general, the per capita net value of output in industry is higher than agriculture. In the poor region, a shift from low productive occupation to high productive occupation is necessary to break the vicious circle.

The ideology of industrialisation has been stimulated by its high marginal propensity to save and invest which eventually helps to maintain a self-sustained growth. In modern industry more and rapid advancement in productivity would be feasible as it would circumvent attitudinal and institutional obstructions to an effective utilization of labour power. In Industry "there are no limiting factors analogous to the availability of land in agriculture to impede the realization of Increasing returns. The process of industrialisation is connected with the development of mechanical knowledge, attitudes and skills of industrial work and experience beneficial to the growth of productivity in agriculture, trade, distribution and other allied sectors of an economy. Industrialisation is the consequence of higher incomes and the means of higher productivity.

One of the accepted objectives of planning in India is to reduce disparities in the level of development of different regions and spread evenly the benefits of industrialisation in different parts of the country. It is often claimed that the industrialisation brings in its wake inventiveness, a modern outlook, the environment for rapid technological progress and indeed the whole complex of industrial civilization necessary for a progressive nation. After a number of Plans, however, the industrial scene of Orissa is a bleak and dismal one. In a bleak condition of abject poverty and misery, the industrial development is but one of the many disappointments. Paradoxically, Orissa despite its vast and rich minerals, forest, agricultural and marine resources continues to be industrially backward. This is in consonance with the historical evidences that the areas with rich endowment of natural resources are not necessarily developed areas it is the extent of utilization that determines the growth.

Orissa enjoys an ideal climate and necessary potential for industrial development. The raw material base for industrialisation is wide spread over the sectors like forest, fisheries, agriculture and minerals. But the contribution of Orissa to the total industrial production in India was only 0.26 percent in 1950-51. It increased to 2 percent in 1960-61 and 2.5 percent in 1965-66. Due to the industrial recession, the share of Orissa in All India Industrial production declined to 1.9 percent in 1969-70, 1.7 percent in 1975-76 and to 1.6 percent in 1978-79. Compared to the states like Andhra Pradesh (11.3 percent), Gujurat (11.3 percent), Madhya Pradesh (3.6 percent), Maharastra (16.3 percent) Tamil Nadu (10.5 percent) and West Bengal (6.7 percent), Orissa continues to lag behind.

Such dismal picture of the Industrial development of the state is attributable to the want of a heroic measure during the succeeding plans. The sectoral allocation of plan outlays reveals that the investment on industries ranged around 3.5 to 8.1 percent of the total plan outlays. The state invested around Rs. 80 crores on industries by the end of the fifth plan. The First Five year Plan did not aim at substantial change in the industrial structure of the state. However it laid the foundation to increase the industrial infrastructure by initiating development of certain categories of industries like Cement factory at Rajgangpur, Ferromanganese plant at Rayagada and Joda, a Tube Factory and a Paper Mill at Chowdwar, and Aluminium and Cable Factory at Hirakud. During the second Plan period the Hirakud and the Machhakund Hydroelectric Projects were ready for transmission, the state and the National Highways had been expanded and developed. With this infrastructural development, efforts had been intensified for the establishment of an industrial base. A beginning was made with about 800 registered factories with a total capital investment of about Rs. 290 crores. The number of registered factories was increased to 1079 with fixed capital of Rs. 328 crores at the end of the Third plan. In 1973-74, the number of registered factories went up to 1,337 and to

1,831 in 1979-80. The fixed capital investment also registered an increase up to Rs. 659.9 crores in 1979-80.

During the first two plans efforts were made for creating necessary conditions for the development of large and medium Industries. In the field of village and small industries, state help were rendered through regular supply of raw materials and marketing of finished products. Realising the inadequacy of the measures, for attracting large number of industries, the state Govt. intensified the existing projects, and felt the urgent need to take direct responsibility of industrialization. The policy of extending financial assistance to the new and intending entreprenure was revitalised.

With a view to augmenting utilization of Industrial potential of the state, efforts were made for creating necessary conditions for the development of large and medium industries during the First and Second Plan period. In the field of small scale and village industries, the state Govt. helped the small entrepreneurs in setting up small units by ensuring regular supply of raw materials and marketing of finished products. In case of pilot projects in the small Units sector, the state Govt. participated in fixed capital to the extent of ninety percent. The private entrepreneurs were given the option to take-over the Unit in due course. But subsequently it was realised that the efforts have been inadequate to attract large number of industrial concerns in the private sector.

The actual budgetary provision would indicate the role played by the Government in industrial development. The expenditure of the Govt. of Orissa in industries and minerals and the expenditure in other states reveals hard fact that the backward states in India spend less on Industrialization than the developed states. The expenditure on the development of industries and minerals in Orissa varied around one percent of the total expenditure which is much below the other states and the all-India average. In 1975-76 Orissa spent Rs. 4.29 crores on Industries and minerals which comes to 1.1 percent of total expenditure. It was 2.4 percent in U. P. and 5.3 percent in Karnataka. In 1977-78, it was increased to Rs. 5.69 crores which was 1.2 percent of the total expenditure of the combined revenue and Capital account.

The plan-wise analysis of expenditure on industries and minerals would reveal that in Orissa out of the total Plan outlay of Rs. 18.4 crores a sum of Rs. 1.1 crores or 5.9 percent was spent during the First Plan. During the Second Plan period it was 3.9 crores, out of Rs. 86.6 crores which was only 4.5 percent of the total plan outlay. In the

Third Plan Rs. 224.6 crores was the total plan outlay, out of which only Rs. 20.3 crores or 9.03 percent was earmarked for this sector. During Fourth Plan only 8.4 percent of the total plan outlay was for development of this sector. This sector was only allotted Rs. 21 crores against Rs. 249.3 crores of the total plan outlay. During Fifth Plan period only Rs. 13.2 crores out of Rs. 453.6 crores or 2.8 percent was spent for Industries and minerals. During the Sixth Plan period the total outlay was Rs. 1,569.8 crores. Out of this Rs. 101.9 crores or 4.32 percent was allotted for the development of minerals and industries. The Seventh Plan envisages an outlay of 5.18 percent of the total plan outlay on Industries and minerals. Orissa has attached less importance to industrialization.

Industrialization depends upon the enterprising entrepreneurs and the supporting Government. In Orissa, however, the dearth of enterprising personnel and inactivity of the Govt. deprived the state from being industrially developed. It has to be noted that required finance deployed under well thought plans would help accelerated industrial development. But in a poverty-stricken, over populated industrially backward state, what is necessary is to plan viable Industrial Units requiring low capital but providing greater employment opportunities. The Industries like steel and fertilizers have to be capital intensive for the growth process and for supplying basic inputs of agriculture and small enginearing units. But the industrial concerns, in general, need to be employment oriented in the industrially poor states. In actual practice, however, "the industrially advanced states have large number of large scale manufacturing Units with more employment generating capacity than the poor states containing a small number of capital intensive but less employment intensive industries. In Orissa the capital employment ratio is the highest among the states in India being of the order of Rs. 62,100 to employ one person.

In a poor state like Orissa, private investment is naturally sigh. The primary task of developmental planning, therefore, is to release the energies of the people so that they may do what needs doing to raise the rate of growth. The private sector will flourish with greater degrees of freedom and brighter prospect of profit. Economic growth cannot be produced by Legislation, adminstrative regulation or exhortation, without the accompaniment of high material incentives. Hence the crucial test of quality of development, in that part of the economy, which is left to private initiative, is how effective are the incentives offered to the population to make decesions which will result in economic growth.

In a state of capital scarcity small industries have a decisive . Small industries in India around 1972 employed three times more ns with same amount of fixed capital as large industries. The l statistical organisations' data reveal employment potential of the factories accounting for 6.5 percent of the total fixed capital, yed one third of the total persons employed. The small scale and ge industries with low capital requirement and large employment tial can be widely dispersed to have a balanced regional opment.

Care should be taken to select the proper technology to make dustrial units viable. Existence of a large number of unemployed nderemployed indicates wastes of available man-power and creates a large low income group. These underemployeds nemployeds can contribute substantially to lower the cost of . The efforts have been inadequate. The division of jurisdiction number of separate and independent organisations having sepa- eas and approaches have been disastrous. Frequent confusions nflicts that result from the programmes of actions embodied in gid schemes miss the essential dynamics of the situation.

The objective of industrialization in a village economy like that ssa needs, therefore, an elaborate arrangement to develop, small ttage industries widely dispersed in rural areas to meet the basic of the people. But a viable and dynamic agricultural economy ensure the viability of the rural industries through an enlarged al market, with a price support, reflecting factor scarcity. But w industrial policy seems to be of limited use for achieving the ive of dispersed industrial growth and encouraging small entre- urs in the hither to neglected regions of the economy. Very high nce of sickness and mortality of small scale industries have raised s doubts about the efficacy of various governmental policies. In nd semi-urban areas the programme of industrialization langui- wing mainly to unsuitable location, lack of integrated planning, ting and availability of raw materials.

In Orissa and India too, low level of industrial production is itable to the low utilization of the existing capacity in a large r of industries. It is important to note that while substantial utilization of capacity is much better documented for the public industries, it is by no means confined to that sector. It is industrialization is its high cost. There is no direct cost comparison because of the conceptual and practical problems in making such comparisons. High cost of production is attributable to incorrect choice of technology that use scarce capital rather than relatively cheap labour. The managements of industrial concerns are prone to shift blames on rising wages and labour troubles. It is correct to say that frequent strikes and labour problems are significant causes of low utilization and high cost though there is no evidence of rise in real wage.

The gloom deepens when one considers the past failures and future difficulties. It is apprehended that despite the proposed measures to boosting industries in the State, their future would remain bleak in the absence of an appropriate and stable foundation. This emphasizes an elaborate strategy that value efficiency above all, even if efficiency meant vesting decisions on the elites—the trained managers, skilled administrators and technicians. But if the things are left to market forces unhampered by policy interferences, industrial production and almost all economic activities which in an economy tend to give a bigger than average return would cluster in certain localities and margins leaving the rest of the country more or less in a back water.

It is something more than a war over words. A democratic line has to be drawn between the two competing principles of social organisation; the first that values efficiency and social control, and the second that values instant social justice and the creation of a new. The laws of economic growth, the problems of the technical co-efficients of capital and labour, the input-output ratio and a host of other parameters with their interrelations are to be efficiently handled. Planning for development implies external direction or regulation of economic activity which is, in most cases identified with the Government of the States.

What is necessary, is the programme of economic devolopment in relation to the minimum magnitude and the main direction of effort. The magnitudes of effort and direction are closely related to the process itself. It is imperative to arrive at some agreement regarding the factors involved and the objectives of planning. Thus a sound Government Planning consists of establishing intelligent priorities for the public investment programmes and formulating a sensible and consistent set of public policies to encourage growth of private sector.

SUMMARY

The per capita net value of output in industry is higher than agriculture. In poor States, a shift from agriculture to industry is necessary to lift the economy. In industry there are no limiting factor to impede realisation of increasing return. Orissa enjoys an ideal climate and potential for industrial development. But dearth of enterprising entrepreneurs and apathy of the Government has stood on the way of rapid industrialization of the economy. In a poor State like Orissa, private investment is naturally shy. In a condition of capital scarcity, small scale industries have decisive role to play. It is necessary to strike a balance between the two conflicting principles, efficiency and social justice. A sound planning consists of instituting intelligent priorities, sensible and consistent public policies.

Is Orissa on the Way to Industrialisation ?

Golakh Bihari Nath

Since the advent of planning in the country, development of the backward areas has been initiated through industrialisation as a strategy of development. In the present paper an attempt has been made to evaluate the problem and prospect of industrialisation in the State of Orissa. More specifically it has been argued that the disastrous effect of the British Colonial rule in India has brought about far reaching transformation in the traditional agrarian relation and class structure. There was sharp differentiation of peasantry : landlord, rich peasants at the top and share cropper and agricultural labourers at the bottom. In the post independence era the formal abolition of landlordism did not mean any radical change in the property structure. Contrary to the fact medieval feudal practices are still prevalent in the economy, posing a threat to the existence of the weaker section of the society. This has lead to the pauperisation of the masses. Thus the pauperisation and the accompaning shrinkage of purchasing power in the hands of the vast majority of masses restricted the home market for manufacturing goods, which has throttled further industrialisation. The paper is in four sections. Section I presents the resources of Orissa, Section II presents the achievement or otherwise in the field of industrialisation of the State. Section III deals with possible structural constraints. Section IV contains the conclusion and policy implications.

I

Orissa has West Bengal on its North-East, Bihar on its North, MP on the West, AP on the South and it faces the Bay of Bengal on the South-East. The area of the State is 155,825 square km. and it is about 4.8% of the total area of the country. Thus it is a maritime State with a coast line of 400 kms. along the Bay of Bengal on the east coast of India. It is a riverine State for large rivers like Mahanadi, Brahmani, Indravati, Rushikulya, Baitarani and many small rivulets, flow through the State.

The total forest area of the state is 67,925 sq. kms. which constitutes about 43.5% of the total land of the state. This is nearly double ndia figure being 22.7% only. Given the size, forest plays an nt role in the economic life of the people of the state. The forests a are rich with Kendu leaf. But only 15% of the leaf is utilised tate and rest is being exported to other states as well as to countries like Srilanka, Bangladesh and Pakistan. Bamboo is most important forest product of the state which is used as a terial for paper and paper board industries.

The state is richly endowed with minerals. The most important s found in the state are Iron ore, Manganese, Chromite, Lime Dolomite, Coal, Bauxite, China Clay, Graphite, Lead, Zinc ore, etc. Iron ore which is found abundant in the districts of ar, Sundargarh, Mayurbhanj and Cuttack are being urilised by a private sector steel factory in Bihar, apart from SAIL in lla. However a considerable amount of the ore is being ed too.

