The Rents of Misdelivery
A Case for Modernisation of Industrial Planning

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Industrial Growth in India: Stagnation since the Mid-Sixties by Isher Judge Ahluwalia; Oxford University Press, Delhi, 1985: pp xxii + 235, Rs 120.

STUDIES in agricultural economics in India have been abundant as well as productive. That is not the only or major reason for the success of the green revolution but it has helped. Industrial economics has been sadly neglected: those who know the facts do not or cannot conceptualise and write; those who can study, generally, do not care to feel the knots in the rope. Agriculture, it is true, is subject to the ravages of nature but, cultivation of opium and release of canal water excepted, each link in its chain of activity does not require sustained government intervention. Industry is more autonomous of nature but less immune against the interests and whims of a broad spectrum of the human species, ranging from owners, managers, traders and workmen to regulators and tax gatherers, some of them benevolent microbes, others fractious pests. One of the great virtues of capitalism, "the greatest revolution in the history of mankind", was to sweep away the feudal and mercantilist restrictions on the mobility of persons and goods and to substitute expanding horizons in place of narrow minds and markets and official policies. That the expanding horizons would benefit some, more than others, was inevitable, so came wars, deeper internal conflicts (or "contradictions")—and regulations, especially in those societies which preferred vegetarian solutions for conflicts.

In the great melting point that India, whether fragmented or united, has always been, the synthesis of Fabian, Leninist and Gandhian ideas from the nineteen twenties till the seventies has identified modernisation with regulation, positive and negative, in varying proportions. The tale of industry, which along with social reform and education is the principal engine of modernisation, is full of regulation, on the whole, positive till the mid-sixties, generally negative since then, with textiles bearing the full brunt of negativism right through. In the fifties, the flowering of the vision of Jawaharlal Nehru through the "yes and more' attitude of T T Krishnamachari and Manubhai Shah moved the public sector towards the commanding heights of the economy and encouraged the private sector in industry to pick up the opportunities that came its way. Then came the foreign exchange crisis with its backlash of import substitution regardless of cost and, simultaneously, a sense of unease with the distribution of benefits of growth. Soon thereafter, the conflict with China and later with Pakistan eroded the availability of domestic and foreign resources for further growth of public investment. The plan holiday which commenced during the regime of Lai Bahadur Shastri was partly deliberate: Lai Bahadur did not really care for planning, the tired bureaucracy desired consolidation, ambitious businessmen wanted respite from a fast growing public sector with what they understood as its tax and political implications, the rest of the elite wished to deviate from Nehru's daydreams or to concentrate on agriculture when the country's vulnerability in respect of food supply' became prominent.

RITUALISED PLANNING

When plan rituals were resumed after three annual plans, the vision was missing and the focus was on populist stepping up of the nominal size of the outlay from year to year and plan to plan. There came to be a vicious circle of poor management of and inadequate investment in infrastructure (mainly railways and power) and heavy industry: low returns followed and chased unstable inefficient political and industrial managements. Regulation became a tedious means of saying 'no or less' or worse, piling of new controls on top of old, reminiscent in many ways of mercantilist internal economic policies. The commanding heights came to be perceived more as sources of erosion than irrigation. Small alone was beautiful in the perception of small minds. Petroleum became more glamorous than hydel power. The intellectual armoury of planning stood depleted: nothing com parable with the elegant, syncretic Mahalanobis plan-frame was essayed after the mid-fifties, notwithstanding massive expansion of the economist population and the widely perceived misconceptions and inadequacies of the historic Mahalanobis exercise. No effort was made in particular to harmonise physical planning with changing relative prices, improving productivity and sophisticated financial planning. Shortages of food, domestic savings and foreign exchange were the favourite quick explanations for sluggish growth; when these constraints loosened or disappeared—and the euphoria in nationalised commercial banking died away—there were no excuses left. The level and extent of poverty aroused justifiable concern with the growth rate and the systems of public management but, apart from ritualistic obeisance to populist gestures, which directly expanded consumption rather than investment and enlarged the bureaucracy more than they contributed towards productivity, there was little attention to the mechanisms of growth leverage.

Almost equally pathetic has been the state of the intellectual delivery system, which has failed to conceive and market new or revised strategies for converting available resources into goods and services consistent with economic efficiency and social justice, on the ground. Much effort has gone into either tautological pedagoguery or, when confronted with policy alternatives, taking refuge in complaints against "faulty implementation of correct policies" and, in effect, opposing any change and modernisation of the policy-frame as if what the founding fathers had laid down was perfect and sacred for all time to coma Even competent professional analysis of available data on infrastructure and industry has been somewhat rare—unless it has been secreted away from public gaze in monastic academe.

There is always hope, nevertheless, especially since the population (of intellectuals too) is growing younger. Isher Judge Ahluwalia's work reinforces that hope. It is by far the best analysis that I have come across of secondary data on industrial economics in India. In fact, it is so good (and so consistent with my own views) that I have been stimulated out of hibernation to write on the subject after almost two decades. The work extensively documents the trends between 1956-57 and 1979-80 in industrial growth and productivity at a detailed level of disaggregation. It provides definitive evidence of a slow-down in the growth of heavy industries since the mid-sixties.' The phenomenon of stagnation in industrial growth is associated with evidence of very poor performance in the growth of over-all productivity in the industrial sector, and of increasing capital-output ratios across the board. A thorough examination of the available empirical evidence enables the author to identify four principal factors responsible for this stagnation: the stow-down in public investment after the mid-sixties with its particular impact on infrastructure investment; poor management of the infrastructure sectors; slow growth of agricultural incomes and its effect in limiting the demand for industrial goods; and finally, the industrial policy framework and its effect in creating a high cost industrial structure within the economy. One explanation of the cause of industrial stagnation, namely, that income distribution has worsened over time; is found to have no empirical basis. Another, namely, that shortage of wage-goods has constrained industrial

growth, is also invalid. She also analyses the role of import substitution in industrial growth. Her principal conclusion is that the industrial policy framework has stifled industrial growth. What and how, one should go beyond that—how to untie the knots or get a fresh rope—she does not essay.

Let me first attempt a brief summary of Ahluwalia's presentation and then try to see where and how to go from there.

