

CHAPTER 3

THE INDUSTRIAL SCENE

Movements in the index of industrial production

3.1 Rapid growth of industrial production has been a major objective of Indian economic policy since the beginning of the Second Five Year Plan. Considerable progress was made in promoting this objective during the period 1956-1964 when industrial production increased at an average annual rate of over 8 per cent. Since then, industrial production seems to have failed to retain its earlier momentum. The Fourth Plan had, as one of its objectives, an average annual rate of growth of 8-10 per cent of industrial output. In actual practice, the achieved rate of growth was only 3.9 per cent per annum. While shortfalls occurred in relation to Plan targets in most of the industries, progress was particularly slow in regard to consumer goods industries. Thus, while industries such as vanaspati showed a declining trend, some other important consumer goods such as cotton cloth, sugar and soap recorded an almost insignificant increase in output. The output of capital goods and of important intermediate goods such as coal, electricity, fertilisers, cement and aluminium generally exhibited a rising trend. Nevertheless, in a number of industries, inadequate capacity creation, as well as the shortage of inputs such as electricity, coal and steel, affected the growth of production. Despite considerable investments, the output of finished steel in 1973-74 was in fact lower than in 1968-69 and the shortage of steel seems to have affected not only production but also exports of engineering products.

3.2. The latest available index of industrial production relates to the month of July, 1974. These data show that industrial production in the first seven months of 1974 went up by 2.3 per cent only as compared to the corresponding period of 1973 (Table 3.1). Partial data for the subsequent months indicate that the growth of industrial production in the calendar year 1974 may not exceed 2.5 per cent as compared to the growth rate of 0.7 per cent in 1973. On present indications, the rate of growth of industrial production in the financial year 1974-75 is likely to be about 3.5 per cent.

3.3 Thus far, there is no evidence that the highly unsatisfactory trend of industrial production since 1966 is to be succeeded by a new more dynamic phase. As the industrial sector provides the bulk of government revenues, the continued sluggishness of industrial output has affected the growth of public savings, thereby limiting the scope for expansion of public sector investments. Since the achievement of a major break-through in India's exports is vitally dependent on a rapid growth of manufactured goods, the stagnation of industrial production is likely to affect a sustained increase in exports as well

TABLE 3.1

General Index of Industrial Production (crude)
(Base : 1960=100)

Months	1972	1973	1974
January	199.6	207.4	206.0
February	196.7	191.8	196.2
March	208.0	211.3	210.3
April	190.4	188.6	191.3
May	194.6	190.7	202.6
June	196.8	192.2	202.4
July	196.8	199.1	203.5
August	198.6	204.9	
September	198.6	199.3	
October	197.8	194.2	
November	203.3	207.6	
December	211.7	222.0	
January-December	199.4	200.8 (+0.7)	
January—July	197.6	197.3 (-0.2)	201.8 (+2.3)

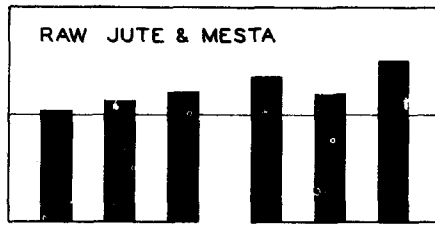
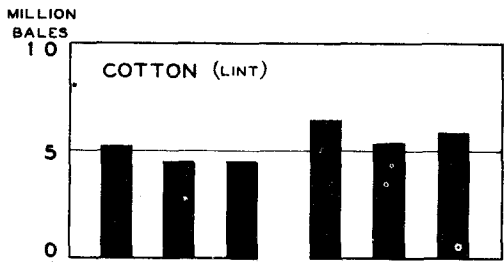
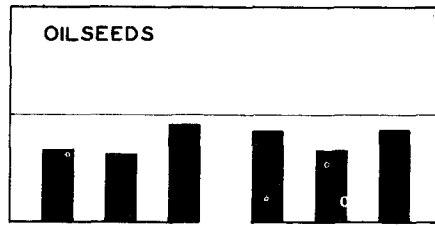
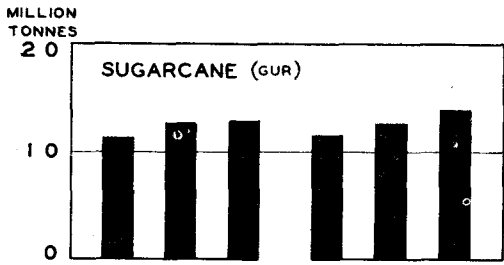
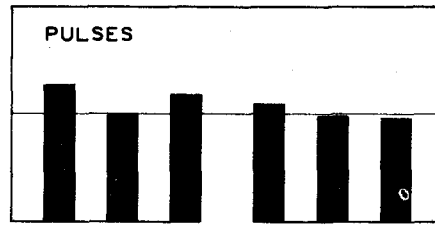
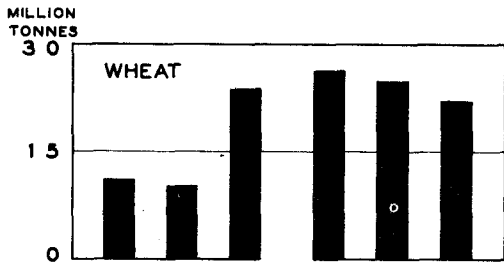
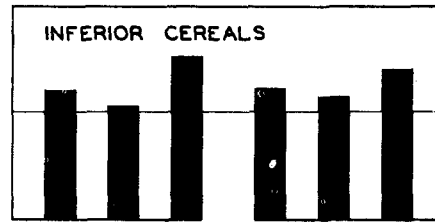
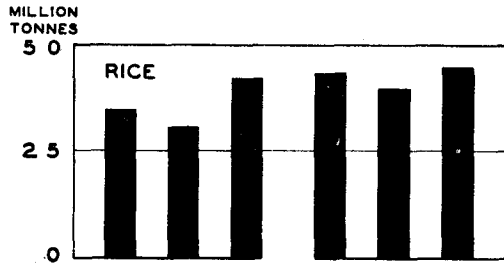
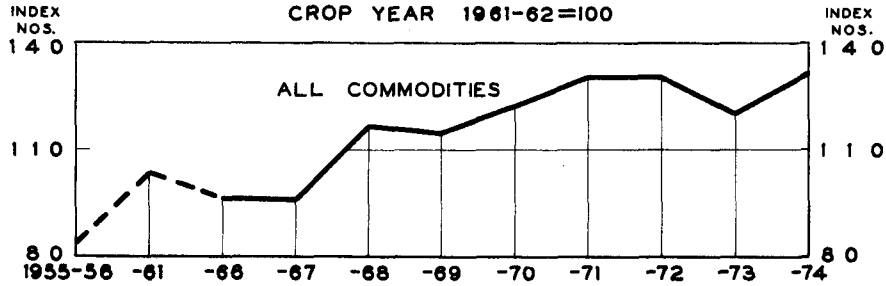
Note : Figures in brackets indicate percentage change over previous period.