Orissa is the third most important state in Manganese deposits. st important Manganese ore producing districts are Sundargarh, ar, Koraput, Kalahandi and Bolangir. Ironically the state is having rromanganese plants, one at Joda and the other at Rayagada both private sector.

Bauxite one of the most precious ore for Aluminium is found districts of Koraput, Kalahandi, Bolangir and Sambalpur. The al Aluminium Co (NALCO) a public sector undertaking has operating an open cast Bauxite mine with technical colabora- ith France at Panchapatmali in Koraput district to produce 24 lakh of Bauxite per year and an Alumina plant of 8 lakh tonnes ty per year at the foot of the Panchapatmali Hill at Damanjodi aput district. Moreover an Aluminium Smelter of 2,18,000 tonnes ar capacity at Angul in Dhenkanal district is under const uction. ver the Bharat Aluminium Company Ltd (BALCO) a public sector aking is intended to exploit Bauxite deposits located at Gandha- n Hills in the border area of Sambalpur and Bolangir districts of ate. Thus BALCO has leased in 9.6 sq. kms. of the hill so as ply the necessary raw materials to its Kobra Aluminium Complex, the reserves in its existing captive mines at Amarkantak and upahar in M.P. are getting gradually depleted.

Moreover, 90 pe cent of the all India production of the Chromite oming from the districts of Keonjhar, Cuttack and Dhenkanal, a of the leading producers of Dolomite and Lime stone being located in the districts of Sundargarh, Sambalpur and Koraput. Enormous reserves of Coal are found in the Talcher area of Dhenkanal district. It is interesting to note here that NALCO is constructing a 600 M.W. capacity captive power plant at Angul to supply power to its Aluminium Smelter located at a distance of 5 kms. from the Smelter. Another Super Thermal Power Station at Talcher has been located to supply 250 M.W. of electricity. 70 percent of the total Graphite of the country are used to come from the districts of Bolangir, Kalahandi, Sambalpur, Phulbani, Koraput and Dhenkanal of Orissa. One Graphite crucible unit is there at Titilagarh in Bolangir district in private sector. China Clay, most important raw materials for paper, rubber, textile, potteries and stationarywares industries are found in plenty in Karanjia and Joshipur in Mayurbhanj district. Fire Clay an important raw material for refractory, is found in Sambalpur, Sundargarh, Dhenkanal, Cuttack and Puri districts. Other minerals like Copper ore, Lead ore, Mica, Mineral sand, Nickel are found in many pockets of the state. Moreover there is a net work of river systems in the state. However until 1956-57, when Hirakud Hydroelectric project was comissioned, production and distribution of electricity was not there in the state. Even upto the fifth plan the installed capacity of the completed power projects was 914 M.W. only. Ofcourse recently the state has taken up certain major projects like Rengali, Upper Kolab, Upper Indravati and Talcher thermal expansion programme to generate 1160 M.W. of electricity.

II

As mentioned above there is enermous amount of resources in the state but the industrial performance is dismal. We are not arguing that the state has not done anything in the industrial field. We are conscious that before independence there was no big or medium industry in Orissa except a suger, a paper and a glass factory in the private sector. It was only after independence and more specifically in the 1st and 2nd Five year Plans that the building of industrial infrastructure was laid down with Central assistance. The Steel Plant and a Fertilizer Plant at Rourkella, Mig factory at Sunabeda, Hirakud Multipurpose Project, Thermal Power Station, Duduma Power Plant, Paradeep port are some remarkable achievements alongwith some private sector industries like Ferromanganese at Joda and Rayagada, Cement at Rajgangpur, Paper at Choudwar, Brajaraj Nagar and Rayagada, Refractory at Rajgangpur, Belpahar, Barang and Lathikata. During the third plan period in 1962 the Industrial Development Corporation (IDC) was set up to step up industrialisation in the state. The IDC has set up Kalinga Iron Work at Barbil, Hira Cement at Bargarh, Tile at Choudwar and Hirakud Industrial works, Hira Cable and Rerolling Mill at Hirakud alongwith a few joint ventures like Industrial Salt at Ganjam, Jute factory at Dhenkanal etc. The Industrial Promotion and Investment Corporation of Orissa Ltd (IPICOL) was formed in 1973-74 with the objective of taking various promotional measures, financial, technical and managerial stimulus for the growth of large and medium Industries in the state.

Moreover apart from the Industrial Policy Resolution of Government of India 1948 and 1956, the state Government also has set up certain institutions from time to time for the promotion of Rural Industries. The Panchayat Industry Programme of 1962, The Khadi and Village Industries Board of 1956, Handloom Weavers Cooperative Society, 1956-57, Industrial Estate Scheme 1958-59, Orissa Small Industries Corporation in 1962-63, District Industrial Centre Scheme etc. are few institutions engaged in the promotion of small scale and cottage industries.

The OSFC, IDC, IPICOL, IDBI alongwith Commercial Banks are some of the financial institutions which provide financial assistance for promoting industrial activities. Thus the State Government alongwith these various agencies are there providing numerous concessions, in providing infrastructural facilities and entreprenerial guides for the industrial development in the form of land, industrial sheds, supply of power, water, raw materials, exemption of sales tax and octroi tax, ma keting facilities etcetra. Consequent upon all these facilities certain more industries have been established in the state but all these do not mean that there is industrialisation. Table below gives certain selected indicators of industrialisation to judge our performance.

TABLE 1.

Selected indicators of industrialisation.

Sl. No.	Indicator	Year of reference	Orissa	India
1	2	3	4	5
1.	Gross percapita Output	1977-78	Rs 241.18	Rs 612.84
2.	Percapita value added by manufacturers.	-do-	Rs 64.10	Rs 128.15

1	2	3	4	5
3.	State's share in industrial production.	1977-78	1.6%	—
4.	Percentage of agricultural and allied sectors to total workers.	1971 census	79.6	72.1
5.	Density of population per sq. kms.	1981 -do-	169	221
6.	Average daily employment of factory workers per million population.	1977-78	4.8	11.2
7.	Percentage of urban population to total population.	1981 census	11.82	23.73
8.	Consumption of electricity per capita in KWH	1878-79	115	131
9.	Percentage of village electrified	31.3.79	33.79	40.42
10.	Road length per hundred sq. kms. of area (Surface road)	-do-	9.5	19.0
11.	Surfaced road per lakh of population in kms.	-do-	56.8	96.3
12.	Railways route length per 1000 sq. kms. of area. (in kms.)	31.3.76	13	18
13.	Bank office per lakh of poulation	1980	3.0	4.9
14.	Percapita Bank deposit in Rs.	1978	102	415
15.	Percapita Bank credit in Rs.	1978	60	291
16.	Percapita income at current prices in Rs.	1978-79	860	1267
17.	Percentage of population below the poverty line.	1977-78	66.40	48.13

Source : Economic Survey of Orissa 1980-81 Bureau of Statistics and Economics, Orissa.

Industrialisation is the key to restructuring the economy. It requires a restructuring of the occupational patterns of the working population, mostly from agriculture to industry. Even the planning document in India has to emphasise this point that the development involves a transfer of part of the working force from agriculture to secondary and tertiary activities. But ironically after three decades of planning as the above table indicates, there is a concentration of working force in agriculture which has reached to the record height of 79.6 percent. Consequent upon this the average daily employment of factory workers per 1,000 population in 1977-78 was only 4.8 percent. As a result the percapita value added by manufacturing was during 77-78 was only Rs 64.10 whereas the all India figure stood at Rs 128.15. Therefore it is of no surprise that Orissa's share in the industrial production of the country has remained at 1.6 percent in 1977-78, which is very negligible in comparision to the resources of the state in its command. Similar is the position in case of roads and Railways, power and banking facilities. In whatever indicator one may measure, the state's performance in industrial field is much below the average level of all India figure. We have not compared our state with our neighbouring states or other states of the Union. Otherwise it could have been shown that our performance is worst in the country as a whole.

III

Attempts have been made from time to time to identify the constraints that are responsible for such a dismal picture of industrialisation in the state. In the present section we have argued that the feudal agrarian structure has restricted the development of a home market and consequently this has throttled the effective utilisation of the resources in the state.

Orissa is predominantly an agricultural state where 80 percent of the people are depending upon agriculture and allied sector. So there is a high pressure of population on land. In 1921 the per capita area under cultivation was 1.16 acres but in 1951 it became 0.83 acre. There was thus a decline of 28 8 percent, over a period of 30 years indicating helpless dependance on a progressively reduced per capita land supply. Acute pressure on Land makes the ownership of land almost the only source of economic strength and security. Consequently there is much inequitable distribution of land with concentration of large holdings in a fewer hands. The history of inequitable land holding dates back to the British colonialism where the revenue collectors became the landed

Zamidars, the Zamidars turned to the tributary chiefs. Thus the English landed system, in a modified form was introduced in the state by making the tax gatherers as actual owner of the land. Apart from this the British colonial land revenue system insisting on the timely payment and cash payment of revenue was introduced. Moreover the British sale law was made applicable to the state and land was bought and sold just as ordinary commodity. Thus the introduction of cash, legal system private right over land and sale laws created a happy hunting ground for the money lenders who usurped land from the improvorished peasantry.

However, after inheriting power from the Britishers in 1947 August the state Government resorted to land reform by breaking the hold of the feudal parasite land owners. The scope of land reform measures embraces (a) Abolition of feudal intermediaries, tenure holders like Zamindars, Jagirdars and Gountias and bringing the raiyats directly close to the government, (b) Tenancy reform, (c) Ceiling on land holding and distributing the ceiling surplus land among the landless persons, (d) Consolidation of holding.

Sometimes, the above mentioned land reform measures and for that matter the reduction in the status of traditional rent receivers have been hailed by the bourgeoise economists as a thorough agrarian revolution liberating cultivators from long period of subjugation. But the way in which it was implemented speaks volumes about the hollowness of such claim. Largely it was an eye wash, because in the name of personal cultivation as much land as possible was allowed to be retained by the landlord. The abolition of Zamindari in the main did not change the economic or social base fundamentally in the stare rather a considerable number of subtenants and share croppers were socially and economically degraded when the Zamindar took over land for their personal utilization. Eviction reduced them to the status of tenants to that of share croppers and agricultural labourers. Similar is the fate of legislation for the tenancy reform and ceiling on land. Moreover, inordinate delay was involved in making legislations. In Orissa after 13 years of independence the Land Reform Act 1960 was passed. But after five years to this after a lot of ammendments for the first time the Act came into effect from 1st October, 1965. This is sufficient to show the sincerity of the landlord bougeoise state apparatus to implement the land reform act. It will be better not to talk of ceiling on land holding and the distribution of ceiling surplus land. Because after giving sufficient warning to the landlords the ceiling law came into force after two and a half decades of independence on 7th January 1972. By the time the law was enforced, a series of benami transactions had taken place to avoid the ceiling law. So far as the implementation of the land reform measures is concerned the state government has some mental reservations.

The Agricultural labour in India : Report on Second Enquiry and N.S.S. report No 134 which presents data on the land holdings reveal that in 1950-51 40.77 percent of the agricultural labour households were without land, which was raised to 52.53 percent in 1956-57 and 52.29 percent in 1963-64. Thus landlessness is a growing phenomenon. Given such an inequitious agrarian structure it is not surprising that there is a high rate of growth of agrarian labour and they are the worst sufferers. Moreover though the money wage of the agricultural labourers has increased over time the real wages have gone down. The wage rate also varies between men, women and childern.

All India Agricultural Labour Enquiry 1956-57 also contains data on employment profile of the agricultural labours which has shown that a significant number of agricultural labourer households are remaining unemployed through out the year. Again unemployment is more acute in case of female labourers. The avenue of employment is negligible in non-agricultural sector.

Karl Marx has written that the British steam and science uprooted the whole surface of Hindustan, the union between agriculture and industry. The village handicrafts, the small scale industries. The weavers were actually ruined inspite of the fact that some efforts were made to develop them as outlined in the industrial policy resolution of 1948, 1956, 1981 etc. and the plan documents. The process of industrialisation promoted primarily through technological transfer including technological knowhow and scientific research and development could not create technological complementaries for the development of handicrafts and village industries nor any appropriate technoorganisational linkage to establish some sort of functional rapport with these industries. As a result this destroyed the indigenous industries, skills and technology of the people. Thus the much attractive modern sophisticated technology has created conditions leading to the pauperisation of petty producers at the traditional sector turning them to seek their future in agriculture. Industry's capacity to employ semi literate, traditionally skilled agricultural labour becomes limited.

As mentioned above though the state is endowed with abundant minerals, forest resources and a vast Sea Coast, the quarter century planning in the state did not bring about any perceptible change in the life of its inhabitants. On the contrary pre-capitalist forms of land and labour relation with servitude and bondage, payment of wages in kind, low real wages, massive technological unemployment and underemployment are still prevalent in the country and hinder the growth of the home market. Moreover during the period 1977-78, 66.40 percent of the population were below the poverty line in the state putting her to the lowest position in the economic ladder of the country. The more the inequitable distribution of assets, the more the people will be below the poverty line and more expenditure will be incurred on food articles and less on non-food manufacturing commodities. The N.S.S. 28th round reports that in rural Orissa 80.94 percent of the consumer's expenditure is on food items and only 19.06 percent on non-food items. Thus the constraint on the demand for consumer goods also subsequently restricted the demand for capital goods limiting any industrialisation programme.

To be brief, formal transfer of power from British does not mean that basic change has taken place in the Indian economic structure. There are still semifeudal and semi-colonial institutions surrounded by imperialist power block. The interest of the impertialist is to preserve and procure the raw materials in the backward regions. In the process there may be certain dependant capitalist developement but it does not introduce a capitalist relation either in agriculture or in industry, but may strengthen the precapitalist relations. Orissa is a case in point. Therefore rapid industrialisation requires a quick release of the productive forces from the clutches of the precapitalist forces. In the context of present socio-economic set up can the state rise to the occasion ?