Industry has not stagnated or fallen back. It is the potential generated which has not been fully exploited. We could have done better and are capable of doing better. The industrial base has been substantially widened. Entrepreneurship has been fostered and made more broad-based. Technological capabilities and skills hove greatly improved. There have been major successes on the institutional plane such as the development of the public sector to occupy the commanding heights which can provide direction and leadership within a mixed economy framework. The establishment of heavy industries combined with policies favouring import substitution have made a massive contribution towards widening of the industrial base In the first three Five Year Plans, the target rates of growth for industrial output were 7, 10 ½ and 10 per cent per annum; the achievement was 6, 7¼ and 8 per cent, respectively. After a brave attempt at 12 per cent during the Fourth Plan, the subsequent targets were lowered to 8 per cent but the actual achievement between 1968-69 and 1982-83 was 4.8 per cent, indicating that while capacities were set up in a wide spectrum, the potential offered was not fully exploited.

PRIME IMMOVER' HYPOTHESES

The author examines a number of 'prime immover' hypotheses which have been put forth to explain the slow-down since the mid-sixties. These are:

(a) the drag emanating from the agricultural sector;
(b) a worsening of the distribution of incomes over time and the lack of a broad-based demand from industrial products;
(c) the slow-down of import substitution;
(d) the slow-down in public investment; and
(e) an economic environment which does not permit competition.

The disaggregated data analysed pertain to value added and value of output, both adjusted for price changes. During the five yean ended 1965-66, the share of capital goods and basic goods industries in total value added in industry increased from 11 per cent and 27 per cent, respectively, to 15 per cent and 31 per cent, respectively. By contrast, the subsequent decade and a half betrayed a remarkable degree of stability in the structure of the industrial sector. The deceleration of growth in heavy industries was across the board: metal products suffered the largest slow-down, their growth in value added declining from 12 per cent per annum in the first period to 2.5 per cent in the second period. In basic metals and non-metallic minerals, the growth rates slowed down to one-third of their values in the first period. The growth rate in non-electrical machinery was halved. Slow-down was absent only in textiles and food manufacturing but they did not take-off either in the first period.[2]

The National Accounts and ASI data indicate that deceleration was concentrated in heavy industries, but the industrial production data reveal deceleration across the board. The inter-industrial growth pattern varies significantly between the two sets of data. In both sets of data between 1969-70 and 1979-80, chemicals, machinery and beverages appear unequivocally as the relatively fast growing industries and food, tobacco, wood and cork as relatively slow-growing, but the divergence is very marked in certain major industries. In textiles, the production index shows an increase of about 0.5 per cent while ASI records an increase in real value added of over three per cent per annum and in real value of output of almost 4.5 per cent. In transport equipment, the divergence is much greater: the growth rate of industrial production was about zero while real value added and real value of output grew at 5.1 per cent and 6.2 per cent, respectively. The divergence is enormous in footwear: the production index increased at nearly one per cent while real value added and real value of output increased at 12.4 per cent and 13.4 per cent, respectively. The divergences are sharp in leather and fur also.

THE AGRICULTURAL DRAG'

The principal linkage between agriculture and industry is through (i) supply of wage goods, i e, food; (ii) supply of raw materials; and (iii) generation of final demand for industrial goods. A wage goods constraint on industrial growth may arise from slow growth of production/marketed surplus of foodgrains or the net availability of foodgrains. Alternatively, the terms of trade may move in favour of wage goods over time which, in the absence of productivity increases, would squeeze profits and stifle industrial growth. Based on studies conducted by Srinivasan, Alagh and Sharma, and Sawant, the author concludes that food production growth has not slowed down over the two decades ending roughly in 1980. Similarly, in respect of marketed surplus, as a proportion of agricultural production, going by Thamarajakshi, Mody and Kahlon and Tyagi, the trend has been upward. Granted some biases in the data, there was no trend increase or decrease in the per capita net availability of foodgrains. The evidence on terms of trade is less clear-cut because of conflicting views and indices used: going by Kahlon and Tyagi, there has been a declining trend since the mid-sixties in the terms of trade of agriculture *vis-a-vis* non-agriculture.

If the wage-goods constraints were a binding factor, then it should have affected industrial growth across the board, with the largest effect on the most labour-intensive industries. In fact, the slow-down was concentrated in capital goods and basic goods. The author therefore asserts that the wage goods constraint cannot be held responsible either for the slow-down in the growth of heavy industries after the mid-sixties or for the slow growth of light industries throughout. The slow-down in the growth of commercial crops output was not accompanied by a slow-down in the growth of agro-based industries after the mid-sixties, though the evidence is not conclusive on this score. The demand side stimulus to industrial growth from agriculture was low due to the small growth in per capita agricultural income but the growth of industry fell short even of this potential.

EFFECT OF INCOME DISTRIBUTION

The income distribution hypothesis has two variants. One put forth by Mitra and Nayyar argues that the low level of the demand for mass consumption goods restricts the demand for them and, therefore, the demand for intermediate and capital goods. Pushed to the extreme, this would imply that sustainable industrial growth is possible only in an egalitarian society. Also, this variant would not explain the low rate of growth even in the luxury* goods sector, unless it takes into account the policy factor. The second variant, identified with Bagchi and "Chakravarty, stresses either too little saving or too much saving as the causal factor of poor industrial growth. Events have disproved the former: the growth rate of industry in the 50s and 60s was higher when the national saving rate was closer to 10 per cent, than in the late 70s and 80s when the saving rate has been above 20 per cent. The latter argument, based upon worsening income distribution, is not supported by the trends as brought out in NCAER and NSS surveys analysed by Montek Ahluwalia, Dutta and Vaidyanathan.

Available information, the author asserts, on the distribution of incomes suggests no evidence of increasing inequalities over time. Data also do not support the claim that rural poverty has increased or, that rural net savings ratios have gone up steeply as a result of the green revolution and official food procurement. The pattern of growth of consumer goods industries does not provide an empirical basis either: the growth of output of consumer non-durables was unchanged at 5.7 per cent per annum in the period before as well as after the mid-sixties, while that of consumer durables slowed down only slightly but insignificantly such that the growth was about 12 per cent per annum. If worsening distribution of incomes were a factor influencing growth adversely after the mid-sixties, the effect would have been

seen on the growth of consumer goods industries. In fact, the deceleration in growth was concentrated in heavy industries white consumer goods grew at more or less the same rate, i e, 4.5 per cent per annum before and after the mid-sixties.[3]

INFRA-STRUCTURE INVESTMENT

The importance of public investment cannot be gauged by the mere fact that it constitutes 40 to 50 per cent of total investment. The direction of public investment into critical areas such as infrastructure and agriculture, which together account for about 45 per cent of public investment, is of even greater significance (a fact which perceptive businessmen realised sharply after the declared plan holiday). The effect of an expansion in public investment on industrial growth can be traced through generation of supplies of critical inputs and infrastructure facilities for the overall industrial sector and creation of demands for heavy industries. An analysis of the trends in public investment reveals a significant slow-down in growth after the mid-sixties which is true, to a smaller extent, of total investment too, and it was concentrated in railways and power. The deceleration was very marked in public real fixed capital formation, from 10 per cent per annum during 1956-57 and 1966-67 to 5.8 per cent per annum during 1967-68 and 1979-80. Private real fixed capital formation growth also declined between the two periods from 8.2 per cent per annum to 2.8 per cent per annum. Infrastructure investment which had grown at an annual rate of almost 17 per cent in the first half of the sixties experienced a marked deceleration to a bare two per cent per annum in the following decade (though, in a strange inversion of traditional plan policies, public investment in trade, hotels and restaurants went up rather sharply).