Sectoral Trends

3.4 A study of the major groups of industries which comprise the official index of industrial production shows that, during the period January—July 1974, industries recording an increase in output as compared to the corresponding period of 1973 accounted for a little over half of the total weightage. These industries included electricity generation, mining & quarrying, food manufacturing, beverage and tobacco, paper, rubber products, chemicals, petroleum products, non-metallic mineral products, metal products and electrical machinery. The textile industries (with a weight of more than one-fourth) showed no growth whatsoever while other industries accounting for a weight of about 20 per cent registered decreases in output. This latter group includes footwear, basic metals, non-electrical machinery, transport equipment and manufactures of wood and cork (Table 3.2). It is, therefore, not surprising that the overall index of industrial production increased only by 2.3 per cent during the period January—July 1974.

AGRICULTURAL PRODUCTION

TRIENNIUM ENDING
CROP YEAR 1961-62=100



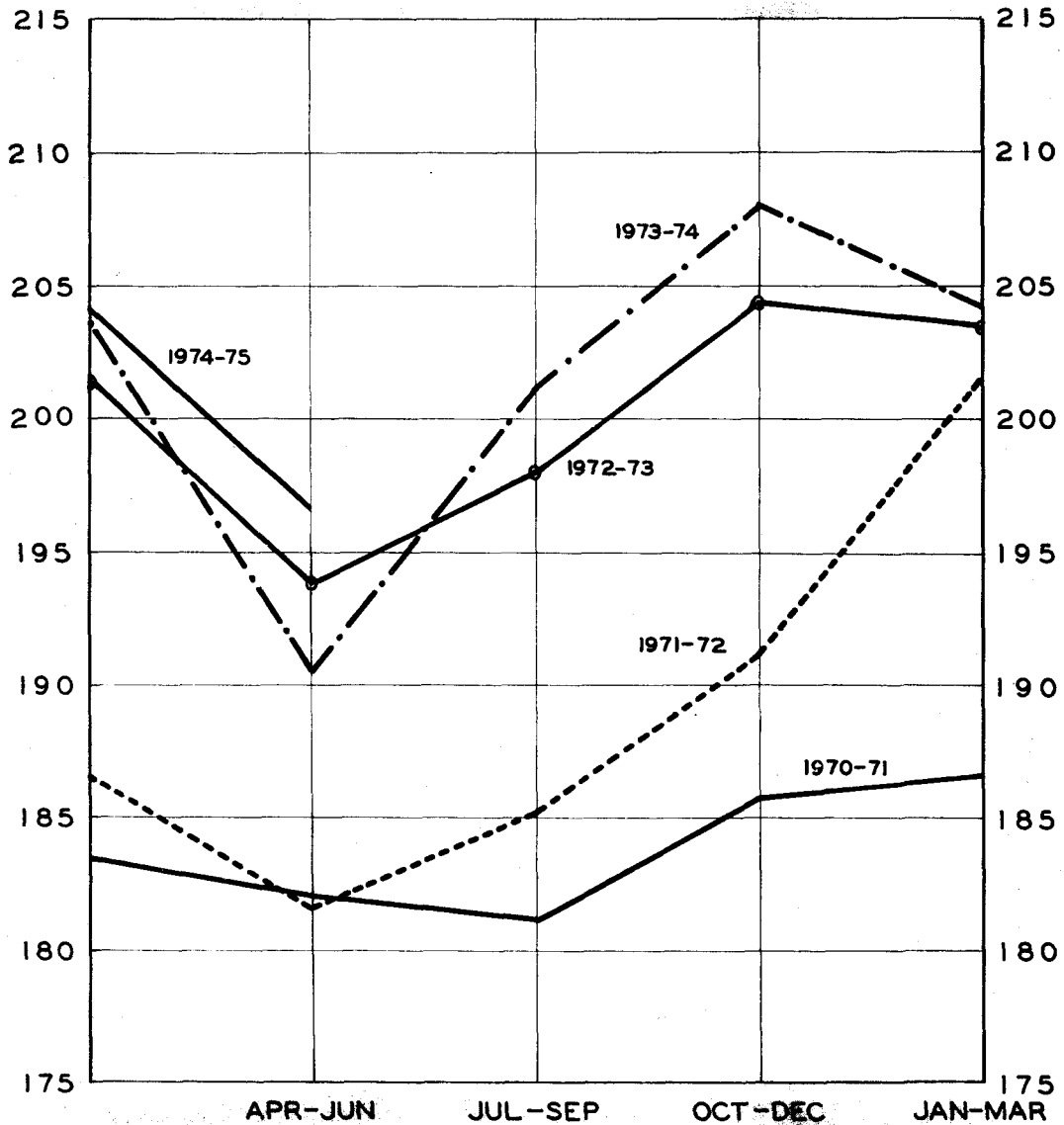
MINISTRY OF FINANCE, ECONOMIC DIVISION.