A Decade of Industrialization of Orissa

Dr. G. C. Kar

There has been a meteoric rise in the growth of Industries in the State of Orissa over the last few years. They cover industries both in tiny, small-scale as well as large/medium scale sectors.

Total number of industrial units have gone up substantially over the last decade. The number of small-scale industrial units which was 2776 in 1973-74 has gone up to over 20,235 in 1984-85 registering over 7 times growth between the two periods. The number of large and medium-scale units that have gone into production with the assistance of Industrial Promotion and Investment Corporation of Orissa, Ltd (IPICOL) alone was about 101 till June 1985. The number of Industries that are in the various stages of completion with IPICOL's assistance are about 86 and as many as 117 units are under various stages of finalisation. Apart from these a number of other large/ medium scale industries (7 in 1978-79) were operating under Industrial Development Corporation (IDC) and a few others under private corporate management.

Remarkable progress has been noticed both in terms of number and total investment in the small-scale sector. The share of manufacturing and small-scale enterprises has gone up in current prices, from Rs. 163.76 crores to Rs. 488.94 crores between 1973-74 to 1982-83 (excluding contributions from hotel industries which were declared as industries in 1980). In constant prices (1970-71 prices), the amounts are Rs. 104.06 crores and 189.44 crores in the two periods respectively (vide table I). Its share, however, in the state's net domestic product has shown an increase of little over 3 percent, both in current as well as constant prices between the period 1973-74 to 1982-83. It is evidenced from the fact (table 1) that the share of the manufacturing sector in the state's net domestic production which stood at 10.19 per cent at current prices (10.75 per cent at 1970-71 prices) went up to 13.47 per cent in 1982-83 (13.77 per cent at constant 1970-71 prices).

The investment in the small-scale industries sector (SSI) over the last one decade has been substantial. The total number of SSI units which were 2,776 with a total investment of Rs. 2,966.46 lakhs in 1973-74 went up to 23,437 with a total investment of Rs. 20,247.65 lakhs in 1984-85. The investment in this sector has gone up by about 7 times and the number of units by about 8 times. The year-wise investment and the number of units established are presented in table-II.

Objectives of the study :

The main objective of this study is to examine the contributions of the industrial sector to the economic development of Orissa. Particular emphasis, however, shall be given on the contributions of SSI units. One aspect that this small note wants to highlight is the trend of sickness of the SSI units and indicate some of the areas of research in locating the causes of the same. Data base for the preparation of this paper are those availed from different organisations and institutions engaged in the promotion of industries in the state.

Findings

(A) Contribution to net domestic product :

On the basis of the two tables, table I and II, one finds that inspite of significant growth, both in terms of number and capital invested in the Industrial sector, the contribution of the manufacturing sector in the state's net domestic product has not shown any significant change. Its contribution, over a period of decade, has gone up by only about 3 percent.

b) Contribution to employment :

Another important aspect that needs to be examined from the economy's point of view is its contribution to employment generation. It is true that industrial units generate employment opportunities not only in the units themselves, but also in other sectors engaged in providing inputs as well as other services to the industrial sector. Since estimation of employment generated in other sectors as a consequence of establishment of industrial units is difficult to estimate in the absence of detailed data, only direct employment created on the units only are taken into account for this analysis. The analysis is made for SSI units, and large/medium units separately.

Table III presents data on number of SSI units, total investment and total employment in the different units year-wise. It may be observed from the table that whereas employment per Rs. 1 lakh was on an average 10.8 persons till 1973-74, in the next decade, it fell to 8.7 person. It may further be seen that employment per every one lakh rupees of investment, which was on the increase till 1979-80 started falling sharply and continuously since then reaching the lowest level of 6.7 during the last year of reporting (i. e. 1984-85). This trend is certainly not a happy one as it runs counter to the objective of employment generation through plan efforts.

A similar trend of falling employment ratio is also observed in case of the large and medium scale industries. Atleast industries set up with IPICOL's assistance reveal so. Till the end of June 1985 as many as 101 medium and large scale industries (including hotels) went into production with assistance from IPICOL. The total investment in those industries was to the tune of Rs. 188,93 lakhs (Rs. 188.93 crores) providing direct employment to 12,716 persons. The employment per Rs. 1 lakh of investment till June 1985 was only 0.67 persons. During this period about 86 other medium/large industries were in different stages of completion having an estimated project cost of Rs. 340,07 lakhs. Their project reports provide for direct employment to 13,442 persons. The employment per every lakh of rupees works out to 0.39 persons. The ratio will fall further if the project cost goes up, which is more likely a case, under the present day inflationary pressure.

It is disheartening to note that the projects under finalisation (117 numbers as on June 1985), when completed, would further depress the capital-labour ratio. Assuring that there would not be any scaling-up of the project cost, (a dubious assumption no doubt), the estimated investment of Rs. 108,306 lakhs (Rs. 1083.06 crores) in 117 industries would generate additional employment for 25,993 persons. This means creation of jobs for 0.25 persons for every one lakh rupees of investment. This certainly is not a desirable development.

The facts stated above (through table IV) clearly indicate that even large and medium scale industries set up with state patronage coutinually neglect the 'employment generation' aspect of development by becoming more and more capital intensive.

c) Performance of the Industries in the State :

Performance of the industries in terms of their state of health should be examined for public money is involved in the process i. e., incentives given by way of subsidies, soft-loans and other concession including taxes and supply of inputs etc. The over-all health of the industrial sector can be judged from the incidence of sickness as the first measure.

The number of industries that have become sick is difficult to know as the promoting organisations are invariably quite secretive about providing the exact informations. There are also different methods for assessing devised by different institutions including the financing banks. Although no exact figures are available still indications from certain sources put it at a very high level.

If the large/medium scale units set up with IPICOL's assistance are examined one finds that a very large number of them have technically gone sick examined from the points of view of their over-dues. A few of them have been closed and a substantial number of them require nourishment. Over-dues with financing agencies is quite staggering. It is proposed to discuss about the large scale industries in a separate paper more elaborately.

The extent of complete closure of factories is available from some of the published sources such as various issues of Annual Survey of Industries in Orissa. The latest published figure available are from 1964-65 to 1977-78 and are presented in table V. This table indicates that the percentage of registered factories closed has remained quite high averaging about 35 percent of the total.

A more clear indication about the health of the SSI units of the State is available from the State Bank of India sources. The S. B. I. is the largest single bank that operates in the state and has financed about 90 percent of the SSI units set up in the State. Their figures, therefore, give a very clear picture of the State of health of SSI units of the state.

Table VI makes very interesting reading. The figures shown in the table refer to only those units that operate with a sanctioned limit of above Rs. 25,000. The number of such units financed in the whole of the state by the end of December 1983 were 1786 out of which 496 (28 percent) were identified as sick on the basis of having outstanding above Rs. 25,000. The sickness figure has gone up from 28 percent to 44 percent at the end of December 1985.

Amounts outstanding as a percentage of a sanctioned limit has stood above 90 percent in all these years. The figures showing outstanding, however, are no indications of the severity of the problem when examined in isolation. Read along with the percentage of sickness among the total industries financed, figures relating to outstanding cause concern for both the financing bank as well as the general public.

One evidence about the rate of sickness is the study of the ncluded in the protested Bill (PB) and Recall Debt (RD) accounts. ncluded in these two accounts are those whose financial transac- ave either been totally stopped by the financing bank or the bank tiated legal proceeding to recover the loan.

The cumulative figures for State Bank-Financed units have been in column four of table VI. The figures indicate that as many percent of such units existed till 31st December 1983. The tag of such units in the total financed were as high as 26 at the 1985 calender year. The units beyond recovery (unless special are made) account for about 58 percent of the units identified as its.

The figures from the State Bank source do not show a happy of the state of health of the SSI units and there is every reason state to initiate special efforts by making an indepth study of ious issues involved in the process of industrialisation.

asons for sickness.

The causes of sickness should be identified. This calls for an -unit analysis of sick industries in Orissa. So far no such egated research has been made, except making very elusive and remarks about the contemporary scene.

Areas that should interest researchers are many. A few of at should interest researchers in locating the cause/causes of for any industry are indicated below :

(i) It is necessary to make a detailed examination of the eport to access whether sickness was built in the project self which, however, escaped the notice of the appraising ies. This means testing and verification of the informations in the report with regard to inputs, outputs and their prices ket potential.

A relevant enquiry of significance here is to ascertain about ak-even output A recent study ("Maximum recommended nt" by weber R. D. Magnum publication, England, 1986) has emonstrated that the ideal break-even should be reckoned at a tput level than add one more industrial unit to the already high ent carcasses'. To quote the author, 'as a safeguard against npleasant surprises it would be advisable to provide ...

even at 60 percent of full production (i. e. 50 percent of theoritical capacity). An examination of break-even production is more relevant for the medium/large scale industry. For the performance of any single industry depends not solely on its own performance but also on a number of other exogenous factors beyond the control of the entrepreneur or the national/State administration.

ii) Another interesting aspect of research should be directed to ascertation the exact interest burden that the enterprise bears. The paper writer had occasions to go through a number of project reports where the amount of interest burden has been worked out on a straightline method without being compounded. But in actuality compounding is done on the basis of daily product by all the financing institutions, the compounding period of course varying with the heads in which the loans have been sanctioned. An investigation of this nature will reveal the actual interest burden and its impact on the profitability of the enterprise.

iii) An interesting enquiry would be about the items that have been reserved for the production in the small-scale sector. Many items in the list are such, like the durable consumers goods, whose marketing by the SSI unit is extremely difficult. For giant distributors exist in marketing those products under various brand names. The market is not competitive and is rather one of monopolistic competition where selling cost is exorbitant which no single producer in the small scale sector can afford. The financing banks are invariably very shy in the grant of finance for marketing to any production unit resulting finally may be in the closure of the unit due to marketing difficulties.

iv) The state government as the promoter have given a number of incentives including marketing incentives through 'Price fixation' for public sector purchases and prompt payment of the dues of SSI units. An area of research should be to examine the delivery system of the state incentives, their effectiveness magnitude and relevance.

v) There is a belief that the state lacks entreprenuers. The entreprenuerial abilities are inadequate for which Entreprenuerial Development Programmes (EDP) have to be launched. Over the last few years a number of such programmes have been conducted by various institutions including Commercial banks. They have trained prospective entreprenuers, identified industrial units for many entreprenuers trained by them. It is necessary to make an assessment of these programmes vis-a-vis their sponsering institutions and the success of entreprenures finally entering the field.

vi) There is an apprehension that competition in the small scale sector has been veiy acute leading to cut-throats. This has been so for mainly due to two reasons :—

a) unplanned and excess production of many goods by setting up of more units than the market can support,

b) entry of bigger industrial units in the small scale sector through the garb of SSI units and diversification of products. There is also an apprehension that some of the larger industrial units deliberately quote lower prices to eliminate their new rivals from the small scale sectors as they know that the SSI units cannot hold the ground for a long time in the face of continuous losses. Since the larger units produce a wide range of products, they can easily under-cut their rivals who produce one or two items and have virtually no capacity to diversify. This paper writer had access to some of the comparative statements of quotations submitted to Telcom and State Electricity Board for Insulators. It is surprising to note from these comparative statements that the price quoted by some of the units (some complain that these units are name-sake SSI units) are steadily being reduced year after year and through this undercut they are bagging the orders. The complain seems to be genuine particularly when one examines the prices of the raw materials and labour which has been steadily increasing. It is, therefore, necessary that some enquiry should be made about this aspect.

The areas of research shown above are only indicative and certainly not exhaustive. There are many more aspects/areas which can also be studied.

Summary and Conclusion :

There has been a substantial progress in industrialization of the state. The growth of small scale industries, in terms of their number has been remarkable. But the contribution of the manufacturing sector to the state's income has not been significant. In a decade's time, i.e. between 1973-74 and 1982-83 the share of manufacturing sector has gone up from 10.75 percent to 13.77 percent registering a rise of only about 3 percent in the total.

Industry's contribution to employment seems to be in jeopardy as in both the small-scale industry as well as in the large/medium scale industries, the capital-employment ratio is falling over the successive years. This trend is against the state's objective of employment generation through investment.

As regards the health of the industries in the state there is a clear trend that the number of industries that are becoming sick is in the increase causing concern to the state economic administration.

With regard to determining the cause of sickness, serious efforts by way of microstudies have not been made by anybody except attempts by some making very general and sweeping remarks. Causes of sickness have to be found out by making unit-by-unit analysis. Some of the relevant areas of enquiry should relate to a detailed examination of the project reports of the industrial units, interest rate policies, industrial policies and the incentive delivery system.

TABLE—I

State Income at Current and Constant (70-71) Prices for Manufacturing and Small-Scale Enterprises.

Rs. Crore

Year	at Current Price	At Constant Prices (1970-71)
1973-74	163.76 (10.19)	119.45 (10.75)
1974-75	212 66 (12.71)	128.36 (13.39)
1975-76	196.21 (11.28)	112.62 (9.94)
1976-77	280.80 (16.77)	153.34 (14.52)
1977-78	271.17 (12.98)	145.69 (11.71)
1978-79	314.95 (14.03)	166.37 (12.53)
1979-80	392.05 (18.03)	176.72 (16.11)
1980-81	441.22 (15.32)	168.28 (12.17)
1981-82	469.01 (13.47)	169.32 (11.29)
1982-83	488.94 (13.47)	189.44 (13.77)

1. Figures donot include contribution from hotel sector declared as industry since 1980.
2. Figures in parenthesis represent percent of net state Domestic product.

Source ; Govt. of Orissa Planning & Co-ordination Department.

TABLE-II

umber and Investment, in SSI Units Established in Orissa l 1984-85.