The phenomenon of underinvestment in the railways was combined with a gross neglect of the maintenance of the existing railway capital stock. The slow-down in growth of real investment in electricity was less marked, but hydel generation and transmission and distribution received much less than their optimal share. A commonly accepted role of thumb in power planning is that investment in transmission and distribution should be about 66 to 100 per cent of that in generation. In fact, this ratio increased from a low of 36 per cent during the Third Plan to 51 per cent during the Fourth Plan but declined again to 42 per cent in the Fifth Plan. Planning and implementation of transmission and distribution projects is a major area of weakness with the state electricity boards. The underinvestment in the infrastructure sectors was associated with evidence of growing inefficiency in these sectors. These inefficiencies covered the entire spectrum, from project formulation to project implementation and finally to operational stages. The railway transport coefficients of major bulk commodities have been declining steeply. The regions most affected by power shortages were the eastern and north-eastern, thereby reinforcing the constraints of coalfields and electrified railways.

Since the overall rates of capital formation and saving in the economy have risen to respectable levels, the failure to generate a comparably high rate of growth of income has to be blamed on poor management. Lack of optimal balance between the, capacities created was also to blame, but here the author's analysis is weak and patchy, for understandable technical reasons.

IMPORT SUBSTITUTION

The slow-down in import substitution since the mid-sixties comes out very clearly in the two digit industry classification, In manufacturing the slow-down covered industries accounting for almost 80 per cent of the total value added, the most significant exception being electrical and non-electrical machinery. In fact, some fast growing developing economies have also gone through an initial phase of import substitution and subsequent slow-down without a deterioration in industrial growth performance but accompanied by rapid growth of exports. Perhaps, the deeper the process of import substitution is carried, the more the economy finds itself with industries in which it is less and less likely to have comparative advantage! Export pessimism, unfortunately, has been a crucial ingredient in the Indian development strategy. It is worth noting from Ahluwalia's analysis that heavy industry has suffered mainly from slowdown in public investment and mismanagement, not from decline in import substitution.

NEGATIVE PRODUCTIVITY GROWTH

Perhaps the most useful original contribution in Ahluwalia's work is the trends in total factor productivity growth. While I am not competent to assess the methodology adopted, her conclusions are startling enough to retain their validity even if the methodological biases were to be corrected with more sophisticated know-how. In any event, they are in line with the impressionistic observation of anybody connected with industry. Deriving total factor productivity growth as the difference between the growth *of* value added and the weighted sum of the growth of labour and capital, she finds that, for the manufacturing sector as a whole, *the estimate of total factor productivity growth yielded by the different measures ranged from minus 0.2 per cent per annum to minus 13 per cent per annum between 1959-60 and 1979-80.* In industries accounting for 50 per cent of the value added in manufacturing, the decline in factor productivity was more than one per cent per annum. The efficiency in factor use in the intermediate goods industries declined at the rate of about 1.5 per cent per annum over the twenty year period; taldecline must have had a magnified effect on other industries through the inter-industry linkages.

It has been known for some time that value added has been declining as a proportion of value of output, thanks to rising materials costs (please remember that most of Indian industry is materials-intensive rather than labour-intensive); Ahluwalia has demonstrated that this lay view is consistent with tested objective reality.

While there is no clear-cut evidence of deterioration since the mid-sixties (indeed machinery industries recorded some improvement), analysis of the trends in capital-output ratios, which is the conventional measure of efficiency of capital use, brings out that the increase in the ratio was not due to the greater significance of more capital intensive industries. Between 1959-60 and 1965-66, such industries accounted for only 21 per cent of the increase in capital-output ratios, and between 1966-67 and 1979-80 the contribution of their changing share was actually negative. The growth in labour productivity in manufacturing between 1959-60 and 1979-80 of 2.5 per cent per annum was more than wholly accounted for by the process of capital deepening of 3.1 per cent per annum. The author concludes that industrial stagnation in India reflects the cumulative impact of the growing inefficiencies in factor use over time.

GANG OF FOUR

Summing up, the author identifies four factors which contributed to industrial stagnation. These were: (a) slow growth of agricultural incomes and their effect in limiting the demand for industrial goods, (b) the slow-down in public investment after the mid-sixties with its particular impact on infrastructural investment, (c) poor management of the infrastructure sectors, and (d) the industrial policy framework, including both domestic industrial policies and trade policies, and their effect in creating a high cost industrial structure.

She opines that boosting public investment in specific sectors may have secured higher utilisation of capacities in the short run, but this may not have been the best use of resources from a long run point of view. Apart from reservations with respect to the desirability of expanding public investment for demand considerations, there is an additional question about its feasibility. First, there is the resources constraint. Second, it has to be recognised that the net impact of an expansion in public investment on demand would depend upon the extent of the crowding out of private investment (through competing for the limited funds for investment available to the economy). In passing, she also feels that the attitude towards deficit financing has been conservative.

Thorough and comprehensive review of the Banking Industry is the need of the hour.

Speech of the Chairman Shri. A.G. Pandit at the 48th Annual General Meeting of the Shareholders held on 28th June 1985.

LADIES & GENTLEMEN,

It is a great pleasure to welcome you to the 48th Annual General Meeting of our Bank. The Annual Report and Financial Statements as at the end of the year 1984 have already been circulated and with your permission I take them as read.

The year 1984 witnessed the brutal assassination of our Prime Minister Mrs. Indira Gandhi. She struggled for the unity and integrity of our Country. She led us for almost two decades in which our Nation made notable progress on various fronts. We pay tribute to her for giving the banking industry a totally new orientation and a sense of direction that helped it to switch over from the stagnant traditional banking to dynamic developmental banking aimed at achieving integrated and broad-based economic growth for the Country. After her death, Citizens of this Country once again gave evidence of their deep rooted faith in democracy by bringing about smooth change over of the New Government under the inspiring leadership of our young and dynamic Prime Minister Shri Rajiv Gandhi in the last general election.