INDEX OF INDUSTRIAL PRODUCTION

(CRUDE)

QUARTERLY AVERAGES

1960=100



MINISTRY OF FINANCE, ECONOMIC DIVISION.

TABLE 3.2

Index Of Industrial Production By Principal Groups
(Base: 1960=100)

	Weight	1972	1973	% change 1973 over 1972	January—July				
					1972	1973	1974	% change	
								1973 over 1972	1974 over 1973
GENERAL INDEX	100.00	199.4	200.8	+0.7	197.6	197.3	201.8	-0.2	+2.3
Electricity Generated	5.37	390.7	383.8	-1.8	392.4	371.9	405.8	-5.2	+9.1
Mining & Quarrying	9.72	164.2	163.6	-0.4	164.7	166.7	175.8	+1.2	+5.5
Manufacturing	84.91	191.4	193.1	+0.9	189.0	189.4	191.8	+0.2	+1.3
Food Manufacturing	12.09	162.6	154.6	-4.9	153.5	151.1	152.8	-1.6	+1.1
Beverage & Tobacco Industries	2.22	174.1	179.4	+3.0	172.3	172.1	189.1	-0.1	+9.9
Textile Manufactures	27.06	114.4	113.2	-1.0	112.9	108.9	108.9	-3.5	Nil
Manufacture of Wood & Cork except Furniture	0.80	217.8	158.4	-27.3	237.9	158.2	157.1	-33.5	-0.7
Manufacture of Footwear etc.	0.21	150.8	151.3	+0.3	163.7	153.6	135.2	-6.2	-12.0
Manufacture of Paper and Paper Products	1.61	226.1	236.4	+4.6	230.5	226.9	246.9	-1.6	+8.8
Manufacture of Leather and Fur Products	0.43	59.9	76.4	+27.5	59.3	73.8	75.9	+24.5	+2.8
Manufacture of Rubber Products	2.22	256.0	251.3	-1.8	257.2	235.9	269.3	-8.3	+14.2
Manufacture of Chemicals and Chemical Products	7.26	293.7	301.9	+2.8	299.9	299.9	301.8	Nil	+0.6
Petroleum Refinery Products	1.34	317.2	332.8	+4.9	314.1	314.1	349.7	Nil	+11.3
Manufacture of Non-metallic mineral products	3.85	225.2	227.1	+0.8	222.4	221.1	231.2	-0.6	+4.6
Basic Metal Industries	7.38	225.3	215.8	-4.2	222.6	219.1	203.6	-1.6	-7.1
Manufacture of metal products	2.51	242.7	243.1	+0.2	230.7	249.5	260.9	+8.1	+4.6
Non-electrical Machinery	3.38	402.7	454.9	+13.0	395.6	445.7	440.8	+12.7	-1.1
Electrical Machinery	3.05	435.0	436.2	+0.3	426.8	429.1	432.0	+0.5	+0.7
Transport Equipment	7.77	133.5	148.1	+10.9	133.5	148.7	146.7	+11.4	-1.3
Miscellaneous Industries	1.23	86.5	74.5	-13.9	82.5	58.2	101.9	-29.5	+75.1

3.5. Production data of selected industries are available for the period January—September 1974. The analysis of this data does not point to any significant improvement in the tempo of industrial activity.

3.6 In the group of basic industries, there was an increase in output only in respect of electricity generation, coal and nitrogenous fertilisers. Whereas generation of electricity went up by 8.9 per cent, production of nitrogenous fertilisers rose by 6.3 per cent and that of coal (including lignite) by 4.9 per cent. On the other hand, output of finished steel and cement went down by about 3 per cent and 6 per cent respectively. There was also a fall in the output of aluminium and copper.

3.7 In the capital goods sector, a number of industries such as those producing sugar mill machinery, tea processing machinery, chemical and pharmaceutical machinery, pulp and paper machinery, vehicular diesel engines, boilers, conveying equipment and drilling equipment recorded a growth in the value of output in excess of 20 per cent during the period January—September, 1974. However, insofar as the value of output has been inflated by price changes, it is not a reliable indicator of the underlying trend. Most probably, with a few exceptions, the increase in

output in real terms is not likely to have been very substantial. The fact, that the output declined in such important industries as commercial vehicles, steel castings, power transformers and mining machinery, is indicative of the weakness of expansionary impulses in the capital goods sector.

3.8 A number of industries producing intermediate goods such as bicycle tubes and tyres, viscose staple fibre, vegetable tanned hides and newsprint recorded increases in output in excess of 15 per cent during the period January—September, 1974. However, output of cotton yarn which greatly influences production of cotton cloth went up by only 2.7 per cent. Industries producing paints and varnishes, jute manufactures, sheet glass and aluminium conductors were characterised by declining output.

3.9 An analysis of production trends in consumer goods industries shows that the output of mill-made cotton cloth increased by only 0.6 per cent in January—September, 1974 as compared to the corresponding period of 1973. While the output of sugar went up by 10.5 per cent, that of vanaspati and footwear declined rather sharply. The production of consumer durables such as room air-conditioners, fluorescent tubes, radio receivers, electric fans, refrigerators

and scooters recorded a substantial increase. Production of passenger cars declined by 2 per cent.

Factors in Industrial Stagnation

Capacity Creation

3.10 Industrial production in any given time period depends both on the available stock of productive capital and the extent of utilisation of the existing capacity. There can be no doubt that the slow expansion of productive capacity is a major factor affecting the growth of industrial production. As pointed out in a recent study by the IDBI, assuming capacity utilisation at 80 per cent and some unavoidable gestation lags, a sustained increase in industrial production at the rate of 9 per cent per annum is possible only with a capacity increase of about 10 per cent per annum. However, according to the same study, capacity in major Indian industries grew during the Fourth Plan period at an average annual rate of only 3.8 per cent.