	Year	No	Investment in Lakh Rs.
	1973-74	2776	2966.46
G	1974-75	621	425.69
	1975-76	745	505.34
	1976-77	699	603.12
	1977-78	886	686.27
	1978-79	1372	722.01
	1979-80	2020	986.65
	1980-81	2003	1310.52
	1981-82	2600	1895.02
	1982 83	3180	2648.22
	1983-84	3333	3926.08
	1984-85	3202	3572.27
:		23,437	20,247.65

: D-I., Oriasa.

TABLE—III

r, Number, Investment, Employment, & Employment Per Lakh Rs. SSI Unite.

	No. of SSI Unit	Investment in Lakhs Rs.	Total Employ-ment	Employment per Lakh of Rs.
73-74	2776	2966.46	32,030	10.8
974-75	621	425.69	4,967	11.6
75-76	745	505.34	5410	10.7
76-77	699	603.12	5186	8.6
77-78	886	686.27	6163	8.9
8-79	1372	722.01	8787	12.2
79-80	2020	986.65	13,225	13.4
0-81	2003	1310.52	14,844	11.4
1-82	2600	1895.02	17,951	9.5
2-83	3180	2648.22	22,716	8.6
3 84	3333	3926.08	26,779	6.8
4-85	3202	3572.27	24 003	6.7
al	23,437	20,247.65	1,82,091	8.9 (8.7)*

Average employment per Rs. 1 lakh during the period 1974-75 & 984-85.

Source : D-I. Orissa.

TABLE IV

Projects completed, Project Cost, Employment Potential and Capital-Employment Ratio for Project with IPICOL Assistance as on 30th June, 1985,

Status	No. of Project	Project Cost in Rs. Crore	Employment Potential	Employment for every 1 Crore Rs.
1. Projects gone into Production	101	188.93	12,716	67.31
2. Under impli-mentation	86	340.07	13,442	39.53
3. Under Finalisation.	117	1083.06	25,993	24.00

Source : IPICOL. Position of Industries.

TABLE V

Mortality and Sickness of Small Scale Industries (Factory Sector) in Orissa (1964-65—1977-78)

Year	No. of registered factories both large and small scale	Closed Small factories	% of the closed small factories to the total factories.
1964-65	949	386	40.7
1965-66	1079	430	39.9
1966-67	907	119	13.1
1967-68	1095	323	29.5
1968-69	1137	298	26.2
1969-70	1233	380	30 8
1970-71	1253	315 (26.8)	25.1
1971-72	1277	378 (31.9)	29.6
1973-74	1334	411 (33.7)	30.8
1974-75	1388	579 (44.7)	41.7
1975-76	1406	587 (44.9)	41.7
1976-77	1526	654 (46.5)	42.9
1977-78	1510	553 (39.6)	36.6

NOTE ; Figures in brackets indicate the percentage to the .total small factories.

SOURCE Compiled from various issues of the Annual survey of Industries, Orissa and the list of Registe:ed factories

TABLE VI

Break up of No. of SSI Units created, Number Sick, Limit sanctioned and Amount outstanding

Year	No. of Units sanctioned	No. of identified as sick	No. in PB/RD Account	Limits sanctioned in lakh Rs.	Amount outstanding in lakh Rs.	% outstanding against sanctioned
1983	1786	496 (28)	244 (14)	2086*	2111*	100%
1984	2461	865 (35)	454 (19)	2921	2637	90%
1985	2697	1198 (44)	698 (26)	3236	3001	93%

1. Data pertain to SSI Units with sanctioned limits of above Rs,25,000/- only

* Figures yet to be reconciled.

Figures in parenthesis represent per cent of total units sanctioned.

SOURCE : SIB Division, State Bank of India, Local Head Office.

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The Industrial Policies of the Government of Orissa :

The Progresses and Prospects

Dr. Binayak Rath

In consonance with the broad industrial strategies and policies of the Government of India, in its earnest endeavour the Government of Orissa, from time to time, issued various industrial policies having different socio-economic objectives. In view of the large endowment of resources, Orissa indeed offers an extremely potential virgin soil for the growth of industries in the State. During the First and Second Plan period efforts were made for creating necessary conditions for development of large and medium industries. In the field of Village and Small Industries (VSI), the role of the State Government was to help small entrepreneurs in setting up small industries, ensuring a regular supply of raw materials and marketing for finished products. In case of pilot projects in the SSI Sector, the State Government participated in the fixed capital to the tune of 90% and the private entrepreneur was given option to take over the unit in due course. Realising that such efforts were not adequate to attract large number of industries in the State, the Government at the time of formulation of the Third Plan decided not only to intensify these projects, but to take directly the responsibility of promoting industries. Thus the Third Plan strategy of the Government was to ensure a substantia' investmant to build up and to improve the infrastructure provisions and thereby to strengthen the industrial base so that development would run its own momentum during the subsequent periods. In order to cope up with the strategies new organisational structures were created and higher allocation of funds was made in the plan proposal. During the Fourth and Fifth Plan the industrial policy was geared towards development of VSI and tiny sector industries with a focus on all-round rural development. The DICs were created during the Fifth Plan to render assistances to the prospective entrepreneurs. In the Sixth Plan period, the Government rightly recognised that the development of SSI units was to be well-linked up with the development of industries in the organised sector. With a view to have nucleus industries in the organised sector at selected industrial growth centres of the State, the Government announced its new industrial policy in 1980 and drew a massive scheme for development of SSI Units. The Seventh Plan strategy has been to strengthen the industrial base by modernising plants and by bringing large scale rural industrialisation.

As a result of the plan programmes and policies, no doubt, there has been a significant stride in the progress of industrialisation in Orissa. The number of industries in the organised as well as in the unorganised sectors have gone up significantly. In the absolute terms the dumber of factories registered, amount of investible capital and number of persons employed in industries have increased. However, a critical examination of those figures reveal some disquieting trends.

First of all, the sectoral distribution of plan expenditure and outlay has always lagged behind the all-India average of sectoral allocations. The industrial growth of the State has not kept pace with the rate o growth in the country. The industry and mining sectors allocation has varied between the minimum of 4.12% during Fifth Plan to the maximum of 9.56% during the annual plans. Whereas the all-India figures have varied between the minimum of 4.9% during the First Plan to the maximum of 24.7% during the annual plans. The plan wise figures are provided in Annex/Table 1. The compound growth of industries has become very low in a backward economy like Orissa due to a number of constraints.

Secondly, the trend of industrial growth of the organised sector, which is contained in Annex/Table 2, reveals some interesting results. During the first three decades of planning on an average one-third of the factories had continued to the closed every-year. The rate of growth of factories registered had also reduced, I e. when it was 34 3% in the 50s. it reduced to 8.4% and 3 9% in the 60s and 70s respectively. Similarly, the rate of growth of factories in operation had come down from 11.8% in the 60s to 0.9% in the 70s. On the other hand, the rate of growth of productive capital increased from 64.4% in the 50s to 125 4% in the 60s. But suddenly it reduced to 14% in the 70s. Similarly, the rate of growth of employment was always lower than the all India average and had gone down to 2.9% during the 1970s. Thus, the employment opportunities available in the factory sector is very limited in Orissa due to low output—employment coefficient.

Thirdly, the value added figures given in Annex/Table 3, show that there has been a fall of 7.7% in the net value added in the factory sector and an increase of 19.6% in the non-registered small industry sector during 1978-79. An over-all growth of 3% was achieved in the value added during the period of 1970-71 to 1978-79.

Fourthly, although Orissa is endowed with rich mineral resources, the level of industrial growth measured in terms of gross per capita output as well as per capita value added by manufacture is comparatively low, due to poor marketing, infrastructural, technological, other socio-economic factors. The relative position of Orissa has not changed much; it has continued to remain at the lowest ladder of industrial development in the country.

Fifthly, this sector's contribution to the State income has remained more or less stagnant. While in 1960-61 this sector's contribution was 14.3% in 1978-79, the share has gone upto 15.2% only. There is hardly any prospect for its share to go up in near future.

Sixthly, the backward and forward linkages effect of large scale industrialisation are not found to be significant due to lack of proper co-ordinated policies on the part of the Government Departments.

Seventhly, the growth of the industrial sector has generated a lot of pressure on the meagre infrastructure facilities available in the State. For instance, nearly 90% of the electricity generated in the State is consumed by the industrial sector by debarring the opportunities to other sectors.

Last but not the least, the study on "Policy needs for development of large and medium industries", has found that the present industrial climate in Orissa is "confused and ridden with contradictions" largely on account of lack of rational thinking at the policy making stage. Hence, the industrial policy of the Govt. needs are-thinking and a new approach. The present state of affair calls for a new strategy of industrialisation.

The Renewed Industrial Strategy with Special Reference to Orissa :

Owing to the general constraints associated with our national industrial strategies and policies, and owing to the poor prospects of large scale industrialisation (i. e. in the form of organised factory sector development) in a backward state like Orissa, we foresee a very good scope for promotion of cottage and small scale industries at the village level which could create a base for the development of Orissa in terms of additional output production, employment generation, and in terms of group income and regional redistribution. The Government of India and Govt of Orissa have also accorded due priorities for promotion of these sectors and often emphasised on their development due to a number of advantages. A number of new institutions and organisational set ups have been introduced at different levels to promote these sectors. Specifically, during the Sixth and Seventh Plan periods VSI has been accorded a top priority for our rural development efforts. It has been accepted as a tool for rural transformation and hence, has been included under the IRDP and 20-point programmes of the Government. The Govt of Orissa in its turn has rightly envisaged a key role of this sector during the Sixth and Seventh Plan period. They have realised that the income and employment generation capacity of this sector is much more than the organised factory sector.

But unfortunately, a critical evaluation of their performances in different parts of the country have established that their progresses have become very sporadic. The problems of the VSI are mounting up year after year due to the urban bias in our planning approach, due to bureaucratic hurdles, political interferences, and above all due to lack of participation of the masses in those programmes. The common weaknesses associated with out SSI strategies are pointed out by many researchers and agencies. Although the promotion and development of SSI have been included under the IRDP for the benefit of the poor, in actual practice the IRDP financing patterns have been converted into a programme of dairy and bullock animals. The writer in his study of IRDP in U. P. (1985) has estimated that nearly 68% of the IRDP financing has gone to the dairy and bullock animal financing. The share of the rural industries has been found to be insignificant because between the rest 22% of IRDP finances, a bulk of it has flown to the service and business sector and other non-industrial activities. The other study of the writer in Sultanpur (U. P.) (1985) has also found out a number of problems with respect to the implementation of the SSI programmes in U. P , which would, no doubt, hold good for a backward state like Orissa. As a member of the "Task Force of the No Industry District" he had come across some disturbing features in execution of these programmes.

In spite of the various problems and prospects faced by our SSI industrial strategies, I strongly believe that the SSI Sector holds the key to the development of a backward state like Orissa. However, a new twist should be incorporated into our approach with a thrust on a comprehensive development of the agricultural and infrastructural sectors. More particularly, the development of the power sector with due emphasis on development of non-conventional energy sources and afforestation schemes should be accorded a top priority. The new approach should be the "production by masses" with reasonable application of S & T (i. e. the use of S & T after establishing their techno-economic viabilities) rather than "mass production" based on the Western system of production. This can be attained only by judicious application of the Gandhian or Japanese" strategy of industrial development with due emphasis on development of "home industry", because a backward economy like Orissa is not yet ready for the former approach. The advantages of such a new strategy would be many. Take for instance the rope-making cottage industry from Sabai grass in Mayurbhanja and adjoining areas or the leaf-plate and leaf-cut making industries in other parts of the State. Thousands of tribal families who depend on these industries have been greatly benefited from the special component plans introduced under IRDP for its development in the tribal areas. Furthermore the new approach suggested by us cal's for an integrated strategy in rural development policies, i. e. a better integration between the industry and agriculture. The promotion of agricultural allied industrial activities like dairy, poultry, sericulture, pisciculture, apiculture etc. should help to bring the integration. The allied activities should constitute an important aspect of the rural development efforts with some seriousness on the part of the Government of India as well as on the part of Govt. of Orissa in implementing these policies.

Hence, the renewed approach suggested by us should aim at a comprehensive development of agriculture and its allied activities, infrastructure, large and small scale industries, which calls for a holistic approach to the problem. Any search for an independent industrial policy for a backward state like Orissa would be a futile exercise only without achieving the desired results. A new strategy for improving the delivery system should be coupled with the comprehensive strategy. All these approaches call for a new role for the Government, voluntary organisations, educational institutions and for the common man at the grass-root level.

Therefore, we would like to conclude in this paper that to look forward to industrialisation in isolation as a panacea for removal of regional disparities is nothing but illusory and unrealistic. Large scale industries indeed will not survive without a broad-based consumer demand sector. Large industries can not be sustained without prosperity of other sectors. In stead of an isolated industrial strategy, we must put more emphasis on the development of the SSI (both in the formal and informal sectors) and other allied agricultural activities, which can bridge the gap between industry and agriculture. Finally our approach should be "production bymasses" rather than "mass production".

ANNEX/TABLE—1

SECTORAL DISTRIBUTION OF PLAN EXPENDITURE/OUTLAY OF ORISSA

(figures in percentages only)

Sl No.	Sectors	Ist Plan Expen- diture	2nd Plan Expen- diture	3rd Plan Expen- diture	Annual Plan Expen- diture	4th Plan Expen- diture	5th Plan (out- lay)	6th Plan (Expen- diture)	7th Plan (proposed) outlay)
1	2	3	4	5	6	7	8	9	10
1	Agriculture & Allied Services	28.02	9.20	9.71	12.57	16.44	15.72	15.75	11.71
2	Co-operation	0.88	12.60	9.17	6.05	2.76	2.41	2.05	1.30
3	Irrigation & power	26.15	45.90	35.95	43.71	48.17	40.99	54.93	53.54
4	Industry & Mining	4.56 *(4.9)	4.50 (24.1)	9 00 (22.9)	9.56 (24.7)	8.64 (19 7)	4.12 (17.0)	6.50 (15.9)	4.97 (12.5)
5	Transport & Communication	14.72	7.00	17.15	13.90	6.52	7 76	6.57	5.88
6	Social services	25.52	17.20	17.10	13.54	17.11	27.93	13.50	21.57
7	Others (Miscellaneous)	0.15	3.60	1.92	0.67	0.36	1.03	0.90	1.03
	TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100 00

Sources : i) Economic Survey of Orissa, 1976 and 1983 84, Bureau of Statistics and Economics, Orissa, Bhubaneswar.

ii) Draft Seventh Plan 1985-90, Government of Orissa, Planning & Coordination Department, 1984.