We also mourn the death of Shri Yashwantravji Chawan, who was not only a National leader, Freedom fighter but a guide & friend of this Bank. His love towards this institution was basically natural not because it was from his native district but because he was a genuine witness to its growth.

During the year 1984, our bank continued to march towards progress in its business over that of the previous year. The bank added Rs. 23.63 crores in deposits and attained a land mark in the annals of its history by crossing a deposit figure of Rs. 200 crores. Thus, its total deposits amounted to Rs. 203.69 crores as at the end of 31st December 1984.

Profitability of the Banking Industry:

The banking industry was brought under social control in the year 1968 and since then it is being used by the Government as one of the important instruments of social change. Accordingly, banks have been discharging this great responsibility with remarkable success by channelising their resources, monetary as also human, in desired and hitherto neglected economic sectors and by extending their operations to remote and normally non-lucrative rural areas. The above experiment meant financing every conceivable economically viable activity which ranged from, "shipping to shoe shining" and from international trade to dry farming in the rural areas.
The range is stupendous and one doubts if such an experiment has ever been successfully undertaken by any other country in the world. This, however, has subjected the banking industry to tremendous strain on its profitability.
The Reserve Bank of India and also the Government of India have shown due consideration to the problems faced by the banks, and to meet the situation, have, from time to time, released various concessions such as interest rate subsidies, refinance for certain priority sector advances at concessional rates etc. Although these concessions have, to some extent, alliviated the strains created by the industry's problems, the element of adhocism could not completely be eliminated while granting them. I consider, therefore, that in the light of the experience the banking industry has gained in the past 17–18 years i.e. after social control was introduced, now is the time when the Government should undertake a thorough and comprehensive review of the banking industry in all its aspects, such as, the wide range of activities at present financed by banks permit them to which, incidentally, do not encourage specialisation so necessary for bringing about efficiency in their operations and the rates of interest on advances including priority sector advances. The proposed review should also cover the existing packages for refinance for priority sectors not excluding one concerning export finance, where refinance under the present scheme is made available only on the incremental levels, thus, while a large portion of such advances do not qualify for refinance, these continue to earn interest at uneconomically low rates.
The findings of such a study should enable the Government and the Reserve Bank of India to devise a long term banking policy that will ensure healthy and continued growth of the banking industry while enforcing its monetary policy, the guiding principle for deciding which, it is conceded, has to be the country's monetary needs and not the profitability of the banking industry.

Now, I shall turn to the performance of our bank for the year 1984.

SHARE CAPITAL:

There is a change in the Authorised Capital of the bank in the year under report. The Authorised Capital of the bank has been increased from Rs. 50,00,000/- to Rs. 75,00,000/- during the year. The bank issued 20,000 equity shares of Rs. 50/- each which were fully subscribed and paid-up. Thus, the bank's issued, subscribed, called up and paid up capital stands increased at Rs. 50 lacs at the end of the year.

RESERVES:

The Board of Directors have recommended to appropriate an amount of Rs. 24 lacs from the profit of the year to the Statutory Reserve taking it upto Rs. 109.50 lacs. Our aggregate reserves now stand at Rs. 112.01 lacs.

DEPOSITS:

Our bank has shown a satisfactory performance in deposit mobilisation. The total deposits of the bank have gone up to Rs. 203.69 crores at the year end from Rs. 180.06 crores of the last year. The average growth rate, works out to 15.82% which is only marginally lower than 16.19% of the previous year.

ADVANCES:

The total outstanding advances at the year end reached a level of Rs. 118.25 crores as against Rs. 105.72 crores in the last year.

The bank has continued its efforts to give financial assistance to priority sectors such as Small Scale industries, Agriculture, Small Business, Professionals and Self-employed Persons. Bank's priority sector advances have increased to Rs. 39.40 crores as against Rs. 38.99 crores for the year 1983. Bank is actively participating in assisting the weaker sections of the society in accordance with the National Policy with special effort to step up IRDP advances and advances under New 20-Point Programme. Bank has extended credit of Rs. 84.87 lacs and Rs. 2.47 crores respectively under IRDP advance and New 20-Point Programme. Bank's advances to Agriculture, Other Priority Sectors and DRI Scheme as at the end of the year were Rs. 8.00 crores, Rs. 10.10 crores and Rs. 0.25 crores respectively. As regards advances under SEEUY Scheme, I am happy to announce that our bank has crossed the physical target of number of beneficiaries of 635 in 1984 and has sanctioned 684 cases during the financial year 1983-84. Total amount sanctioned under this scheme comes to Rs. 1.1 crores and our bank is, thus, actively participating in the lending programmes announced by the Government of India.

FOREIGN EXCHANGE BUSINESS

The performance of our bank in foreign exchange business is also satisfactory. The turn over of our merchant sale and purchase transactions amounted to Rs. 52.47 crores during the year as compared to Rs. 25.94 crores in the previous year. Financial assistance for exports at the end of the year stood at Rs. 10.39 crores as against Rs. 8.27 crores at the end of 1983. Taking into consideration the lucrative income on this type of business, while arrangements for handling foreign exchange business at our Hyderabad and Panjim branches have almost been completed, we intend to open a few more foreign exchange centres shortly for which we are already holding necessary licences from the Reserve Bank of India.

PROFIT & DIVIDEND:

The bank has earned a net profit of Rs. 29.95 lacs showing a rise of Rs. 6.85 lacs over that of the last year. It gives me a pleasure to state that the Board of Directors have recommended to maintain the last year's dividend of 14% to the shareholders.

MECHANISATION IN BANK.

At the industry level, a decision to introduce mechanisation/computerisation in certain identified areas has been taken to enable them to extend better customer service and to effect better operational efficiency. Recently the Reserve Bank of India has formed a high level Committee comprising the representatives of Central Government, Reserve Bank of India, State Bank of India and its subsidiaries, all Nationalised Banks and Private Sector Banks to ensure smooth introduction of computerisation in the banks and as well as for standardising related procedures. Our bank represents the private sector banks on the said Committee. We shall, therefore, have to fall in the line with other banks in this area.

ORGANISATIONAL STRUCTURE:

The task of re-organisation of administrative set up at Head Office and Divisional Offices for improving working efficiency was entrusted to the National Institute of Bank Management and they have submitted their report. The implementation of the New Organisational Structure in the light of the recommendations of the National Institute of Bank Management has begun and it will be completed in stages in 1985.
The relations with staff remained cordial and satisfactory during the year.