3.11 The modest additions to productive capacity in the last six years are due to the sluggishness of the pace of investment in industry and minerals. The Fourth Plan had envisaged that the total public sector Plan outlay on industry and minerals, during the Plan period, would be Rs. 3338 crores. This estimate was in terms of 1968-69 prices. Prices since then have increased very considerably and yet the actual outlay in terms of current prices did not exceed Rs. 3000 crores. As regards the private and cooperative sectors, the Fourth Plan had envisaged a total investment of Rs. 2250 crores over the five year period. Although detailed information is still not available, it appears that, at least in real terms, the investment in the private sector has also fallen short of the plan targets. Apart from the general deficiency of real savings, factors such as delays in starting as well as in completing projects have contributed to this unsatisfactory outcome. In the private sector, in a number of industries such as cement, tyres and tubes, paper and sugar, the steep increase in the costs of new capital equipment appears to have affected the incentive to increase capacity.

3.12 The annual plan for 1974-75 provides for an outlay of Rs. 1093 crores on industry and minerals, in the public sector, as compared to the likely expenditure of Rs. 751 crores in 1973-74. More than two-thirds of this outlay has been allocated for basic industries like steel, non-ferrous metals, fertilisers, coal, iron ore, oil exploration and petroleum. However, both because of changes in the definition of investment and price inflation, real investment in industry and minerals in 1974-75 is unlikely to be much higher than in 1973-74.

Capacity Utilisation

3.13 The effects of slow capacity creation in the last six years on industrial growth have been compounded by a failure to make an optimum use of available capacities. The IDBI has recently estimated that for 40 major industries capacity utilisation declined from 78 per cent in 1968-69 to 70 per cent in 1973-74. Capital goods was the only sector where

capacity utilisation seems to have improved over the five year period. More recent data show that on account of improved performance of several public sector units in the heavy engineering sector, the utilisation ratio in respect of capital goods may have somewhat further improved in 1974-75. However, there is unlikely to have been any substantial improvement in the capacity utilisation ratio in other industrial sectors.

The Scarcity of Agricultural Raw Materials

3.14 Several factors have contributed to the widespread prevalence of this phenomenon of unutilised capacity in Indian industry. First of all, we have to take note of the fact that the production trends in agro-industries, which have a weightage of over 45 per cent in the index of industrial production, are vitally linked to the trend of output of commercial crops. As was pointed out in the last Chapter, output of important commercial crops such as raw cotton, raw jute, sugar-cane and vegetable oilseeds has not shown a strong rising trend in the last five or six years. As such, it is not surprising that the output of industries such as textiles, vanaspati, soap and sugar, though fluctuating from year to year, has not been characterised by any significant expansion since 1969-70. Thus, the stagnation of India's commercial crop economy inevitably turns out to be a major factor depressing the rate of growth of industrial production.