* The figures in brackets relate to the allocation in the Indian Five Year Plans.

ANNEX/TABLE 2

TREND OF INDUSTRIAL GROWTH IN ORISSA (ORGANIZED SECTOR)

Years	No. of Factories Regd.	No. of Factories closed	% of units closed	No. of Factories in operation	% in operation	Growth Rate of Factories Registered (per annum)	Growth Rate of Factories in operation (per annum)	Productive capital (in lakh Rs)	% of Growth Rate (per annum)	Persons employed	% of growth rate
1	2	3	4	5	6	7	8	9	10	11	12
1950	153	NA	—	=	—	—	—	596		10875	
1955	129	NA	—	=	—	3.2	—	1107	(17.1)	16266	
1960	679	NA	—	—	—	85.3	—	4439	(60.2)	30323	(17.2)
1961-62	752	NA	—	—	—	10.7	—	6300	(41.9)	30210	(-0.3)
1962-63	NA	NA	—	—	—	—	—	NA	—	62000	(105.2)
1964-65	949	336	(40.7)	563	(59.3)	8.7	—	NA	-	69252	(5.8)
1965-66	1079	430	(39,2)	649	(60.1)	13.7	15.3	38700	(128.5)	80346	(16.0)
1966-67	907	119	(13.2)	788	(86.3)	-6.7	21.4	NA		81364	(1.2)
1067-68	1095	323	(29.5)	772	(70.5)	20.7	—2.1			77113	(-5.2)
1968-69	1159	298	(25.7)	861	(74.3)	5.8	11.5	49000	(8.9)	83202	(7,8)
1969-70	1233	330	(30.9)	853	(69 1)	6 3	—0.9			95897	(15.0)
1970-71	1253	315	(25.2)	938	(74.8)	1;6	9.1				
1971-72	1277	378	(29.7)	899	(70.3)	1.9	—4.1				
1973-74	1334	411	(30.9)	923	(69.1)	2.2	2.6	53659	(2.8)	98142	(0.7)
1974-75	1388	579	(41.7)	809	(58.3)	4.1	—12.3	61457	(14'5)	101721	(3.6)
1975-76	1406	587	(41.7)	819	(58.3)	1.2	1.2	72363	(17.7)	112414	(10.5)
1976-77	1526	654	(44.6)	872	(55.4)	8.5	6.5	75261	(4.0)	110584	(-1.6)
1977-78	1510	533	(36.7)	957	(63.3)	—1.1	9.7	80220	(6.5)	115844	(4.7)
1978-79	1647	641	(38.9)	1006	(61.1)	9.1	5.1	NA		11BJ05	(-2.7)

Sou'ces of Data :
i) The Economic Base of Orissa (for the Sixth Plan), Planning & Coordination Department, Govt of Orissa, Bhubaneswar, 1984
ii) Statistical Abstract of Orissa, 1979, BS & E, Orissa.
iii) A Report on Annual Survey of Industries in Orissa, BS & E, Orissa.

ANNEX/TABLE-3

VALUE ADDED BY INDUSTRIES SECTOR IN ORISSA AT CONSTANT (1970-71) PRICES

Year	Registered Factory Sector		Small Scale Manufactures		All Industries	
	Value (in crores Rs	Percentage increase over (1970-71)	Value (in crores) Rs	Percentage increase over (1970-71)	Value (in crores) Rs	Percentage increase over (1970-71)
1	2	3	4	5	6	7
1970-71	57.00	—	36 59	—	93.59	—
1971-72	43.13	(—) 24.33	37.41	2.24	80.54	(—) 13.94
1972-73	39.20	(—) 31.23	38 18	4.35	77.38	(—) 17.32
1973-74	53.79	(—) 5 63	39.13	6.94	92.92	(—) 0.72
1974-75	61.21	7.39	40.01	9.35	101.22	8.15
1975-76	48.53	(—) 14.86	40.92	11.83	89.45	(—) 4.42
1976-77	57.05	0·09	41.84	14.35	98.89	5.66
1977-78	56.02	(—) 1.72	42.79	16.94	98 81	5.58
1978-79	52.59	(—) 7.74	43.75	19.57	96.34	2.94

Source : The Economic Base of Orissa (for the Sixth Plan) Planning & Coordination Department, Govt of Orissa, Bhubaneswar, 1984.

Resource Mobilisation Objectives of Long Term Fiscal Policy—An Evaluation.

B. C. Parida

In this paper, an attempt has been made to analyse only that aspect of fiscal policy which is concerned with raising of resources for financing the Seventh Five Year Plan. To quote the document of L.T.F.P. "The major contribution to fiscal policy to poverty alleviation has to come through an effective programme of mobilisation of additional resources. Fiscal Policy has to be so formulated so that adequate resources are available to the Government."

Proposals of Raising Resources.

(a) Tax Revenue :—The proposal aims at increasing the share of the direct taxes and decreasing the share of indirect taxes in the composition of tax revenue. The document has projected central Govt. tax revenue to grow from 7.8 percent of gross domestic product in 1985-86 to 9.4 percent in 1989-90 and on an average it comes to 8.7 percent for the seventh plan period. The share of the direct taxes will rise from 1.5 percent of the gross domestic product to 2.1 percent of G.D.P. and indirect taxes will rise from 6.3 percent to 7.3 percent of the gross domestic product.

So far as personal Income taxes are concerned, the highest rate will remain 50 percent at the maximum with the provision for adjustment due to the impact of inflation in the tax rates. Simplification of tax procedures and laws and strict vigilance with the provision for search, seizure and raids will continue so that tax evasion will be avoided and better tax compliance will be achieved. (b) Incase of corporate tax the maximum rate will remain 50 percent for the coming five years. The surcharges on profits will be abolished from the fiscal year of 1987-88. (iii) Incase of capital tax the base year for valuation was changed from April 64 to April 74. The government has introduced a funding scheme which permits companies to invest 20 percent of their profit in plant and machinery. The investment allowances were abolished because it had favoured large and established companies (iv) Incase of excise duties all excise duties basic and ancillary have been merged into one. (vi) Govt. has introduced MODVAT on an experimental basis (v) The customs duties have been rationalised on capital goods, components and raw materials.

Finally the main thrust of the policy is to rationalise tax rates, simplify tax procedures, prevent tax evasion and to create a climate for better investment and more production. As it appears the Long-Term Fiscal Policy is a comprehensive Tax Reform Plan.

This tax reform policy has been subjected to various criticisms and the following comments have been made on these tax proposals.

(1) Though the LTFP aims at greater production and just distribution, it perpetuates the inequities inherent in the tax system itself. On the pretext of stability Prof. Malcolam Adiseshiah writes that the share of direct taxes in the composition of total tax revenue which was 27 percent in 71-72, declined to 21 percent in 85-86 and in the budget of 86-87 it is near about 20 percent. Therefore the trend factor shows that percentage of indirect taxes is increasing and hence the percentage of direct tax is declining. By freezing the tax rates except changes in the price level the LTFP has perpetuated inequities.

The theory that lower is the tax rate and higher is the rate of compliance is based on scant grounds. Prof. Thimaya argues that the tax claims of the Finance Minister at times does not tally with the realities. The Finance Minister in the budget speech said "Many a people of doom had prophesised that the revenue will fall and the buoyancy of the tax system will be further eroded. Exactly the opposite has happened. Collections from major taxes have increased by 22 percent over previous years which is the highest in a decade. Collections have also exceeded budget estimates and what is even more pertinent is the 36 percent increase over budget estimate on personal Income Tax. In the current year we have succeeded in reversing the declining trend in the ratio of direct taxes to G N P." Prof. Thimaya refutes the claim of the Finance Minister that tax cut measures have resulted in high yields in the case of all types of taxes. When the yield from Income Tax in 85-86 over 84-85 has become impressive, the yield from the corporate taxes in the same period has declined. It needs be mentioned here that the yield from corporate taxes was more than Rs. 256 crores in 84-85 over 83-84. But in 85-86 by reducing tax rate, Govt. has got Rs. 98 crores less in comparison to the previous year. Therefore the incentive provided by 5 percent tax cut has not yielded higher revenue.

Secondly it has been argued that increasing tax revenue may be due to the changes in the tax base, strict enforcement of tax laws, over all rise in the price level and finally the cut in the tax rates. So the tax cut factor has played a major role in increasing tax revenue alone is difficult to reconcile.

Thirdly similar is the effect of search, seizure, raid and strict enforcement of tax laws. The National Institute of Public Finance and Fiscal Policy conducted a survey on the extent of black income in India and estimated the amount of black money as Rs. 32 thousand crores. If one analyses the collections from the tax revenue over last three years i.e. from 84 to 87 it has increased from Rs. 22676 to Rs. 30956 crores. This is roughly an increase of Rs. 8280 crores or on average 22 percent. During these years again black money must have increased to some-extent. Therefore reduction in the tax rate and reduction in the amount of black money are not commensurate with each other.

The State Governments complain that in the Long-Term Fiscal Policy the states have not been involved. This is more important because the implementing agency of the plan is the State Government. Their tax revenue is 16 percent of the G.D.P. whereas of the central it is 8 percent. Moreover because of such L.T.F.P. they are likely to lose revenue. Though L.T.F.P. is mainly confined to the tax and expenditure of the central Government, indirectly it affects the resource mobilisation by the states for financing Seventh Five Year Plan. The L.T.F.P. aims at reducing market borrowings and increasing public saving. Reduction in the total quantity of market borrowing will affect the resource position of the states as they share the market borrowing with the centre. Similarly in the case of tax-structure there has been plethora of concessions in case of direct taxes, and this will reduce the volume of direct taxes to be shared between the centre and the States. The introduction of New Deposit scheme (New series) will also reduce the amount of Income Tax to be collected which is shared between the centre and the States. Therefore the provisions of L.T.F.P. have not only covered the states but by implication have reduced the divisible pool of taxes which affects the resource position of the states.

In the field of indirect taxes the introduction of MODVAT is an innovative step. This will avoid the cascading effect of excise duties and will benefit the corporate sector up to Rs. 700 crores in a year. MODVAT has been limited initially to 37 commodities. But people feel it is a complicated scheme to be administered. One such issue is whether the product of the ancillary industries will be treated as final product or not if small ancillary units are to be reimbursed by the larger units or even by the Govt. There will be long-delays in respect of payment to small units MODVAT, some people feel will raise up the prices of the commodities.

Resource Mobilisation Through Incentive to Saving

The Long-Term-Fiscal Policy has announced a New Saving Scheme known as NEW DEPOSIT SCHEME. According to this scheme of saving, 20 percent of the profit in the corporate sector if deposited with I.D.B.I. or such other financial institutions will be exempted from Income Tax. Secondly this scheme provides exemption from income tax at the specified rate without any monetary ceiling. In the budget the rate of interest on provident fund has been raised to 12 percent. The public sector undertakings like Rural Electrification Corporation, National Thermal power corporation, Indian Telephone Industries and Mahanagar Telephone Nigam have been allowed to float bonds at attractive rates of interest and with a number of tax concessions.

If deposits are attracted with attractive rates of interest and tax concessions, tax will go counter to the small saving schemes and the States which get a portion from their small saving for raising resources will be deprived of that. Secondly giving tax concessions to attract saving will erode the base of direct tax. This will reduce the divisible pool and the share of the States who get 85 percent of the Income tax proceeds. The States will face resource crisis for finacing their plans. Therefore they will resort to borrowing from the centre. Hence again the rate of interest has been raised to reduce the reliance of the States to borrow from the centre. Raising lending rates progressively to cover the cost of raising funds in the present will increase the interest burden of the states as they mostly borrow from the central government. This finally will reduce the resources of the State Govt. for financing their plans.

An interesting debate has been raised in connection with the raising the lending rates by Central Govt. Those who support the view point out that interest will increase the level of saving, will reduce the market borrowing of both State and Central Govt. Central Govt. borrowing from R.B.I. will also be reduced This will decrease the money supply in the country and will be a positive check on inflation.

But there are others who argue that interest hike for raising more of resources will come directly in conflict with the redistribution objective of the L.T F.P. Prof. Mihir Raskhit argues that interest is not only an instrument of resource mobilisation but also an important fiscal instrument for distribution of income.

That is why the Govt. has taken recourse to differential rate of interest schemes. If there is an interest hike the income of the rich and affluent who get more of interest will rise. The poor people and poorer states who take the loan will pay it. Income will be transferred from the well-to-do at the expense of the poor people.

Interest hike will increase the interest burden and as such, the non-plan expenditure will increase. In fact in the budget of 86-87 expenditure on interest is one of the most important items of non-plan expenditure. While advocating on one hand the reduction in the level of non-plan expenditure and on the other hand increasing the lending rates will create a conflicting situation.

(c) Surpluses from Public Sector Enterprises :

Surpluses from public sector enterprises will play a dominant role in the resource mobilisation effort of the Government. This is due to the fact that the balances from the current revenue appear to be negative. The Long Term Fiscal Policy envisages to increase it from 2.9% of G.D P in 84-85 to 3.4% in 1989-90. In the language of L.T F.P. this is called Internal and extra-budgetary sources As per the budget of 85-86 it was 3.1 % of G.D.P. It is painful to note that I.E.B.R. of P.S Us has failed to register any increase and even if allowance is made for possible under-estimation no increase in the order appears likely. In order to generate more resources the public sector enterprises can improve their efficiency, capacity utilisation by raising productivity and finally by drawing down inventories. This objective can be achieved by rationalising the price structure of public sector enterprises. But P.S.Es is raising these resources through the medium of administered prices. Such hikes in prices are paid by the common man and there is a limit to which such raising of resources can go. Such a practice has drawn public hostility. Government raising the administered prices on petrol or revising the railway rates a month before the presentation of the budget is unethical and unparliamentary. The practice of presenting the budget by stages violates the fundamental principle of public finance that there can be no taxation without representation. The administered prices are never shared with the states and they are deprived of their legitimate share from the revenue.