Thank You,

A.G. Pandit
Chairman

This does not purport to be the proceedings of the Annual General Meeting.

DEFICIT FINANCING

While reviewing the gamut of trends and policies analysed by Isher Ahluwalia, let me start with the last remark which is an aside but which cannot be left as such. The average annual growth in net national product at factor cost at 1970-71 prices between 1970-71 and 1983-84 was 3.7 per cent. In comparison, broad money (M^3) increased 17.2 per cent and the wholesale price index 9.8 per cent on an average annual basis between March 1971 and March 1984. The Reserve Bank's net credit to government was the principal source of reserve money, amounting to 83 per cent in 1970-71, 85 per cent in 1980-81, rising fast thereafter to 92 per cent in 1983-84. As a proportion of gross domestic product at current market prices, the outstanding amount of Central government securities including Treasury Bills Was about 17 per cent between 1970-71 and 1976-77, but rose steadily thereafter to reach 24 per cent in 1983-84. More than two-thirds of these securities are held by the banking system, and almost the entire balance by institutional investors.

With all this in focus, particularly since 1980, it is hardly correct to state that the government has been too conservative in the matter of deficit financing. While some order of single-digit annual price increase is inevitable and perhaps also desirable, it is contrary to good sense to advocate, even as an aside, a higher order of deficit financing in order to promote industrial growth, which can result only from a clearer formulation and articulation of long-term objectives, and policies and mechanisms consistent with these, as well as with emerging short-term situations.

OBJECTIVES, PRIORITIES, CONTROLS

In the national perspective, a multiplicity of objectives such as industrial growth with its inter-linkages, generation of employment, promotion of balanced regional and ethnic development, saving and earning of foreign exchange, to mention the principal ones, is unavoidable. A trade-off between these objectives is necessary from time to time depending upon the weightage of each in a given situation. No single objective, and no single sector or sub-sector, can have the "highest priority" indefinitely for all time: it is an axiom of any organised effort at planning that priorities have to be related as consistent quantities procured from subsystems at various levels of performance; that the basic function of control is to set objectives and give sanction for sacrifices or posteriorities, resolve inter-sectoral or interdepartmental conflicts or frictions, and evaluate performance for setting future sights, leaving scope for adequate initiative on the part of each performance level Our control systems ate of World War II vintage; they hardly worked even then, and, to the extent that they worked, they disregarded costs; they were even at their best not intended to be stretched till infinity as they have almost been.

As a young student in the late forties and early fifties, the heady years after war and Independence, I was brought up to have faith in development on a war footing: if regulations, pleasant or unpleasant, could be advocated and implemented for war, and sacrifices consequently endured for objectives considered dear and valuable, then, why not the same for development also? Rather than endure the cycles of boom and slump of unregulated capitalism, and the prolonged blight of underdevelopment, why not substitute the atomistic or monopoloid market with wise far-sighted men dedicated only to the common good, and replace profit with social benefit? Arthur Lewis and Hicks, Hicks and Rostas gave ample warning against this approach but, the warning was ignored in India in what were by Indian standards boom conditions in industry during the fifties and early sixties.

Briefly, Arthur Lewis had cautioned against controls, especially price and profit controls, on essential activities, which would discourage further investment in them, leaving non-essential activities free to make large profits. The lesson we drew from this warning was to seek to control almost everything, including both the strong and the weak, for nearly all time. Hicks, Hicks and Rostas were quite emphatic that unlike war, development had multifold objectives with built-in conflicts, that development could not ignore costs of operation and of asset replacement, that human beings valued their income and relative status more in peacetime than their blood in war. What we lifted from them (despite their categorical warnings) was the concept of tax on excess profits or control on prices to reduce profits in those industries which were the prime beneficiaries of development like steel and cement, on the ground that such profits were of a windfall nature and should be sucked away through one form or other of betterment levy.

Underlying such policy views was the Hotelling Theorem presented in *The Economic Journal* (1926) and the subsequent debate on welfare maximisation under both competitive and socialist systems, through equalising prices with marginal costs, and recovering fixed or overhead costs from direct taxes which could not be shifted by definition (an article of faith established by the UK Royal Commission on Taxation in the early 1920s).

NEW LOGICAL FRAMEWORK

After the 1950s, nearly all professional economists shifted away from these basic tenets (and cheap money) towards the other extreme of generating surpluses from essential industries and scarce capital or commodities but, a whole generation of policy makers had, meanwhile, imbibed The Original Truth and would not be shaken out of Faith till events overtook them. No amount of facts can, it is known, controvert a philosophy. Even false or failed gods are not abandoned till new ones are put in their place. It has been generally recognised for some time—on both sides of the divide between socialism and capitalism—that central planning (as well as business corporate planning) and the market mechanism need to be consciously and systematically integrated for the twin objectives of growth and welfare. We are still quite far, however, from a new logical framework that inspires faith and commands acceptance through performance. Pragma is obviously inadequate, not only because it comes under immediate attack from the high priests *of* accepted deities, but mainly because it leaves one without any sheet anchor of reference.

It is beyond my competence to draw up a charter for a new faith. I can merely draw attention to a few salients. First, nobody in his senses wants deletion of all central direction or planning. Even the basic functions of the State, namely, defence, law and order, and justice, require a significant centrally-determined re-allocation of resources towards central objectives. New basic needs like infrastructure, money and banking, education, health, town planning and environmental conservation need some degree of intervention or regulation since they cannot be left entirely to market forces. Every large organisation requires some variety or degree of corporate planning with defined objectives and perceived constraints, together with an assessment of the benefits and costs of alternative strategies. Planning is not a monopoly of government, nor is government or large business independent of market forces. A complex modern inter-dependent economy is an inter-weave of group direction and individual initiative, with the bureaucracy and market intermediaries as essential middlemen. A delicate balance between the babu and the bania holds the key to macro-economic efficiency.

Second, public ownership of the principal means of production (other than agricultural land) needs some re-definition not only to keep away from the abuses of State Capitalism (in particular, the strong temptation to treat public property as private or factional domain) but also to incorporate the recognition of plural institutional public entities and decentralised local bodies in the conceptual framework of public ownership. Participants in the current debate on de-regulation or liberalisation have spent their energies on the relatively peripheral matters concerning private trade and industry, ignoring the central reality of pervasive regulation (often in the name of co-ordination or parliamentary accountability) as *the* prime immover in government and the public sector. Conceptually as well as empirically, de-regulation or liberalisation can make effective headway only if it starts with the commanding heights where operating management is choked by

the political and administrative proprietors of the day.