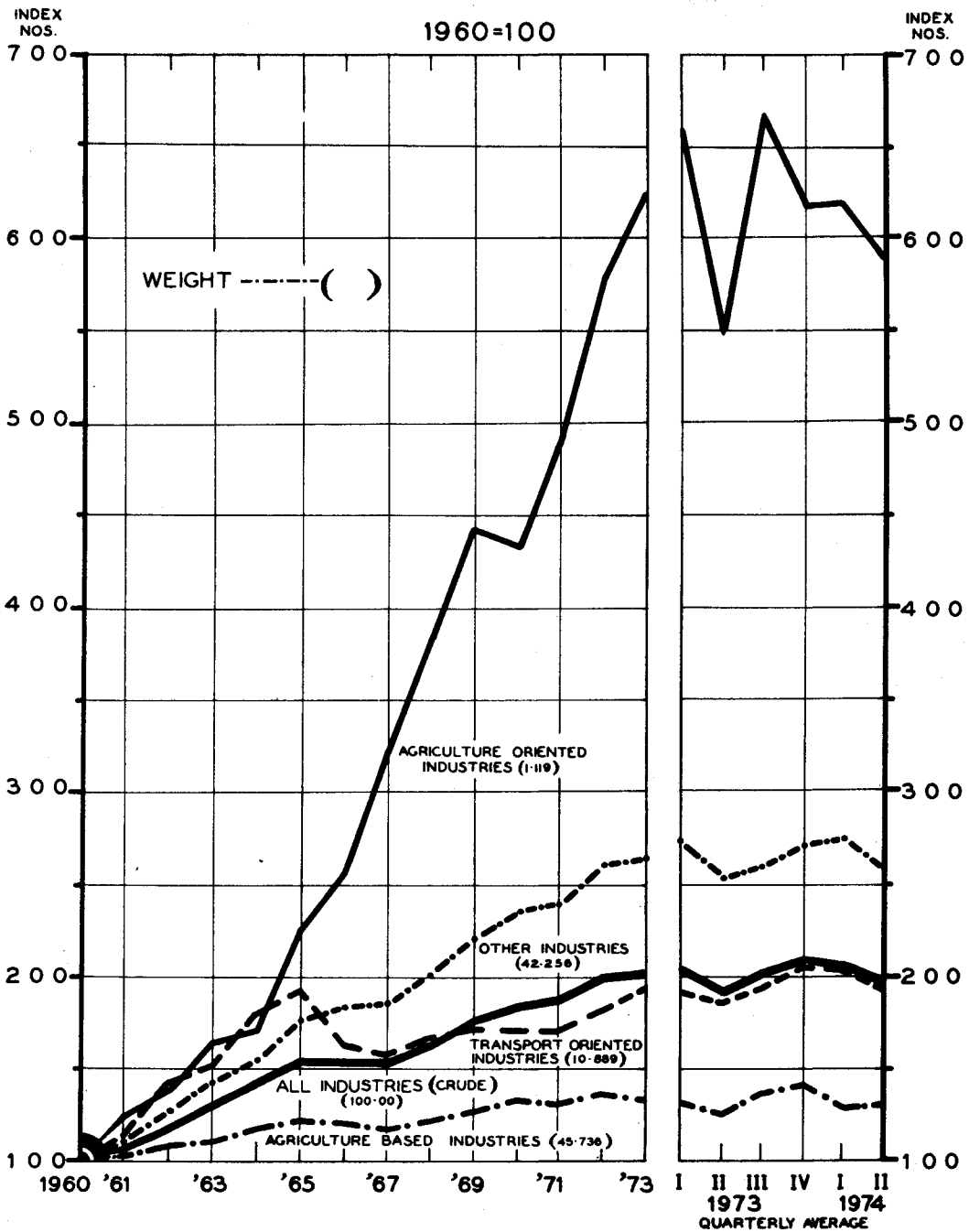
Generation of Electricity

3.15 In recent years, availability of power has emerged as a major constraint on the utilisation of capacity in a wide spectrum of industries. Generation of electricity in the calendar year 1973 declined by 1.8 per cent though in the fiscal year 1973-74 it went up by a modest figure of 1.6 per cent over 1972-73. Adverse weather conditions since 1972-73 have no doubt contributed to the slow growth of generation of electricity. However, such random factors as weather cannot explain as to why the rate of growth of electricity generation during the Fourth Plan period averaged only 6.4 per cent per annum as compared to the plan target of 10.7 per cent. Clearly there have been many gaps in the performance of this sector of our economy.

3.16 It is worth noting that the largest shortfall in achievement of generation targets was in the Fourth Plan. The Plan envisaged an addition of 9.3 million KW to capacity over the five year period. The actual achievement was less than 50 per cent of the target. This outcome was due to a number of factors such as escalation of costs and inadequate financial resources to meet the increased costs, delays in construction of civil works caused by shortages of building materials, inadequate project preparation and delays in supply of equipment.

3.17 The Fifth Plan proposes addition of 16.5 million KW to the generation capacity of which the share of schemes spilling over from the Fourth Plan is as high as 10.8 million KW. By all accounts, the Fifth Plan target for additional capacity is fairly ambitious. While all the continuing projects which account for 10.8 million KW of new capacity are expected to be

PATTERN OF INDUSTRIAL PRODUCTION



completed, very special efforts would, indeed, be required to commission the balance of 5.7 million KW from new projects. Even then with the possible exception of the Eastern Region, all other regions will continue to experience power shortage of varying intensity throughout the Fifth Plan period. It is expected that in 1974-75 there will be an addition of about 1.50 million KW to generation capacity.

3.18 Inefficient utilisation of the available electricity generating capacity has considerably accentuated the effects of shortfalls in creation of new capacity. It has been estimated that, with proper maintenance, the average energy output from the thermal power stations could be increased by 20-25 per cent over the recent level of 4100 KWH/KW installed. A large number of factors such as poor quality of coal, neglect of maintenance, largely due to non-availability of spare parts in time and lack of trained personnel are responsible for the poor performance of a number of thermal plants. In the current year, Government have made vigorous efforts to improve the performance of these units. These included a crash programme designed to improve the performance of the thermal power stations in the Eastern Region, particularly in the DVC system, the establishment by the Bharat Heavy Electricals Ltd. of a Spares and Service Division in order to maintain a common pool of essential spare parts for the imported machinery, an elaborate system of linkage of coal mines to the power stations to ensure that the power stations actually receive the type of coal for which they are designed, the setting up of an Operation and Monitoring Directorate in the Central Electricity Authority, strengthening of training facilities and the arrangements in cooperation with the States, for an integrated operation of the power system in each region. It is also proposed to professionalise and modernise the management of State Electricity Boards.

3.19 The effects of various measures adopted recently to improve the operating efficiency of the electricity generating system are already visible. Thus, as a result of the crash programme for the Eastern Region, the electricity generation in the DVC system has touched an all-time high of over 800 MW, compared to 350 MW a year ago. On present indications, the generation of electricity in 1974-75 will increase by about 8-10 per cent over 1973-74. However, as pointed out earlier, the medium term outlook still points to the persistence of shortages in three out of four regions.

Availability of coal

3.20 The fact that despite a significant improvement in the power situation, the overall index of industrial production is still not expected to increase by more than 3.5 per cent in 1974-75 indicates that, while an adequate supply of power may be an essential condition for an increase in industrial output, this in itself is not likely to be a sufficient condition. During the current year, in order to reduce the import bill on account of petroleum products, selective restrictions have had to be imposed on the consumption of furnace oil by industry. This by itself need not hurt

industrial production if effective arrangements can be made to supply adequate supplies of coal to industry. However, because of transport bottlenecks, a number of industries have continued to complain about inadequate availability of coal.

3.21 If the steep increase in the price of crude oil since January, 1974 is not to have a crippling effect on India's economy, there has to be a rapid expansion in the output of coal, coupled with effective arrangements for its transport to the consuming sectors. Unfortunately, during the Fourth Plan period, the output of coal increased at an average annual rate of only 1.8 per cent as compared to the Plan target of 5.6 per cent. Besides, a switch-over to coal requires considerable improvement in the efficiency of the transport system and, recently, conditions have been far from ideal in this matter. For all these reasons, in the short run, India has a rather limited margin of manoeuvrability in reducing the consumption of furnace oil.

3.22 Fortunately, there are now indications that the rate of growth of production of coal is beginning to pick up. A large scale investment programme, involving new projects as well as reopening of closed mines, is now in operation. In 1974-75 alone, an investment of about Rs. 135 crores is to be made in the coal industry. A large number of casual and contract workers have been put on regular pay roll, and a substantial increase in wages has been granted, in order to create an environment conducive to the improvement of industrial relations and labour efficiency. A more rational scheme of distribution, including a provision for the setting up of coal dumps in all major industrial centres, is now under active consideration.

3.23 Output of coal during April-December, 1974 was 62.4 million tonnes as compared to 57.0 million tonnes in the corresponding period of 1973. It is expected that production in 1974-75 will be about 87 million tonnes, signifying an increase of the order of 11.5 per cent over 1973-74. However, since the expected level of output is likely to fall short of the target of 90 million tonnes, a shortage of coal will continue to be felt for some time to come.