BORROWING

Borrowing from the market is a source of resource mobilisation. Hence we find that the budget and the Long-Term Fiscal Policy are not at par with each other. Of the total borrowing of Rs.110,000, the sum of Rs 80,000 is domestic borrowing. It was proposed in L.T.F.P. that domestic borrowing in 86-87 will be 55.4% in financing the plan but budget shows that it is 63%. We have to remember that domestic borrowing is a sort of substituting the private saving for public saving. Here one should not confuse the allocative and resource generating function of the market borrowing. It may be properly allocated by the public sector to priority areas. So far as external borrowing is concerned, the L T.F.P. and the budget are at par with each other and here the interest burden has become sizable.

CONCLUSION

On the whole the resource mobilisation programmes of L.T.F.P. needs redesigning. In the first place the tax revenue should yield more and more and the B.C.R. should be a positive figure, (ii) The hikes in the rate of interest should be judiciously applied, (iii) The reliance on administered prices should be progressively reduced, (iv) Efficiency and productivity of Public Sector Enterprises should be increased, (iv) Market borrowing should be properly allocated and (vi) The resource mobilisation programme of the States should be considered along with the centre.

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TAXATION POLICY IN THE FRAMEWORK OF LFP

Kishor Samal

The long-term Fiscal Policy issued in December 1985 by the Central Government of India mainly provides a historical review of budgetary trends and lays bare fhe plan resources needed for each of the five years of the seventh plan. It also indicates the directions of reform in the area of the Central Government's finances, especially taxation. It explicitly deals with tax and expenditure policy of the government. The announcement of long-term Fiscal Policy (LFP) is an effort to establish the relationship between the process of planning and budgeting in India which is coterminous with the Seventh Plan.

I. Nature of the L F P

The LFP is not a national fiscal policy; it is the policy of the Central Government within the framework of its budgets. It has totally left out the budgets of States and local bodies. The magnitude of State Governments' budgets is so large that their impact on the economy cannot be minimized, especially through sales tax which constitutes more than 50 per cent of the State's total revenue. Similar is the case with octroi of local bodies. The States should have been involved in this exercise. As in the case of plan document, fiscal policy should have been jointly finalised and approved by the Central Government and the States.

Secondly, the long-term Fiscal Policy is a misnomer since the policy is only for five years. It will be better if it is termed as Medium-term Fiscal Policy. Moreover, there is possibility of alteration in the tax brackets once in 2/3 years, change the corporate tax rates, etc. (1) Moreover, after the departure of Mr. V. P. Singh from Finance Ministry, it may not be more than a short-term policy.

Finally though LFP tries to provide a historical review of budgetary trends, even within the limited sphere of central finances, its approach is more of an accounting and budgetary nature. It neglects the vital aspect of the budgetary trends, particularly not analysing the pressure of different interest groups. If we analyse the budgets of

India-particularly from 1977 to 1982—three budgets of Janata Government and three of Congress, we can realise the dominant influences of one or another section. (2) Whether it is Janata or Congress Government, they serve the interest of the dominant classes, the rural landed gentry and industrial captains. Only the balance is changed under different Governments. The Finance Ministers, of Janata Government favoured more to rural rich farmers and traders; on the other hand, industries both big and small and middle class were offered a better treatment by the Congress Government, Whether it is Janata or Congress, no one dares to attack the rural rich who are regarded as vote bank. Since it was the main and dominant constituent of Mr. Charan Singh of Janata, he, as Finance Minister in 1979, offered a large number of concessions to rural rich. The Congress Finance Ministers may not offer huge concessions and reliefs like Charan Singh but never tried to touch the sacred cow—the agriculturist—through tax and other measures.

II. Excessive Reliance on Indirect Tax :

According to LFP, the tax revenue of the centre was 7.2 percent of G D P during 1971-76, rose to 8.2 per cent in 1976-80, but came down to 7.9 percent in 1980-83. The centre comes to rely more and more on indirect tax. As shown in Table-I, there is a steadily declining trend in the 1970s and early 1980s in the share of direct taxes.

TABLE-I

Proportion of Direct Tax and Indirect Tax in the Tax Revenue of the Central Govt (per cent).

Year.	All direct tax	All indirect tax
1970-75	27.2	72.8
1975-80	26.6	73.4
1980-85	22.3	77.7
1985-86 (BE)	20.2	77.8
1986-87 (BE)	19.0	81.0

Source : L F P and R B I Bulletins, (various issues)

The LFP hopes that the important objective of fiscal policy is to reverse the decline in share of direct taxes and thereby projects that the share of direct taxes in the centre's tax revenue would go up from

19.2 per cent in 1985-86 to 22.3 per cent in 1989-90. But contrary to this, in the first budget, after the announcement of L F P, incremental taxation has been entirely from indirect taxes. The share of direct taxes in the tax revenue of the Central Government has decreased from 20.2 per cent in 1985-86 to 19 0 per cent in 1986-87 and that of indirect tax has increased from 79.8 per cent to 81 0 per cent during the same period (Table-I). Stated otherwise, while L F P hopes that direct tax will grow from 1.5 per cent of G D P in 1985-86 to 1 7 per cent of G D P in 1936-87, in practice it has declined from 1.6 percent to 1.4 per cent during this period in two budgets. (3)

This over-dependence on indirect tax has made the tax system not only regressive but also inflationary which is further fuelled by continuing deficit financing. The primary objective of the LFP is on stabilising this regressive tax structure which has also become sluggish in recent years. Thus the main demerit of the LFP is that it freezes the present inequitable tax structure, (4) though this document mentions several times the need of increasing the share of direct tax in the Central Government's tax revenue.

Even the document shows that while the share of indirect tax would remain at 7.3 per cent of G D P, the direct tax would be only at 2.1 per cent of G D P at the end of the Seventh Plan. Again, during the same period, the share of indirect tax would increase at double the rate of direct tax—that is, share of former by 1.0 per cent and of the latter by 0.6 percent.

As mentioned earlier, any buoyancy in direct taxes by taxing agricultural income is firmly ruled out. It is interesting to note that different type of emphasis is given on the subject of taxation of agricultural income by the Planning Commission on the one hand and the L F P on the other. The Planning Commission realizes the need to explore ways of raising revenues by tapping rural incomes in greater measures. On the contrary, the L F P observes that taxing agricultural income creates conceptual problems and hence the Centre has no intention to change the present situation.

Moreover, instead of raising rate of direct taxes or introducing new ones, a brief review of tax changes since 1980 shows that a series of concessions such as raising exemption limits and standard deductions, lowering and then abolishing surcharges, lowering maximum effective marginal rates etc., are extended to income tax payers who are in the upper income groups in the society. These concessions have been rationalised on the ground that they induce better compliance and higher tax collection. But these steps are not apparently successful. During the latter half of the 70s when the marginal rate of income tax was lowered to 66 percent from 97.75 percent (which was further lowered to 50 percent in 1985), the tax yield fell in some years both in absolute amount and in terms of G D P. (5). In fact, according to National Institute of Public Finance and Policy; the incomes that are taxable but not reported to the tax authority were of the order of Rs. 32,000 to Rs. 37,000 crores in 1983-84. Thus the voluntary compliance is a myth. Even, there is apparent admission of the Central Government that the black money generation is going on even in increasing rate; since it announced the issue of Indira Vikas Patra through Post Offices in 1986, ostensibly to mop up the black money after various other schemes such as Voluntary Disclosure Scheme, Demonetisation, issue of Bearer Bonds etc. (6).

It should be emphasised that it is fear than voluntary compliance induced by lower tax rates that seems to work for better tax collection. For instance, at constant rates in both the years, income tax receipts went up by about 39 per cent during the emergency in 1975-76 over the previous years (7).

An important objective of fiscal policy should be to see that taxes as levied are fully collected and steps are taken to curb evasion. The equity of tax system is impaired where taxes are evaded by the higher-income groups in the society.

III. Expenditure Tax :

Instead of introducing new direct taxes or raising the existing rate of direct tax, the L F P hopes for the need of progressively introducing an Expenditure Tax in place of present Income Tax to encourage saving, which is of doubtful validly from practical point of view, as in the past in India.

There is a tradition of saving in India in physical form in terms of land, building, jewellery, etc. But these physical savings are not mobilisable. Financial savings such as bank deposits, insurance, shares, debentures etc., are mobilisable. So, steps are required not so much for generating savings but for directing these towards more financial savings. Thus, less drastic measures than a shift to Expenditure Tax can help in encouraging saving which are mobilisable.

IV. Summary :

Though long term Fiscal Policy (L F P) is a step to determine the relationship between planning and budgeting in India, it is neither a national nor a long term policy in true sense of the term. The historical review of budgetary trends by L F P does not go into the analysis of the dominance of interest groups on the budgets of the Central Government. Though it realizes the mistake of over-dependence on indirect tax, its thrust is on stability in the tax structure which is regressive and inequitable. Instead of introducing new direct taxes or raising the existing rate of direct taxes, it pins its hope on a doubtful proposition of expenditure tax. What is needed is that, first, to bring the tax structure to an equitable and progressive level and then maintain the stability and ensure the full collection of taxes levied; if needed by force.

NOTES

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6) For a critical review of these schemes, see Kishor Samal, "Parallel Economy", I, II & III, **Business Standard**, Calcutta, June 11, 12 & 13, 1981.

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Effects of Long-Term Fiscal Policy on States' Finances

Dr. R. P. Sarma

The Long-term Fiscal Policy (LFP) declared by the Government of India in December 1985 is a new experiment in the fiscal policy of India. This has been introduced for the first time in the country with a view to providing a guide line for the budgetary mechanism and to enabling for the assessment of financial resources over a longer period without disturbing the tax structure from year to year. The main objective of the LFP is to mobilise the resources for the Seventh plan through a stable fiscal policy throughout the plan period and to create confidence among the tax payers and entrepreneurs alike. Apart from the public sector planning the LFP will help the private sector to plan their ventures firmly without fearing for the governmental policy changes at least for five years.

The LFP is a policy instrument of the central government. It specifies taxation and saving policies for the mobilisation of additional resources for the Seventh plan at the central level. Instead of declaring tax instruments every year in the annual budgets for the mobilisation of resources the LFP is timed to the five year plan period. This is more helpful to the planners in formulating plans and tax administrators simplifying the proceduers of tax administration.

In the Indian federal set up the financial relationship between the centre and the states is so close that eventhough there is no direct impact of the LFP on the mobilisation of resources by the states the indirect effects on the finances cannot be ignored. In achieving the objectives of the LFP by the centre some of the measures go against the interests of the state governments.

For a backward state like Orissa, where about half of the revenue receipts are coming from the central sources, the effects of the LFP is more significant. Table 1 shows the revenue and capital receipts of Government of Orissa and percentage share of the central government for the years 1979-80 and 1983-84.

TABLE—1

Revenue and Capital Receipts of Orissa Rs. in crores

Item	1979-80 Amount	percent to total revenue	1983-84 Amount	percent to total revenue
Shared tax	144.3	30.86	224.3	28.07
Central grants	149.9	32.06	224.9	28.14
Total	294.2	62.92	449.2	56.21
Total Revenue	467.6		799.1	
Capital Receipts	115.8		220.5	
Total Receipts	583.4		1019.6	

Source : Economic Survey of Orissa : 1983-84, (Bureau of Statistics and Economics, Orissa, 1985) p. 260.

The shared taxes which were 30.86 percent in 1979-80 to the total revenue receipts of Orissa came down to 28.07 percent in 1983-84. During the same period the central grants were also reduced from 32.06 percent to 28.14 percent. By the year 1983-84 the total increase of revenue receipts of Orissa was 70.89 percent over the year 1979-80, while the shared taxes increased by 35.67 percent and the central grants by 50.03 percent. The LFP which prescribed stable tax structure would further reduce the shared taxes to the states and the backward states like Orissa would be more adversely affected than other developed states.

The effects of the LFP on the states' finances can be analysed from three angles in which the power of the states with regard to the mobilisation of resources is curtailed. They are (a) shared contribution of income taxes (b) Availability of loans on the basis of small savings and (c) the borrowing power of the states. Main provisions of the LFP and their effects in turn on the above would be discussed in the following :

Share from Income Tax :

The indirect taxes are dominant in the Indian fiscal system. The Government rightly wants to give more importance to the direct taxes, as the higher indirect taxes are more burdensome for the lower income groups in the society The direct taxes now constitute 1.5 percent of

1. G. R. Reddy, Long-term Fiscal Policy, Implecations for the States, Economic Times, (December 30, 1986.

GDP. The LFP aims to increase it to 2.1 percent of GDP by the end of Seventh Plan. The ratio of indirect tax would be increased to 7.3 percent by 1989-90 which is now 6.3 percent of GDP (2). The gap between direct taxes and indirect taxes which is now 4.8 percent would increase to 5.2 percent of the GDP.

The two major revenue yielding direct taxes are personal income tax and corporate income tax. The LFP indicates that there would be no change in the rate schedules of personal income tax for five years. The corporate income tax would remain frozen at the present 50 percent level for the next five years. There would be no sur tax or surchages on profits. The corporate tax is not shared with the states hence there would be no impact on the finances of the states. The personal income tax is sharable with the states to 85 percent of the tax receipts. With these freezing points in the tax schedules, many economists feel that the 0.6 percent increase in the share of direct taxes in GDP "would be impossible solely by tightening up the administration (3). Any restriction in the growth of personal income tax level is against the interest of the states.