Third, there have to be accepted social criteria for productivity and efficiency in the utilisation of resources, especially in the public sector itself (governmental as well as commercial), since it is a much larger part of the economy than ever before and its strategic role is crucial for both growth and welfare. When the public sector accounts for one-tenth of national income, a misdelivery system can pass with tolerant amusement. At one-third of national income, together with pervasive regulation, the misdelivery may not be fatal but it has to be taken seriously as a problem in conceptual systems, not just in implementation' or 'co-ordination'.

PLAN KNOW-HOW

At the risk of uncivilised disturbance of quiet academe; may I ask for some upgradation of plan technology? Way back in the 1950s, the inter-sectoral input-output matrix was a near-revolution (with distinguished French ancestry). Since then youthful energies have been devoted to raising the number of sectors to more than a hundred but, within the limits of my moderate literacy, I am not aware of any significant alteration in the rigorous assumptions of the matrix. Must we live with a framework which assumes *inter alia,* subject to correction by the more literate, that over a given time period:

(i) there is no change of relative prices of inputs/outputs;
(ii) there is no change in technology or capital-output ratios;
(iii) inventory (or working capital) requirements can be ignored; and implicitly
(iv) financial planning is irrelevant?

While explaining macro-plan concepts to a broadening spectrum of practitioners; my discomfort with the above Plan equilibrium analysis exceeds my discomfort in earlier days with competitive or monopoly equilibrium. Planning is a dynamic policy function. Pray, wherewith shall it be salted if productivity, inventory and money are put away?

Furthermore, some of the advances in corporate planning techniques over the last three decades can be usefully grafted on to central planning techniques. That the latter have to operate in a plural, federal society should never be forgotten (though often it is), but the former has a sharper focus on the time pattern of benefits and costs and consequently on working capital, which needs to be integrated into central planning, now more dependent upon generation and ploughback of public sector surpluses.

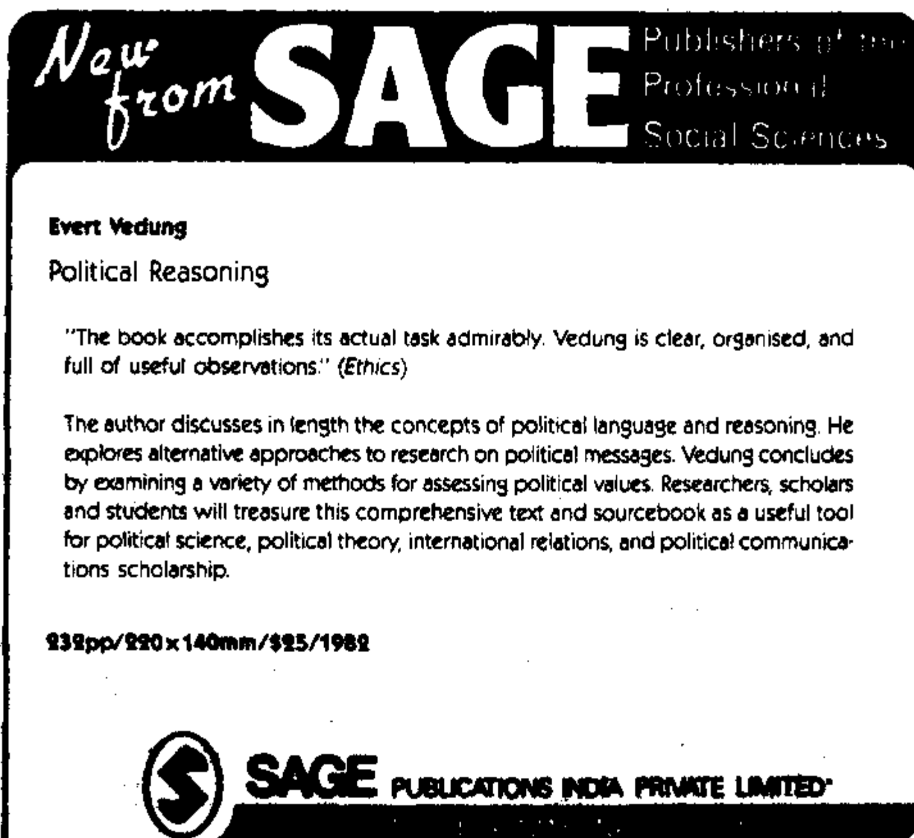
Growth models that came in vogue from the 1930s onwards classified and established what industrial businessmen and economic historians had known for long, namely, that public sector investment is or can be autonomous of pre-existing market demand or savings and that, the function of planning is to impart it with maximum leverage, that is to direct the investment in channels which have the maximum linkage co-efficients. Some refinements need to be incorporated in the light of experience

SOME REFINEMENTS

(i) This autonomous force of public sector investment can attack the points of linkage in a sustained manner only to the extent that it actually generates and ploughs back substantially larger surpluses. The autonomy, in other words, is finite and limited.

(ii) Procedural exigencies lead to bunching of most Plan investment orders in the middle of each Plan period (remember what Schumpeter said of bunching of new men, new ideas, new products, new methods of production, etc? The New Commanders have not yet evened out the high and low tide). Order books of suppliers (both public and private) are thin at the beginning and end of each Plan period. The long-term success of any business enterprise dependent upon orders arising out of public investment hinges upon getting over-committed in mid-Plan, phasing out the deliveries over a period longer than contracted, and keeping down mobilisation of equipment and labour to below the required peak level in order to keep down overheads during the lean years. This unwritten business rule might, to the uninitiated, smack of monopolistic restriction of output. Actually, it is the key to survival in a skewed monopsonist market. In any event, it is a high cost process for the community as a whole because it implies either reinforced delays in completion of projects or frequent idle labour and equipment or mismatched inventories or, all of them. To this extent, central planning does not overcome the deficiencies of the market mechanism. The fast-or-feast phenomenon can be tackled only upstream by long-term planning of high linkage standardised items, advance orders by negotiation instead of tenders, stringent penalties for delayed deliveries and insistence upon effective, total control of project implementation, rather than meticulous application of obsolete compartmental rules, To my knowledge, the rule book of government purchases has not been revised to take cognisance of large inter-linked project orders. That the task is feasible has been shown by National Thermal Power Corporation and, earlier, tragically by Kudremukh Ore Project,

(iii) The dividing line between Plan and non-Plan outlay has become as meaningless or socially destructive as the historic dichotomy between high-caste and low-caste. The end of each Plan converts the maintenance of so-called completed projects into non-Plan outlay which (along with the growth of administrative and security expenditure) is now of much greater significance.



