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TRENDS IN INDUSTRIAL PRODUCTION

Industrial development in India during the planning period can be divided into the following 4 phases :-

- ***PHASE 1***: Covers the period of the first 3 five year plans in India (1951-1965). It laid down the basis for industrial development in future by building up a strong industrial structure.
- ***PHASE 2***: Covers the period from 1965 to roughly 1980. It is marked by industrial deceleration and structural regression.
- ***PHASE 3***: Covers the period of 1980s (1981-1991). This period was marked by industrial recovery.
- ***PHASE 4***: Covers the post reform period (1991 onwards)

PHASE 1(1951-1965) :

Building up the Industrial base

Background:

On the eve of the 1st five year plan, the industrial development in India was confined to largely the consumer goods sector like cotton textiles, sugar, salt, leather goods etc

Industries producing intermediated goods like coal, cement, steel etc. were established but their productive capacity was way below the required levels

While consumer goods industries were well established, producer goods industries lagged considerably behind

Overview:

- Phase-1 laid the basis for industrial development in future.
- The 2nd plan based on Mahalnobis model emphasised the development of capital goods industries and basic industries.
- Accordingly, huge investments were made in industries like iron and steel, heavy engineering and machine building industries. The same pattern of investment was continued in the 3rd plan as well.

<u>Goals of the 1st five year plan</u> :

- The goal of the 1st five year plan on the industrial front was to make better utilization of existing capacity and to go in for some renovation and modernization.
- 1st 5 yr. plan stressed on investment for capital accumulation in the spirit of "***Harrod-Domar Model***". It did not envisage any large scale plans rather it made an attempt to give a practical shape to the India economy by providing for the development of both public and private sector.
- A no. of industries were set up in the public sector; important among them were ***Hindustan Shipyard***, ***Hindustan Tools***, ***Integral Coach Factory***, ***Sindri Fertilizer Factory, Chitranjan Locomotive Work*** etc.
- Only Rs. 55 crore, which was approx. 2.8% of the total expenditure of Rs. 1960 crore was spent on industry and minerals.
- The first plan period registered an overall increase of 38% in industrial production.

<u>Goals of the 2nd five year plan :</u>

- The 2nd five yr. plan accorded highest priority to industrialisation. The plan was based on the famous '***Mahalnobis model'***. The model set out the task of establishing basic and capital goods industries on a large scale.
- The plan included substantial investment in the iron and steel, coal, heavy engineering, machine building, cement industry and heavy industries of basic importance.
- 3 steel plants of 1 million tonnes ingot capacity each were set up in the public sector at ***Bhilai, Rourkela and Durgapur***; besides the expansion and modernisation programmes undertaken in private sector.
- Expenditure on industry and minerals was ***hiked to Rs. 938 crores*** which was 20.1% of the total expenditure of Rs. 4672 crores.
- The decision to develop India economy on socialist lines led to the policy of the state controlling the commanding heights of the economy, meaning state would have complete control over the industries that were vital for the economy.
- In accordance to it, the ***Industrial Policy Resolution*** was passed in 1956 which tried to build up the basis for a socialist pattern of society.

<u>Goals of the 3rd five year plan :</u>

- The 3rd plan followed the strategy of the 2nd plan by establishing basic capital and producer goods industries with the special emphasis on machine building industries.
- Programmes for expansion and diversification of the capacity of the heavy engineering and machine building ***industries, castings and forgings, alloys, tools and special steels etc***. were undertaken.
- Steps to increase the output of fertilizers and petroleum products were also undertaken.
- Expenditure on industry in the 3rd plan was ***Rs. 1726 crores*** which was 20.1% of the total expenditure of Rs. 8577 crores.

Important Inferences:

- The first three 5 year plans are important because their aim was to build a strong industrial base in India. This is known as the 1st phase of industrialization in India.
- The 1st phase witnessed an increase in ***industrial growth rate from 5.7% to 7.2%*** and ultimately 9.0% in the 1st, 2nd, and 3rd plans respectively.
- Capital goods industry, considered as the backbone of modern industrialization grew at 9.8%, 13.1% and 19% during the 1st, 2nd and 3rd plans respectively.