In the budget speech, the Finance Minister stated that "in the area of direct taxes an important priority is to create an environment for growth, productivity and savings." (4) It is hoped that without increasing the tax rates the government would get more tax by taking the tax payers into confidence. Eventhough it is believed that lower the tax rate there will be more revenue on the basis of the elasticity of the tax; but no study proves this in case of income taxes. On the other hand in a recent study the reverse has been proved i. e. the drastic cuts in the income tax rates have not led to any appreciable increase in the revenue receipts. (5)

In the seventies when the tax rates were lowered to 66 percent from that of maximum 97.75 percent, the tax revenue fell both in absolute terms, as well as in terms of GDP. This can be observed from Table 2 which shows the non-corporate income tax earnings of government of India from 1976-77 through 1985-86.

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2. Long-term Fiscal Policy, p. 14.
3. H. N. Ray, Long-term Fiscal Policy, Some Comments, Economic Times, (5th February 1986)
4. Budget Speech, 1986-86, Part-B, p. 25.
5. Amaresh Bagchi, Ecomic Times, (October 3 1985)

TABLE—2

Growth of Non-corporate Income Tax

Year	Amount Rs. in crores	Growth rate percent	GDP growth rate percent
1976-77	1194	—1.6	7.9
1977-78	1002	—16.0	12.2
1978-79	1177	17.5	8.1
1979-80	1340	13.8	9.7
1980-81	1506	12.4	19.5
1981-82	1476	—2.0	14.2
1982-83	1570	6.4	10.1
1983-84	1699	8.2	20.2
1984-85	1810	6.5	12.0
1985-86	1964	8.5	—

Source ; The Economic Times, 6th February, 1986, p.5.

In the first half of the year 1985-86 the direct tax revenue of the central government increased by 22.7 per cent in comparison to the same period in the previous year and the income tax realisation showed a rise of about 40 percent. This is an encouraging trend of tax realisation but this increase cannot be attributed to the measures of LFP because of several factors.

First, in the tax collection figures the break ups or the incremental personal income tax and arrear collections are not available for analysis. Any increase in the tax yield, the incremental tax revenues have to be taken into account to calculate the growth figures. The gross figures do not explain the actual progress of the tax collections. If only the incremental figures would be taken the percentage growth would be far from the present 40 percent.

Second, one of the reasons for the high increase in the income tax revenue is due to the amensty schemes declared by the government. These are only one-time increases and it cannot provide continuous flow of revenue at the same rate over the stipulated 5 year period.

Thirdly, the LFP proposed to create a climate for honesty through a rigorous 'search and seizure operations (6). Government aims to weed out the corrupt and the dead wood for a positive impact on tax revenue. In recent months the search and seizure operation collected

6· Long-term Fiscal Policy, p. 33.

good amount of revenue for the central government. Increases in the income tax revenue is shooting up by these operations and not on the normal increases in the yield.

From all the above factors it can be concluded that in the real terms the income tax revenue is not being increased and due to the freezing rate schedules and the consessions it is likely to decline restricting the states, revenues.

Pattern of Savings :

The National Deposit Scheme (New Series) (NDS) is a novel devise of the LFP to tap housenold savings. The main features of the NDS are (1) fifty percent of the investment into NDS are deductible from the taxable income (2) any withdrawal from NDS are taxable as income (3) no tax has to be paid on the bequests of NDS. Eventhough much emphasis is being given on the NDS as a saving instrument, it will not increase the level of saving in the economy. Because most the income tax payers who are now keeping their savings in some other form will divert the same to the NDS to avail the tax consessions on income base. The income concessions on savings influence only the pattern rather than the level of savings. (7) The investments in the NDS on the one hand would decrease the taxable income base and on the other would reduce the deposits of the small savings. As a result of diversion of savings to NDS the small savings level would be reduced and the loan available to the states against the collection of small savings would be reduced accordingly. The current union budget expects Rs. 200 crores through the NDS. The states would probably loose opportunity to avail loans to this extent to meet their finances.

Another measure adopted recently by the government of India also would further deprive the states to avail loans. From April 1986 the Employees Provident Funds have to invest 85 percent of their funds in the special deposit schemes, which was only 30 percent previously. Previously 30 percent of the provident fund was utilised in the government securities of which 15 percent was earmarked for the states. Now in the revised scheme there is only 15 percent for the government securities both for the centre and the states. Now there is no provision for the investment in the small savings, while previously 40 percent of the fund's money was diverted for the investment in the small savings. Hence the LFP and the Provident fund policy together will reduce considerably the states power to raise more loans on the basis of small savings.

Domestic Borrowings :

The LFP proposes specific policy for the mobilisation of resources in terms of domestic borrowings and public savings. It aims to reduce the domestic borrowings to depend more on public savings. The domestic borrowings which are now 2.1 percent of the GDP would be reduced to 1.6 percent of GDP by the end of Seventh Plan period in the year 1989-90. Accordingly it estimates to increase the share of the public savings from 2.1 percent of GDP to 3.6 percent of GDP during this period. The Seventh plan proposal for domestic borrowing is Rs. 30,662 crores which is 16.98 percent of the total outlay of the plan as against 20 percent in the Sixth Plan. The share of the states in market borrowing is proposed to be Rs. 9942 crores which is 32.32 percent of the total domestic borrowings of the Seventh Plan. Recently the statutory liquidity ratio has been raised to restrict the market borrowings. As a result of these measures mobilisation of resources through borrowings by the states would be restricted.

The centre is now in a more advantageous position in mobilising resources with certain new devices recently introduced. One such instrument is the introduction of 182 days. Treasury Bills which gives more access to funds for expenditure by the Central government. For the investments in the public enterprises the Central government adopted extra budgetory resources by allowing its under-taking to float bonds. These facilities are not available to the states for the mobilisation of resources.

From the above analysis it can be concluded that the LFP is not helpful for the states in their endeavour to mobilise additional resources and advantages, if any, would be marginal.

7. I.G. Patel, Kingsly Martin Memorial Lecture, delivered at Cambridge, November, 5, 1986; Reported in **The Economic Times**, November 8, 1986.

LONG-TERM FISCAL POLICY
—ITS PROS AND CONS.

Sri Lalit Mohan Sahu

The long-term fiscal policy is conceptually an excellent idea and a milestone in the annals of Indian Fiscal history. The Government has for the first time developed a quinquennial fiscal strategy. It has been conceived as an instrument to serve the basic objectives of the Seventh Plan, makes a new approach to fiscal management of the economy. The idea of having a longterm Fiscal Policy coterminus with the period of the plan is a welcome one. Indeed, a longterm fiscal policy, rather than one based on year to year consideration, is implicit in the idea of longterm economic planning and such a system should have been introduced much earlier.

The policy provides a frame work for the mobilisation of resources for the plan and it enables a planned and phased series of steps for this purpose, reducing the uncertainties of annual changes and thus facilitating the fulfilment of the plan targets. It lays down the direction which even year to year changes should take and guide their pace. It thus provides a link between the Five Year Plan and annual budgets.

Coming to the main proposals of the LTFP, its first concern is, as we have seen, the mobilisation of resources for the Seventh Plan. The LTFP has several desirable features, but there are also some inadequacies. The mobilisation of resources to finance the plan is the prime objective of the LTFP. The major contribution of the fiscal policy to poverty alleviation has to come through an effective programme for mobilisation of additional resources ... ... fiscal policy has to be formulated that adequate resources are available to the Government . .

The stress on resources mobilisation objective of the fiscal policy may be related to the Seventh Plan need for resources and a shift from basic objective of the Finance Act, 1985. The lone-term fiscal policy makes an analysis of the financial needs of the Plan and suggests a scheme of action to meet them. Unfortunately, it has not been able to find very satisfactory solutions to the main problems to be faced in the mobilisation of plan resources—the overcoming e 'resource crunch' or resoures shortage which, according to the nth Plan would be encountered during this period. It would be d that resource constraints have come about and are likely to st over the plan period inspite of the fact that GDP has increased ore than 5 percent.

The long-term fiscal policy, for instance, provides for a tantial increase in surpluses from public sector enterprises, but not say anything about the manner in which the surpluses are e achieved. But while there has been an improvement in the rmances of public sector enterprises in recent years, it is not in that their contribution will come up to the LTFP's expectations verage of 3.6 percent of GDP for the Seventh Plan period as a le and a figure of 4.1 percent of GDP in 1989-90 as compared to 2.9 ent in 1984-85). If past experience is of any guide, the expectation t significant improvement in their working has no strong basis. Union Minister of State for planning himself has observed recently the main causes for the loss of public sector units are weak and icient administration. But there is hardly any evidence to show the Government or public sector units are making any effort for oving efficiency or productivity as a mode to generate larger luses by reducing their costs. Further raising administered prices only perpetuate the inefficiency in most cases.

The long-term fiscal policy formulates long-term investment growth strategies both in the organised and unorganised sector on basis of tax adjustment. The introduction of an element of ility in tax laws, reduction in the element of secrecy in the budget aration, simplification of Income Tax Act, no change in the onal income tax rates in a period of 5 years, no increase in corpo- tax rate in next 5 years, abolition of surtax on profits from ssment year 1987-88, abolition of surcharge on profits are other s from assessment year 1987-88. Introduction of a modified value ed Tax (MODVAT) on an experimental basis as a duty drawback eme, merger of several excise duties into basic duties, greater nce on tariff rather than quantitative restrictions for regulating orts, rationalisation of custom duty on capital goods etc. But no y can be certain that all these will enable the Government to e more resources.

important aspect related to policy making which highlighted economy and the impact of various tax measures on savings, investment, expenditure and general economic activity. It is, therefore, welcome that the Government would ask the National Institute of Public Finance and Policy to conduct a comprehensive and independent study of incidence of indirect taxes and subsidies every three years or so. Infact, there is need for similar study in a number of other areas. For instance, one point of view is that tax evasion persists irrespective of the level of tax rates. It is claimed on behalf of the Government that significant buoyancy has been observed in tax revenue as a result of reduction of rates in the 1985-86 budget. However, it is known that tax evasion is wide spread and as long as detection is not strict nor heavy punishment is given to those who evade, taxes will continue to be evaded.

The long-term fiscal policy, it is said, deals primarily with taxation whereas fiscal policy should equally concern itself with expenditure. Plan expenditure emanates from the plan which is devised by the Planning Commission and approved by the Parliament. In non-plan area, expenditure on defence and subsidies is determined by policy decisions, taken at highest Government level. Government expenditures are determined largely by the ministries, interest payments rise or fall due to the level of borrowings and interest rates which are the result of decisions taken by the Ministry of Finance/RBI.The level of borrowing is mainly determined by the plan and non-plan demands for resources, given the constraints on tax and non-tax revenues surpluses by public enterprises and deficit financing. It would appear, therefore, that the Ministry of Finance is not in a position to lay down the policy for expenditure. Because it lies almost entirely outside its ken, especially when its decision making role is largely restricted to raising resources through means which are within its control. So a long-term fiscal policy is no doubt necessary, but it cannot be made complete without a long-term policy for expenditure and that such a policy, at present does not exist in any coherent form.

Having stated the objectives and rationale of LTFP, the statement proceeds to analyse the past trends in the central budget and frame work for the Seventh Five Year Plan. A serious limitation of it is that it is a Central Government fiscal policy and not a National Policy. The entire analysis and approach are conducted within the framework of the Central Government Budget. This can hardly be considered as an integrated approach in turning rational fiscal policy to the National Plan. It is not clear how the Central Government's Fiscal Policy, alone, however well formulated in a long-term prospective, can provide an adequate framework for the National Plan or help in its effective implementation.

As far as the private corporate sector is concerned, the investment allowance has been dropped as stated in the LTFP document as it favoured large scale Industries. In place of investment allowance, enterprises (a) can deposit tax-free 20 percent of their profits with designated financial institutions for replacement and modernisation of plant and machinery, and (b) can obtain fiscal concessions on several items.

The withdrawal of investment allowance and its substitution by the new scheme of depositing with IDBI is not a good idea. All financial planning is based on the strategy "buy now, pay later". What the Government is now proposing is "pay now, buy later". This is contrary to the normal trend of corporate finance. It means you first have the money, then go for the project. But it does not happen that way. People can plan a budget, then look for the money. Companies with low capital investment and high profits will benefit. But those companies which have high capital investment such as those which are in the field of heavy investment or the high technology industry with modest profit will not be benefited. It has been argued that investment allowance was being used as a tax planning device. But in fact this new provision could even more be used for tax planning without any reference to capital investment. A company might have large profits in one year, deposit 20 percent and thus save on tax. In later years the money may be withdrawn when the profit levels are low and thus this may be used a pure tax planning device. It will benefit existing units with cash resources rather than motivate entrepreneurs to set up new units. There is also another ominous reference that certain other reliefs that are now being given may be reconsidered and withdrawn later. This would be a retrograde step and would mean that we would again not have a stable policy.

It is on consideration of equity that the sharpest criticism of LTFP policy has been made. As we have seen indirect taxes will contribute the major portion of tax revenues, a considerable part of such taxation is on its item which enter into the consumption of the bulk of the people, including the poor. On the otherhand. in the sphere of direct taxation, there have been more liberal exemptions and low rates —all benefiting the better-off groups. If the effects of inflation are taken into account (and if there is a failure to mobilise resouruces for the plan, there may have to be a greater reliance on borrowing and deficit financing, with inflationary consequences), the burden on the poor will be still heavier.

THE PROBLEM OF RESOURCE MOBILISATION UNDER THE LONG-TERM FISCAL POLICY.