Availability of steel

3.24 Despite sizeable investments, the output of steel in the terminal year of the Fourth Plan, was less than in the first year of the Plan. In fact, output of finished steel declined during the Fourth Plan at an average annual rate of about one per cent. Capacity utilisation fell from 71 per cent in 1968-69 to 57 per cent in 1973-74. Power shortages, inadequate supply of coal, and disturbed industrial relations at Durgapur and at Rourkela accounted for this outcome. Production of finished steel in 1973-74 was 0.5 million tonnes lower than in 1972-73. Because of inadequate domestic production, significant quantities of steel have had to be imported from abroad. Even then, a shortage of steel has persisted. Thus the shortfall in the production of steel has constituted another handicap to increased industrial production in recent years.

3.25 In the last few months, a number of steps have been taken to improve the operating efficiency of steel plants. The improvement in the generation of electricity by the DVC system will no doubt facilitate higher capacity utilisation. As a long term measure, additional power generating capacity for the Bhilai steel plant has already been approved. Similarly, augmentation of captive power capacity at Rourkela and Durgapur is also under active consideration. The Steel Authority of India has also drawn up a scheme for building up reserve stocks of coal and coke at the disposal of steel plants so as to meet any emergency situation.

3.26 Available data suggest that production of saleable steel by the main producers is likely to be about 5 million tonnes in 1974-75 as compared to 4.4 million tonnes in 1973-74. This increase, coupled with the disincentive to excessive accumulation of inventories implied in the current credit policy, is likely to reduce somewhat the imbalance between demand and supply. In 1975-76 with the expected commissioning of the Bokaro Plant, the output of saleable steel may well increase to about 6 million tonnes. This will help to reduce considerably the excess demand for steel and will also facilitate some reduction in imports.

Cement

3.27 Cement is another basic input whose shortage seems to be impeding investment in the form of construction activity. Production declined from 15.5 million tonnes in 1972-73 to 14.7 million tonnes in 1973-74. During the Fourth Plan, production increased at an average annual rate of 3.8 per cent against the plan target of 8.1 per cent. Capacity utilisation declined from 79 per cent in 1968-69 to 76 per cent in 1973-74.

3.28 Available data indicate that there has been a further deterioration in output and capacity utilisation in 1974-75. Production of cement during the first nine months of 1974-75 was 3.5 per cent lower than in the corresponding period of 1973-74. The decline in production in the current year was principally due to heavy power cuts and inadequate supplies of coal and of covered wagons for moving cement to the consuming centres. In view of sizeable excess demand Government have sought to discourage the use of cement for low priority uses. Thus, under the Cement (Conservation and Regulation of Use) Order, 1974, the use of cement for the construction of certain categories of buildings, which had not reached the plinth level, was banned for a period of one year. However, a reasonable balance between demand and supply can be ensured only through a rapid expansion of capacity. Currently, licences and letters of intent for an additional capacity of 18.9 million tonnes are awaiting implementation. Implementation has, however, been tardy, as faced with rising capital costs, producers do not consider the statutorily controlled prices to be remunerative enough.

The environment of an over-protected domestic market

3.29 Apart from the various objective constraints, referred to in the preceding paragraphs, one must not over-look the fact that our system of tight quantitative import controls has created a highly sheltered domestic market for industrial products in which the incentive to expand output by cutting down costs and prices is very largely absent. In such an environment, even when objective conditions are favourable to an expansion of output, there is often a tendency on the part of industry to rig up prices and profit margins by restricting output. The behaviour of the cotton textiles industry in the closing months of 1974 clearly conforms to this pattern. Unfortunately, in the present state of our balance of payments, import liberalisation designed to introduce an element of competition into India's industrial economy is not a feasible proposition. As such, other ways and means will have to be found to curb the growth of restrictive trade practices.

Recession and the Climate for Investment

3.30 A major theme of the foregoing account of recent industrial trends has been that the continued sluggishness of India's industrial economy is rooted in unsatisfactory behaviour of real investment in industry and minerals as well as in the bottlenecks which impede the growth of output of such vital industrial inputs as power, coal, steel, cement and raw materials of agricultural origin. What does, then, one make of the cries, of an impending recession, which began to be heard from certain quarters in the closing months of 1974 ?

3.31 If the objective is to draw attention to the dismal performance of Indian industry in recent years, there can be no quarrel with it. However, if the expectations of a recession are based on the assumption that certain anti-inflationary measures adopted by the Government in the second half of 1974 would lead to a further deceleration in the pace of industrial activity, there is clearly not enough substance in such analysis. Further, it has to be recognised that an industrial stagnation which is due to bottlenecks in the supply of certain critical inputs cannot be dealt with effectively through a general reflation of demand, made possible by an expansionary fiscal-monetary policy mix. If all that was needed, to stimulate industrial production, was a large expansion of bank credit to the commercial sector, 1973-74 should have recorded a very high rate of growth of industrial production.

3.32 It is no doubt possible that the slow pace of public sector investment may affect the demand for the output of certain capital goods industries. However, the stagnation of industrial investment is basically due to a deficiency of real savings rather than a general decline in demand in the Keynesian sense of the term.

3.33 At the empirical level, there is no convincing evidence that the overall rate of industrial growth, in the second half of 1974-75, will be lower than in the

first half of the year. In fact, the balance of available evidence indicates an exactly opposite tendency. This is not to deny that some industries may well experience a decline in output, or that credit restrictions may lead to some industries having to face difficult problems of adjustment; but such events are a common occurrence even in a fast growing economy, and these sectoral imbalances should not be confused with a general deficiency of demand in the system. As things now stand, credit restrictions have led to some reduction in the stock of inventories of some sensitive raw materials but these need not affect the aggregate level of industrial output. The textile industry, which at one time complained of excessive accumulation of inventories of the finished products, appears to have successfully overcome these temporary difficulties. Indeed, this industry now seems to take such an optimistic view of its demand prospects, that it has not been able to resist the temptation to raise prices of its products. The trend of output in the automobile sector is not very encouraging. However, even in this sector, there seems to have been a revival of sales activities in December, 1974. Besides, in any analysis of industrial trends in 1974-75, one cannot lose sight of the significant increase in production of a large number of units in the public sector such as Hindustan Machine Tools, Hindustan Cables, Bharat Heavy Electricals and Mining and Allied Machinery Corporation.