PHASE 2 (1965-80) : *Industrial Deceleration and Structural Retrogression*

Overview:

- The 2nd phase of industrial growth covers the period of 3 ad-hoc annual plans, 4th plan and 5th plan
- The period from 1965 to 1976 was marked by a sharp deceleration in industrial growth. The rate of growth fell from 9% per annum during the 3rd plan to a mere 4.1% per annum during the period 1965 to 1976
- The last year of phase 2 (1979-80) recorded a negative rate of industrial growth of -1.6% over the preceding year
- Structural regression plagued the industrial sector during this period. After experiencing a tremendous growth rate in the 1st phase, the growth rate of the capital goods industries fell considerably in the 2nd phase

- In the next 11 yrs. the capital goods industries grew at an annual rate of only 2.6%. However, in the 5^{th} plan period, the rate of growth of capital goods industries went up to 5.7%

- As shown by ***S.L. Shetty***, many industries of crucial importance experienced insignificant growth as compared wit the average from the previous 5 year period.

- This decline in growth rate of basic and capital goods industries in the period after 3^{rd} plan clearly represents the phenomenon of Structural Retrogression.

Causes of deceleration and retrogression *:*

- The govt expressed the view that exogenous factors such as wars of 1965 and 1971, drought conditions in some years, infrastructural constraints and bottlenecks, and the oil crisis of 1973 were responsible for slowdown of growth.

- ***K.N. Raj*** argued that low growth in the agricultural sector accounted for the slowdown of industrial growth by restricting the supply of raw materials on one hand and by constraining the demand for industrial goods on the other hand.

- ***T.N. Srinivasan*** and ***N.S.S. Narayan*** argued that there was a considerable slackening of real investment in phase 2, particularly in the public sector which brought down the industrial growth rate.

- According to ***P. Patnaik*** and ***S.K. Rao***, this decline in public investment was followed by a decline in private investment due to the "loss of stimulus" for investment.

Causes of deceleration and retrogression *:*

- Some economists like ***Deepak Nayyar***, ***K.N. Raj*** and ***C. Rangarajan*** pointed towards the relationship between income distribution, the demand factor and industrial growth. They pointed out that the market for industrial goods in the country is limited to the top 10% of the population due to extreme inequalities of income and wealth.

- Once the demand for this section gets saturated, there is no further expansion in demand.
- This limits the demand for consumption goods which in turn limits the demand for machinery and capital goods in subsequent stages.
- Some economists like ***Jagdish Bhagwati, Padma Desai, T.N. Srinivasan*** and ***Isher Judge Ahluwalia*** blamed the wrong industrial policies, complex bureaucratic system of licensing, irrational and inefficient system of controls etc. for industrial deceleration

PHASE 3 (1981-91) : *The period of Industrial recovery*

Overview *:*

- The period of 1980s can broadly be classified as a period of industrial recovery.
- This is clearly brought out by a study of the revised index of industrial production (base 1980-81).

Use based or functional classification	1981-85	1985-90	1990-91
Basic goods	8.7	7.4	3.8
Capital goods	6.2	14.8	17.4
Intermediates goods	6.0	6.4	6.1
Consumer goods	5.1	7.3	10.4
Durable goods	14.3	11.6	14.8
Non durable goods	3.8	6.4	9.4
General index	6.4	8.5	8.3
(IIP)			

Inferences from the table *:*

- As it is clear from the table, the rate of industrial growth was 6.4% per annum during 1981-85, 8.5 % per annum during the 7th plan and 8.3% in 1990-91.
- As noted by ***Vijay L. Kelkar*** and ***Rajiv Kumar***, "this is a marked upturn from growth rates of around 4% achieved during the later half of the 1960s and the 1970s
- During the 3rd phase, there is a clear shift in the pattern of industrialization in the country. Chemicals, petrochemicals and allied industries recorded a faster rate as compared to others
- During this period, the production of chemicals and chemical product industries expanded at an annual avg. rate of 11.9% as compared to only 5.47% in the machine -building sector
- Also during the same period, iron and steel, basic metal and alloys and metal products recorded only 5.15%, 4.94% and 3.95% growth rates respectively.
- It shows a clear shift in the growth pattern of the industrial sector during the 80s (3rd phase) as compared to the earlier two phases

Causes of industrial recovery **:**

1. **New industrial policy and liberal fiscal regime :-**

A/c to some economists, one of the main causes of industrial recovery during the 1980s was the liberalisation of industrial and trade policies by the govt. As per Ahluwalia, the most important changes have been related to :

a. Reducing the domestic barriers to entry and expansion to inject a measure of competition in domestic industries.

b. Simplifying the procedures and providing easier access to better technology and intermediate material imports.

c. More flexibility in the use of installed capacity with a view to enable easier supply responses to changing demand conditions.