Since plan (or capital) outlay is more glamorous (and more attractive to fly-by-night public entrepreneurs), little attention is devoted to getting returns from older investments through adequate physical maintenance and provision of the equivalent of working capital, while more attention is focused on getting sanctions for a large number of new Plan projects, even at the cost of grossly inadequate funding of each one of them. Such compounded wastage piled high on top of inflation erodes the resource base for public investment. The damage from ending this false and suicidal distinction from the Eighth Plan onwards will be restricted to the continuity of the statistical series of Plan outlay figures,

(iv) For at least a decade, *if* not two, after independence, a quiet but conscious bias in the locational pattern of public investment (including defence outlay) and postage stamp rates for essential commodities was maintained in favour of Punjab and the South, partly for security reasons, partly for reasons of ethnic integration. Neither of these two reasons is alien to or inconsistent with central planning. It has now to be clearly recognised that the regions east of Varanasi require a new positive bias, not in policy statements or increases in per capita public outlay, but in performance on the ground. Apart from security and ethnic reasons, there is a large concentration of poverty in these regions. Infrastructure is both deficient and sadly inefficient. Productivity is a dirty word. Industrial relations are at best patriarchal, at worst, chaotic New technology has barely touched agriculture; River floods are unavoidable in the foreseeable future West Bengal excepted, caste/tribal conflicts are endemic and land tenures are uncertain. State governments or central administrations in Union territories are even less of working entities than in the rest of the country, Darnodar Valley Corporation and Hirmkud in the early Nehru era, and some improvement of communications in the northeast after 1962, marked the beginning—and end—of conscious effort in these regions. The whole area is riverine and highly fertile. One has to get away from high cost compaitmental attention through security steps, sectoral programmes, central projects, centrally sponsored schemes, state plans, flood control, working *of* large public and private industrial units, etc, on to a comprehensive but quite cost-effective view of eastern and north eastern security and development problems as a whole, and then see how each programme contributes towards solution of these problems.

My purpose in drawing attention to these salients is not to my away from the immediate concerns of what is called industrial policy but to try to fit industrial policy into a wider perspective of emerging requirements. It is a fallcy to believe that de-regulation of private activity *atone* will fetch the millenium though I readily assert that the regulatory environment in which we have been brought up since the 1940s smacks more of negative pre-capitalist mercantilism than positive statecraft of any preferred brand. If, as is stated in some quarters, private investment has not spurted immediately in response to recent de-regulatory measures, the explanation lies apart from the time factor, in the usual trough between two mid-Plan peaks and the continued sluggishness of public investment in railways and power. Essentially, de-regulation allows management to function more effectively and efficiently and to promote investment selectively/ it docs not by itself directly boost the general level of investment. Central planning, corporate planning, market mechanism and individual initiative, all have a positive integral role to play, generally in cohort, sometimes in conflict with each other for, that is the very essence of a plural society.

SPECIFIC BUGBEARS

Having reiterated the primacy *of* central direction for major policy goals and of efficient public investment, especially in infrastructure and heavy industries, let me deal with a few specific bugbears. First, industrial licensing and MRTP. My work on these areas in the 1960s has spawned a lot of misconceptions, strengthened by lack of direct reference to what was written originally. (The works have been out of print for nearly two decades. I have recently arranged a reprint). Even then I had pointed out that licensing was a very limited tool of industrial policy and increasingly so, as direct public investment and a variety of other policy measures (especially the recommendation in favour of bank nationalisation and credit planning) were more effective means of achieving its aims, and that checks on concentration of economic power in private hands had to have positive aims of growth through general policy measures, rather than be effected through legal processes which were doomed to be futile.

lb cut a long unhappy story short here, I would feel that, in principle, the Industrial Development and Regulation Act and Chapter 3 of the MRTP Act should go off the statute book, since other policy measures and mechanisms can serve their objectives and functions more effectively. Till that happens, the exemption limit for industrial licensing should be raised to Rs 100 crort, the same as for MRTP undertakings. The corollary of compulsory registration with DOTD should be abolished, and alternative arrangements should be made simultaneously for import licence eligibility and statistical reporting. DGTD itself is an anachronism now. Its technical skills, if any, are obsolete and compare unfavourably with the scientific and technological manpower available in both public and private units. After abolition, its staff could be deployed elsewhere in directly promotional agencies. I reiterate the recommendation in my report on licensing to delete the concern with capacity (which is nothing less than a racket from any standpoint) and new articles, both of which militate against better utilisation of resources and quick response to new plan and market demands. The concern of policy, in short, should be with the direction of investment, not regulation of production which is an operational matter.

Import licensing, whether of capital goods or materials, etc, should be de-linked from licensing or registration under the IDR Act. The credibility of new policy measures would be greatly enhanced if the policy statements and statutory notifications are issued simultaneously, so that a hiatus between the two (as has taken place now in respect of cotton textiles) is avoided.

In matters concerning FERA and ex-FERA companies, i e, policy towards multinationals, I would make only one limited point for the present. The official concern with percentages of share capital held by foreigners appears to be inspired more by shades of the caste system than any realistic appreciation of the mechanics of corporate control. The practical difference between holding, say, 11 per cent, 26 per cent, 39 per cent, 51 per cent or 74 per cent of share capital lies in the dispersion of the balance than in the intrinsic percentages. Much of the rest of the Foreign Exchange Regulation Act needs a fresh review from the policy viewpoint, so that transactions other than capital transfers can be effected without ubiquitous reference to the Reserve Bank.

RELATIVE COST DISADVANTAGE

The 'real heat' now is in matters related to import control rather than industrial licensing or even FERA. The genuine areas of concern are not the traditional ones of foreign exchange constraint and import substitution but the more mature, meaningful and tricky issue of the relative competitiveness of domestic products. The issue is, fortunately, not so sweeping or pervasive as sometimes made out by Radical Defenders of the Faith whose nostrums apparently boil down to autarchy, underwritten with substantial concessional aid from the Pagans. Rather than enter the tournament between faith and logic, the approach should be to disaggregate the phenomenon and roughly quantify the magnitudes of volume and relative prices involved, together with the opportunity costs in major industries/ markets. Nobody, for instance, is suggesting dismantling of the green revolution because international wheat prices are lower than domestic wheat prices. The bulk of con-

sumption and investment will continue to be met from domestic production, whatever the stance on liberalisation might be!