3.34 As regards investment intentions, such fragmentary evidence as is available, suggests no substantial improvement. However, there are no indications of an impending slump either. The number of industrial licences and letters of intent issued during 1974 at 1099 and 1180 respectively was considerably in excess of the corresponding figures of 596 and 899 for 1973. Capital goods licensing during the period April-December 1974 totalled Rs. 146.66 crores as against Rs. 107.93 crores in the corresponding period of 1973. Approvals for chemicals and engineering showed a sharp increase. As regards capital raised by private sector companies, it amounted to Rs. 59.11 crores (excluding bonus issues) in 1974 as compared to Rs. 74.35 crores in 1973. No doubt, the capital raised during July-December, 1974 (estimated at Rs. 19.10 crores) was much lower than Rs. 40.01 crores raised in the first half of the year. However, it has to be noted that the bulk of the difference is accounted for by debentures. If one takes only equity and preference shares, the amount raised during July-December, 1974 was Rs. 18.10 crores as against Rs. 21.51 crores raised in January-June, 1974. The share prices have no doubt remained depressed since the imposition, in July 1974, of restrictions on the declaration of dividends and this seems to have introduced an element of hesitancy in the minds of investors and underwriters. However, in so far as the dividend freeze will add to the internal resources of the corporate sector, its ability to expand will be increased. In any case, considering the modest role played by the new issues market in mobilising resources for investment, one cannot draw firm inferences about investment behaviour from the level of activity in the new issues market. Judging by the investment trends in projects financed by the term lending institutions, investment in real terms in the private industrial sec-

tor in 1974-75 will not be less than in 1973-74. Moreover, the rising demand for assistance from these institutions indicates that, on balance, investment intentions have not been adversely affected by the various anti-inflationary measures adopted by the Government in the last few months.

3.35 Of course, one cannot rule out the possibility that a severe recession in industrial countries may have some adverse effects on the growth of our exports and, hence, industrial production. The OECD has recently predicted that, for the second successive year, major industrial countries will not experience any substantial growth in 1975. However, right now, most industrial countries are reversing the direction of their economic policies towards a controlled expansion. As a result, the level of economic activity in these countries may pick up in the second half of 1975. Even otherwise, considering the small share of India in world trade in manufactures, a vigorous export promotion policy should be able to neutralise any possible adverse effects of a recession in industrial countries on the level of our exports.

Industrial Licensing Policies

3.36 In order to reduce administrative delays in securing industrial licences and other related clearances, a Project Approvals Board was set up in November, 1973 which was to be serviced by a unified Secretariat for Industrial Approvals (SIA). There is considerable evidence to the effect that these institutional reforms have helped to streamline administrative procedures. At the time of the formation of SIA, over 3800 applications were awaiting consideration; by the end of August, 1974 more than 3,000 of these applications had been disposed of. The total number of substantive disposals during the first year of its operation (November, 1973 to October, 1974) was 5572 which is a record for any single year. 79 per cent of the licensing applications were disposed of within 120 days, 83 per cent of composite applications within 120 days and 73 per cent of MRTP applications within 150 days. There has also been a considerable reduction in the time taken for granting clearances for the import of capital goods. It is also proposed to streamline the machinery for monitoring the progress of implementation in respect of industrial approvals so as to avoid infructuous licensing and to ensure that adequate steps are taken by entrepreneurs to implement the projects within the given validity period of a licence. In order to facilitate a fuller utilisation of the available capacity, manufacturers of electrical equipment, machine tools and machinery have been given the flexibility to adjust their pattern of production in the light of changing pattern of demand.

Industrial Relations

3.37 The year 1974 opened in the rather depressing atmosphere of a strike in the textile mills in Bombay which continued right up to 9th February. Textile mills in Tamil Nadu also remained closed throughout the month of February. As a result of industrial unrest, the jute industry, too, suffered a loss of output from mid-January to mid-February; the average number of hours worked declined from

384 in January-February, 1973 to 168 in January-February, 1974. In terms of working time lost, these two major industries accounted for about half of the total reported figure of 26 million mandays for the first half of 1974. Although statistics for the latter half of 1974 are not available, it is worth noting that the loss of man-days in the first half of the year was in itself much higher than the total for any previous year. The strike in an important public utility like the railways in May, 1974 disrupted the normal rhythm of economic activity even though it was only partially successful.

Employment in the Organised Sector

3.38 Despite the slow-down in industrial production there was, during 1973-74, an increase in employment in the organised sector of 2.3 per cent. In the manufacturing sector, employment rose by 2.7 per cent. Employment in electricity generation and trade and commerce went up by 5.5 per cent and 4.0 per cent respectively, the latter largely on account of an increase in the public sector.

3.39 Region-wise, excluding the North Eastern Zone, employment growth in the organised sector during 1973-74 was the highest in the Northern Zone (4.0 per cent), closely followed by the Eastern Zone (3.7 per cent). In the Northern Zone, appreciable growth was recorded by Jammu and Kashmir (11.8 per cent), Haryana (6.1 per cent) and Punjab (5.8 per cent) while in the Eastern Zone, Bihar topped with a growth rate of 7.8 per cent. Among the individual States, Karnataka had the highest growth rate of 17.4 per cent.