These factors operating from the supply side were helped by 'Liberal Fiscal Regime' whose important features are :-

i. Maintenance of high budgetary deficit year after year.

ii. Resort to massive borrowing often at high rate of interest.

iii. The encouragement to dis-saving.

2. **Contribution of the agricultural sector** :-

A/c to some economists, increased prosperity of large farmers in certain regions of the country helped in creating additional demand for industrial goods.

- A/c to ***R. Thamarajakashi***, the rural sector's demand for non-agricultural products rose considerably from 35% in 1967-68 to 47% in 1983.
- There was also a spurt in the demand for a certain range of manufactured goods due to increase in the use of manufactured inputs per unit of cultivated area or output.
- As shown by ***Thamarajakash***i, the percentage of purchased inputs to total inputs roughly doubled from 16.4% in 1970-71 to 35.6% in 1983-84.

3. **Growth of service sector** :-

A/c to ***Dalip S. Swamy,*** there was a significant increase in govt. expenditure on all services in the 1980s.

- The consumption pattern of service class is less food intensive and ore oriented towards durable consumer goods.
- This trend pushes the demand for the durable consumer goods to the forefront which in turn pushed up the rate of industrial growth.

4. **The infrastructure factor** :-

i. There was a marked resurgence in the infrastructure investment in the 1980s

ii. Against 4.2% per annum increase in the infrastructure investment during 1965 66 to 1975-76, the increase was as high as 9.7% per annum during 1979-80 to 1984-85

iii. Infrastructure investment further rose by 16% in 1985-86 and by 18.3% in 1986-87.

A/c to ***Ahluwalia***, this revival of investment in the infrastructure sector in the 1980s was also accompanied with a discernible improvement on the efficiency front.

PHASE 4: *Industrial retrogression followed by an upturn and downturn nineties (1991-92 – 1997-98)*

***Overview*:**

- The fourth phase of industrial growth covers the early part of nineties, i.e., from 1991-92 to 1997-98. This short period experienced a sharp industrial retrogression followed by an immediate upturn in the industrial growth of the country
- During 1991-92, the country had a bitter experience of ***negative growth rate of (—) 0.10 per cent*** as compared to that of 8.5 per cent in 1990-91. This is the clear evidence of sharp industrial retrogression in the country
- But after that in 1995-96 the country experienced an industrial upturn trend as annual ***growth rate during this year stood at 11.7 per cent***
- During the year 1996-97 industrial output ***has increased by 7.1 per cent*** and further 8.6 per cent in 1997-98

Causes of industrial slowdown :

- Decline in the growth of export to 4.6 per cent in the first eight months between April and November 1997
- The impact of the tight money policy followed in 1995-96 when the monetary expansion was about 13.7 per cent
- Significant build up industrial capacity in the first phase of liberalization;

In some cases the rate of demand growth was overestimated

Signs of Sustained Industrial Recovery in 1999-2000:

The acceleration of growth rates in various sectors of the economy underlines the significance of industrial recovery in the current year and cyclical downturn. **However, following are some of the major indicators of industrial recovery in recent years**

(a) Overall industrial output of the country i.e. 6.2 per cent in April-December 1999 as compared to that of only 3.7 per cent in April-December 1998

(b) The position of electricity generation remained much better in 1999-2000.

(c) Manufacturing segment of industrial sector has grown by 6.7 per cent in April to December 1998.

(d) As per use-based classification, basic goods, intermediate goods and consumer goods, are having higher growth in 1999- 2000.

(e) Non-metallic mineral products, machinery and equipment, wool, leather, paper and basic chemicals are some of the industries growing at more than 10 percent during 1999-2000.

(f) Industries like electricity, crude oil, coal, steel and cement having a weight of 26.7 per cent in overall IIP, grew at 8.2 per cent in April-December 1999.

(g) Better corporate performance in 1999-2000 compared to previous year.