In disputes at the margin, relating to conspicuous projects, one major question of alternative investment choice has escaped critical analysis: how worthwhile is it to step up our investment (with a predominant foreign exchange component) in petroleum in order to save foreign exchange on imports, along with all the associated 'elitist' development, as compared with stepping up investment in water for drinking and irrigation which involves no import substitution but subserves many other objectives? Petroleum can be imported at some price, but water cannot be. I am surprised that those who get quite worked up about *swadeshi vs bideshi* plants, for example, have totally ignored this larger issue.

Granted that no country has a totally free import regime, one needs a detailed exercise to determine: (i) the range of cost disadvantage of domestic products in excess of, say, 25 or 40 per cent, which level broadly indicates the "normal" level of import duty, and (ii) the more complicated question of technological lag in respect of designs and plant and machinery.

So far as (i) is concerned, the sad fact is that, due to low productivity across the board, and high prices of materials, and frequent resort to dumping in the world markets, the cost disadvantages are fairly ubiquitous and substantial. Yet, if these disadvantages are to be reduced over time, the interests concerned must be on advance notice to somehow narrow the productivity and price gap; exhortation will not be enough. Regarding (ii), assessments do tend, either way, to be less than wholly objective. My lay observation in the matter is that, in the past, there has been a tendency towards excessive protection and short-sighted attempts at substitution of *past* imports, rather than forward-looking substitution of *future* requirements, both reinforcing the technological lag. Some shake-up is absolutely necessary but its impact needs to be cushioned through stepping up of the relatively standardised orders for railway, power and telecommunications equipment on domestic producers, but here alleged resource constraints, actually poor and un-innovative management, is a bottleneck.

Resource constraints are familiar accompaniments of planned growth and have been known to bedevil plan-less low rates of growth also. It is the basic function of entrepreneurship, whether public or private, to overcome them—'provided this function enjoys recognition and its operating arm, namely, management, is allowed adequate leeway, including the privilege of making a few mistakes on its own, which are generally cheaper than centralised mistakes with all the requisite prior approvals. The point is obvious in principle, but difficult of acceptance in practice, the moment one asks for flexibility and delegation down the line even within an over-all control system; it needs to be pushed, nevertheless.

It has taken the authorities a long time to perceive and accept the utility of adequate interest rates in real terms for mobilising financial resources. Even now, however, many of the popular saving media offer barely positive real rates. Those that do, like corporate deposits and debentures, have established the point that the mobilisable pool of resources is capable of manipulation for remunerative ends. This market borrowing, far more genuine than what has passed for it in the government budgets, would be a useful supplement to conventional 'plan' resources. It cannot make up a deficit of, say, Rs 10,000 crore in the Seventh Plan—if only because such debt has to be serviced at positive real rates of interest—but it should not be difficult to raise about Rs 500 to Rs 1,000 crore a year from this source.

Would such mobilisation tend to crowd out private investment, as Ahluwalia seems to fear? 1 doubt it for a number of reasons. First, unlike the successive pre-emptions of bank deposits for low-yielding approved securities and advances (as also for sick units and overdue advances), this mobilisation would be in successive rounds, on market terms, not by administrative fiat. Second, larger availability of non-budget funds with public sector units should relieve the banks to some extent of their onerous financing of food, fertiliser, petroleum and steel, and thereby release funds for more flexible customers. Third, easier availability of medium term funds should enable public sector units to pay their bills to suppliers with shorter lags than they do now (provided their own performance improves). The danger on the other hand, is that this likely source could open up another window for concealed deficits and/or for the kind of improvident expenditure ideas that have received official blessing since the new bank proprietors also conferred upon themselves the 'rightful' authority to dispense bank funds. The market mechanism is a better and more effective safeguard against this danger than ail the possible official checks and balances.

lb conclude, may I express the hope that the younger generation of economists would apply their trained fresh minds to the problems of industrial planning and markets?

Notes

1 If, as some have pointed out, there has been some improvement since the late seventies, it has to be more perceptible and sustained in order to have a leverage effect.

2 I have had serious reservations about the reliability of textile data ever since the 1950s: the formulae used for converting yarn into cloth have been consistently and increasingly wrong and misleading, and the growth of powerlooms and 'unregistered' imports and output have played havoc with the data. Anyone who travels around and sees for himself even in the remotest places (certain parts of Western Orissa, southern Bihar and eastern Madhya Pradesh excepted) bazars teeming with cloth and garment vendors and tailor shops of all price ranges, can establish the incredibility of official textile statistics and the level and pattern of cloth consumption derived therefrom. The data for sugar are known to suffer contamination from gur and jaggery.

3 It could be argued off the statistical record that the latter underestimates the growth of consumer demand to the extent of the growing importance of unregistered imports and production, but a large part of these also percolate to the low income earners.

Boppana Oils

BOPPANA OILS, a new company, is offering 4.90 lakh equity shares of Rs 10 each at par to raise a part of the finance required for its Rs 3.64 crore project of processing annually 9,000 tonnes of crude rice bran oil into cooking grade oil based on the technology developed by the reputed Japanese firm of Yoshino Seisakusho. The subscription list for the public issue will open on July 15. The issue is managed by the Merchant Banking Division of Canara Bank. The plant is located at village Punadipadu near Vijayawada and lies in an area popularly known as 'the rice bowl of Andhra Pradesh' where crude rice bran oil is in plentiful supply. The company has been promoted by B G Chowdry and associates with equity participation by APIDC. The promoters are technocrats with substantial experience in manufacturing, marketing and finance management. The implementation of the project is progressing successfully and the plant is likely to be commisssioned for commercial production by August. The project will help effect saving on the foreign exchange which is currently being spent on imports of edible oils. According to the Chairman, B G Chowdry, the company's production of refined oil at optimum capacity would be 4,500 tonnes per annum which constitutes only a small fraction of the overall gap between demand and supply for edible oils. The by-products, namely, free fatty acid, wax and gums have a ready local market. The country has been importing massive quantities of edible oils-every year to bridge the gap between demand and supply. Despite record domestic availability of edible oils in the 1983-84 crop year, imports of edible oil aggregated over 16 lakh tonnes. The imports during 1984-85 (upto May 1985) have been more than 13 lakh tonnes and the value is higher than Rs 1,319 crore of 1983-84. The company's shares will be listed on the Bombay and Hyderabad stock exchanges to ensure easy liquidity of shares. The investors in the company's share will be eligible for 80 CC, 80 L, 80 M and wealth tax benefits.