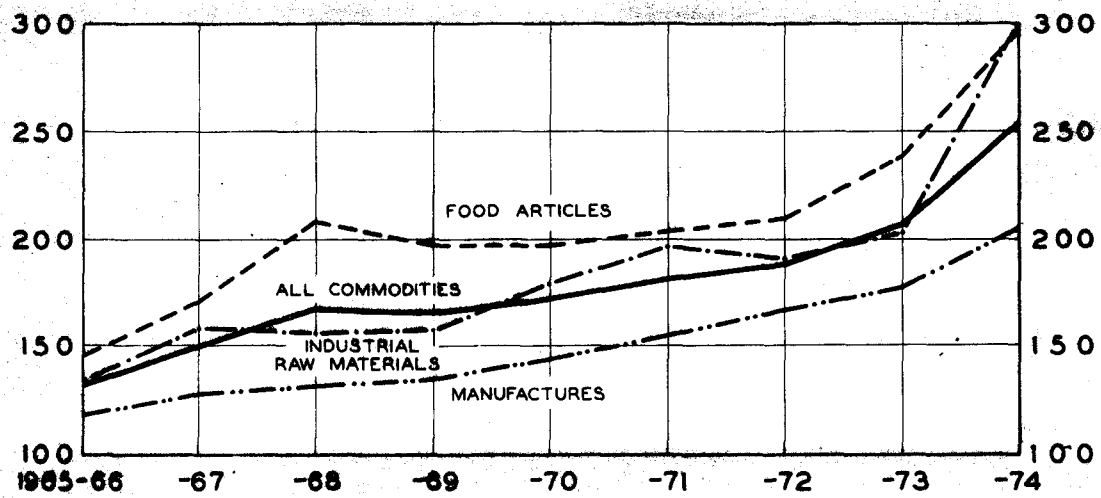
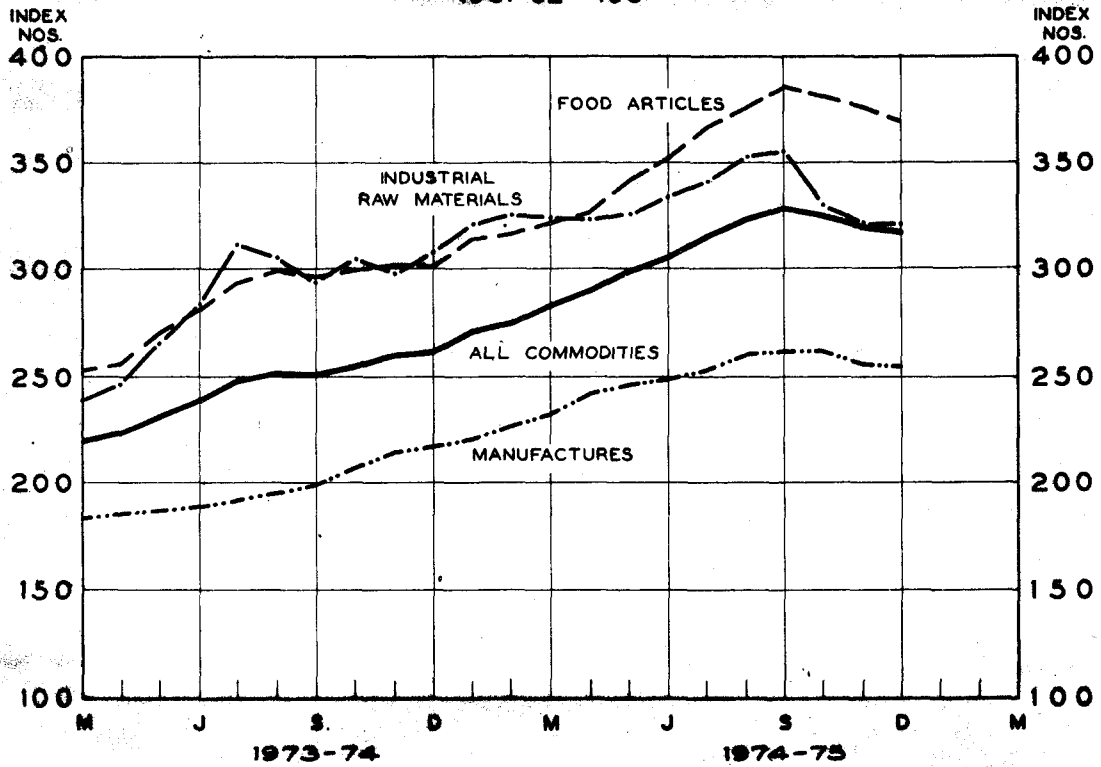
3.40 The total number of job seekers on the live registers of Employment Exchanges at the end of June, 1974 stood at 83.54 lakhs showing an increase of about 10 per cent as compared to a year earlier. The rate of increase during the period was, however, much less than during the year July, 1972 to June, 1973 when it was as high as 33 per cent. The number of educated job seekers rose by nearly 5 lakhs to 40.32 lakhs during the year ended June 1974; this was much less than the increase of over 9 lakhs recorded in the previous 12 months. The bulk of the increase in the number of educated job seekers was accounted for by Bihar (1.2 lakhs), West Bengal (0.7 lakh), Tamil Nadu (0.6 lakh) and Maharashtra (0.5 lakh).

The Industrial Outlook for 1975-76

3.41 As a result of the determined efforts that are now being made to increase the output of such vital inputs as power, coal and steel, the prospects for industrial development in 1975-76 can be expected to improve. However, there is considerable uncertainty about the supply of industrial raw materials of agricultural origin. There are indications that, at least during the first half of the year, availability of agricultural raw materials will continue to be a dominant constraint on the growth of output of agro-industries which have a large weightage in the index of industrial production. The export prospects for manufactured goods are also somewhat uncertain. Taking all these factors into account, it will be unrealistic to assume that a major break-through in the rate of growth of industrial production is just round the corner.

WHOLESALE PRICES

1961-62 = 100



MINISTRY OF FINANCE, ECONOMIC DIVISION.