Sri Ramesh Chandra Sarangi,

A Brief History of Longterm Fiscal Policy :

In his budget speech for 1985-86 the Ex-finance Minister, Mr. Vishwanath Pratap Singh stressed on the need for the formulation of a long-term fiscal policy consistent with the long-term strategy for fiscal management as envisaged under the Seventh Five Year Plan. Though budget is considered to be an annual exercise, it can be made more meaningful by setting a longer time frame. In pursuence of this, the long-term fiscal policy of the government intended to be applicable during Seventh Five year plan was announced by the Finance Minister on December 19, 1985 in the floor of the Indian Parliament. Besides these guidelines already provided before hand, there was a great deal of emphasis on the detailed framework of the long-term fiscal policy in the budget document for the year 1986-87 presented in the Indian Parliament on February 28, 1986 by the Finance Minister.

The Broader Objectives of Long-Term Fiscal Policy (LTFP) and the Problem of Resource Mobilisation :

The basic objective of LTFP is in conformity with the broader goals of the Seventh Plan. The new fiscal policy is expected to contribute towards the fulfilment of these aims primarily by the mobilisation of additional resources. It is intended that Indian fiscal system should be more progressive in character. There has been too much of emphasis on indirect taxation in the Indian tax structure for the purpose of mobilisation of resources. This is primarily attributable to the fact that a large mass of Indian population enjoy a lower level of income. There has been deliberate attempt on the part of fiscal authorities to reduce the regressiveness of the system by keeping the tax rates on the essential commodities at a lower level and by subsidised distribution of food grains, sugar and edible oils by means of an effective public distribution system. The L.T.F.P is expected to add stimulus in the effort of making the tax system more progressive. There should be attempts at decreasing the proportion of direct taxes in the tax revenue. Some times there is greater scope of tax evasion in case of direct taxes when the tax rates are steeply progressive.

The most important objective of LTFP is to bring about tax reforms in view of short-term requirements and administrative considerations in successive budgets. The tax system in this country has been too much complex over years. It is generally desired that there should be the attainment of twin objectives; viz. economic growth alongwith social justice by means of an efficient tax structure. The tax reforms should be undertaken with a view to simplifying the tax structure. There may not be additional mobilisation of resources due to tax reforms. The tax changes should not be sudden and drastic so as to cause dislocations in the volume of production. Taxes should be so levied that evasion does not ordinarily take place.

There has been a great deal of emphasis on the control of inflation whose magnitude has already assumed alarming proportions in this country. The mobilisation of resources should be undertaken in non-inflationary ways. This clearly implies that the annual budgets must be prepared in the most judicious way so as to yield adequate surplus for plan expenditures. The public sector undertakings are expected to generate financial purplus to be utilised in form of plan outlay. This would make possible the diminished recourse to borrowing.

Resource Mobilisation and the Reforms in Indian Tax Structure :

The LTFP document takes note of the fact that the present tax structure in India is dominated by the indirect taxes. In the 1985-86 budget, the share of indirect taxes was 81%, with only 19% coming from direct taxes. It is visualised in the LTFP that although the predominance of indirect taxes can not be avoided, a balance must be maintained between direct and indirect taxation. Hence it should be an objective of fiscal policy to reverse the declining trend in the share of direct taxes in the longrun. The longterm task of fiscal policy in the area of taxation is to bring about a structural reform in the present system. The reforms should ensure that revenues go up automatically in commensurate with the rise in prices and income. The reforms will not only minimise the harmful effects of taxation, but there will also be reduction in causing deliberate harassment to the tax payers. It is clearly indicated in LTFP that the process of reform has to be phased over a number of years and it can not be completed in the Seventh Plan.

Direct Tax Reform and Mobilisation of Resources :

Before the introduction of LTFP, some major reforms were incorporated in the budget document of 1985-86. For example, the rates of personal income tax were lowered. These changes were introduced in view of the longterm strategy for securing better tax compliance and improving the revenue position. While providing relief to the lower income group these measures are likely to increase saving and productivity and thus create an environment for growth. It is reviewed in the LTFP that these changes have been successful in increasing the yield of direct taxes during the year 1986-87. It is rightly visualised in the LTFP that certain further changes are to be introduced. here should be simplification of direct tax laws and strong measures are suggested so as to curb tax evasion. The direct tax laws are to be rewritten in order to rationalise and simplify them so as to make them more effective. A draft bill incorporating the necessary amendments is awaited.

Reforms in Indirect Taxation :

The reforms in customs and excise duties are designed to promote growth, equity and simplicity. To ensure that the indirect tax system is more progressive and that the burden falls mainly on the better off sections, The National Institute of Public Finance and Policy is asked to conduct comprehensive studies of incidence of indirect tax. There are two major changes proposed in respect of excise duties. In the first place there should be simplification and partial introduction of value added taxation through MODVAT. The second objective is to rationalise certain special schemes, such as concessions to small industries and to exports. At present excise duties are collected by the Central Government in various forms; such as basic excise duties, special excise, additional excise on textiles for financing the controlled cloth scheme and cesses for special purposes. There are also additional excise duties in lieu of state sales tax on certain products. The multiplicity of duties makes the tax structure more complicated. It becomes difficult to assess the final tax burden of different products on the taxpayers. It is proposed to simplify the system by merging the various forms of excise duties into a single basic rate. In respect of customs duties there will be Harmonised system of classification consistent with the international classification system. The changes are likely to facilitate the growth of trade and industry. The unnecessary tax exemptions which complicate the system will be removed.

A tax on inputs at various stages distorts the structure of production. In value added taxation (VAT) the tax is imposed not on the total value of the item but only on the value added at each stage of production. The Jha committee on Indirect taxation proposed MANVAT (Value added taxes, on manufactures) where as LTFP proposes MODVAT (Modified value added tax). The only similarity between MANVAT and MODVAT is that both the taxes are levied at manufacturing stage only. The basic difference between the two systems emerges from the fact that while the entire cost of inputs was to be deducted from the value of output for the calculation of MANVAT, only the excise duties paid on inputs will be deducted in case of MODVAT It is proposed to cover all commodities (except a few for specified reasons) gradually by MODVAT. The proposed MODVAT is intended to be revenue neutral and hence it will have no scope for additional resource mobilisation.

Financial Framework for the Seventh Plan :

The LTFP has suggested a financial framework for the Seventh Plan with certain basic purposes ; (1) to translate the five year aggregates of the Seventh plan resources picture into year wise guidelines for key aggregates such as public savings and domestic borrowing and their principal component, (II) to provide necessary numerical framework within which reforms of tax policy have to be undertaken, and (III) to focus attention on those elements of the financial situation in respect of which corrective action has to be taken.

The Seventh plan envisages a total public sector outlay of Rs. 1,80,000 crores, of which a sum of Rs. 95,534 crores has been earmarked for the central plan. If we include the central assistance for the plans of the States and union territories, amounting to Rs. 23,505 crores, the total resources required by the Central Government for the Seventh plan will be Rs. 1,29,039 crores, which amount to 10.1% of G. D. P. as compared with the figure of 9.2% in the Sixth Plan.

The net capital inflow from abroad for the plan, is expected to be 1.4% of the G.D.P, which is not much different from the Sixth plan (1.2%). Similarly, domestic borrowings at 5.1% of G.D.P are close to Sixth plan figure (5.2%). However, the contribution of private savings is expected to rise significantly from 2.8% of G. D. P. in the Sixth plan to 3.6% in the Seventh plan. Thus the main contribution to public saving will have to come from public sector enterprises, which are expected to provide 3.5% of G.D.P .(as against 2.1% in the Sixth plan). The expected year wise changes are also noteworthy. Net capital inflow from abroad is expected to increase slightly from 1.2% of G.D.P in 1985-86 to 1.6% in 1989-90. Domestic borrowing will decrease from 6.4% to 4.2% with market borrowing going down to 2.1%. The budgetary deficit will decline from 1.3% to 0.9% and other borrowings from 3.0% to 1.8% between the first year and fifth year of the plan. Public savings are to increase from 2.5% to 4.3% with the balance from current revenue increasing from (—0.4%) to 0.2%. The resources from public sector enterprises will increase from 2.9% to 4.1%. It is clear and apparent that external resources are not likely to change much. In respect of domestic borrowings all possible steps are taken to keep down both market borrowings and budgetary deficit so as to maintain reasonable price stability. The position of financial resources for Seventh plan is indicated by the following table.

TABLE—I

Estimates of Financial Resources for the plan (1985-90)

	Items	Amount Rs. crores (at 1984-85 prices)
1.	Balance from current revenues at 1984-85 rates of takes.	(—) 5,249
2.	Contributions from Public enterprises	33,845
3.	Market borrowings (net)	30,562
4.	Small savings	17,916
5.	State provident fund	7,327
6.	Term loans from financial institutions	4,639
7.	Miscellaneous capital receipts (net)	12,618
8.	Additional resource mobilisation	44,702
9.	Net capital inflow from abroad	18,000
10.	Deficit financing	14,000
	Total	1,80,000

Source-Govt. of India, Planning Commission-Seventh Five year plan (1985-90) Vol-I Page-52.

So far as balance from current revenue is concerned the figure for the centre is Rs. (—) 12,011 crores and that for states Rs. 6,762 crores. Thus, while the State government will be able to provide resources for the plan from their revenues, the central government will have a negative balance. This means that tax rates will not be enough to meet its current non-plan expenditure. The figures have been estimated on the same basis as adopted by the Eighth Finance Commission in its calculations of the growth of central and state revenues and on the assumption of a 5% per annum increase in Non-plan expenditure. Of the amount of Rs. 35,485 crores estimated to come from public enterprises, Rs. 37,454 crores will be from central undertakings. The figure for the undertakings of the states is a negative one viz (—) Rs. 1,969 crores. This is detailed below by a table.

TABLE—III

Contributions of Public Enterprises (1985-90)

Enterprises		Amount Rs. crores (at 1984-85 price)
1. Railways		4.225
2. Post and Telegraphs		1,729
3. Other Central Enterprises		31,500
4. Total (Central Enterprises)		37,454
5. State Electricity Boards	(—)	1,569
6. State Road Transport Corpns.	(—)	415
7. Other State enterprises		15
8. Total (state Enterprises)	(—)	1,969
9. Total (Central+State)		35,485

Source : Govt. of India, Planning Commission, Seventh Five year plan. Vol-I Page-53

All figures given in the table are based on existing rates and prices.

A Critical Estimate :

The idea of having a LTFP during the Seventh plan period has been widely appreciated, indeed, a long-term fiscal policy, rather than one based on year to year communications, is implicit in the idea of long-term economic planning. The policy provides the basic frame work for the mobilisation of resources for the Seventh plan and it helps in reducing the uncertainties arising out of annual changes and thus facilitates the fulfilment of the financial targets of the plans. Such policy may also enable a better co-ordination with other policy aspects of the plan-e.g industrial policy, trade policy, monetary policy etc as fiscal measures can support and reinforce these policies. The tax payers can also plan their own long-term investment and strategy of growth better if they can properly speculate their future tax and expenditure policies in advance.

The basic concern of LTFP is the mobilisation of resources for the central plan. It makes an analysis of the resource needs of the Seventh plan and has suggested measures to overcome them. Unfortunately it does not suggest sound and definite measures to overcome resource crunch to be encountered during the Seventh plan period. The resource constraint is likely to persist in the forth coming years inspite of the fact that G.D.P is projected to increase at about 5% over the Seventh plan. It is an established fact that the current revenue resources of the Seventh plan would not be sufficient to meet the Non-plan expenditure and hence the question of financing plan expenditure out of the current revenue resources does not arise. On the basis of analysis of both direct and indirect taxes of the central government it is clear that LTFP has not been able to suggest viable measures to overcome the resource constraint.

There has been considerable simplification and lowering of rates in the 1985-86 budget. It is not testified by historical evidence to support the assumption of LTFP that tax reductions have always contributed to increased receipts over continuous periods. The novel and outstanding measure suggested in the field of indirect taxation is the introduction of MODVAT which is claimed to be revenue neutral. It is expected under LTFP that the public enterprises would substantially contribute to the plan resources. There is no certainty that their contributions would come upto 3.6% of the GDP for the Seventh Plan period as a whole and a figure of 4.1% of GDP in 1989-90 as compared to 2.9% in 1984-85, as per the expectations of LTFP.

The Government expenditure is considered to be the other side of the budget equation. If non-plan expenditure can be kept down, the resources available for the plan may be augmented. The three main items in respect of Non-plan expenditure are defence, interest payment and subsidies. There is hardly any scope of reducing the first two major items. There is the only scope of keeping subsidies down. It is suggested in LTFP that the rate of growth of subsidies should be kept lower than the rate of growth of G.D.P. On the otherhand there should be economy inrespect of administrative expenditure of the government. Inspite of all these efforts, its projections for the Seventh plan aim only at 0.2% GDP contribution from BCR by 1989-90. The BCR is expected to be negative, if the Seventh plan period as a whole is considered. It is clear and apparent that LTFP has not envisaged appreciable measures in reducing the expenditure levels. Consequently this will lead to perpetual rise in deficit financing and it would substantially exceed the target of Rs. 14,000 crores as envisaged under the plan.

On the whole the Seventh plan of the government has been ambitious and optimistic. The need for adequate resource mobilisation is immensely felt so as to accelerate the tempo of economic development in this country. There may be no escape from increased borrowing and deficit financing, even though not contemplated in the LTFP. Increased borrowing will involve additional interest burden and hence BCR may be still less in the forthcoming years. Deficit financing may be instrumental in augmenting inflationary spiral. Some economists have rightly recognised the importance of resource mobilisation in such a state of affairs. Prof. Ragnar Nurkse has considered the maximisation of the 'incremental saving ratio-the managerial propersity to save' as one of the most important determinants of economic growth. Prof. Benjamin Higgins calls "gradualism" as an approach to the policy of economic development, and in its place, a policy of 'big push' through the intervention of the government has been advocated by him, Hence the problem of resource mobilisation should be accorded top most priority in the fiscal policy of the government and the L.T.F.P adopted by the government of India should be reviewed in the light of the above mentioned objectives.

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