CHAPTER 3

INDUSTRIAL PRODUCTION

Recent Trends in Industrial Production

3.1 The index of industrial production recorded an increase of 2.5 per cent in 1974-75. This was no doubt an improvement over the performance in 1973-74 when the index showed a slight decline. Nevertheless, the growth of industrial output in 1974-75 fell short of the average annual increase of 3.9 per cent recorded during the Fourth Plan period.

3.2 The rate of growth of industrial production during the first six months of 1975-76 was about 3 per cent. During the first quarter, the rate of growth was less than one per cent. However, there was a substantial step up in the second quarter when industrial production increased by 5 per cent as compared with the corresponding period of the preceding year. Data relating to several important industries indicate that, in recent months, industrial growth has picked up. If this trend persists, the overall increase in industrial production in 1975-76 may be of the order of about 4.5 per cent.

3.3 An analysis of production data for selected industries shows that the output of industrial enterprises in the public sector has increased substantially in recent months. The weighted average rate of growth for the public sector as a whole, outside of NTC mills, was close to 15 per cent during April-December 1975 as compared with the corresponding period of the preceding year. There has been a notable improvement in capacity utilisation in the public sector enterprises covering industries such as iron and steel, nitrogenous fertilisers and non-ferrous metals. Another noteworthy feature of the industrial scene during recent months is that there has been a substantial increase in production of such vital intermediate products as coal, iron and steel, aluminium, cement and nitrogenous fertilisers. For example, the production of saleable steel went up by 17 per cent during the period April-December 1975 as compared with the corresponding period of 1974. During the same period, production of coal rose by 12 per cent, of nitrogenous fertilisers by 29 per cent, of aluminium by 44 per cent and of cement by 14 per cent. The generation of electricity went up by 11 per cent during this period. There has been a substantial increase in the production of chemical products, such as soda ash. The overall picture of capital goods industry is also favourable since production of diesel engines (vehicular and stationary), railway wagons, boilers and machine tools, and machinery for the production of sugar, paper and chemicals has gone up substantially. If the overall performance of the industrial sector still remains unsatisfactory, it is largely due to a sharp decline in the production of cotton textiles and of a number of other industries such as jeeps and motor cars, room air conditioners, cigarettes, radio receivers, electric fans, dry cells and plastics. The production of mill-made cotton cloth and yarn during the period April-December 1975 shows a fall of 10.3 per cent and 4.5 per cent respectively as compared to April-December 1974.

3.4 The foregoing account brings out that the current industrial situation cannot be characterised as one of a general recession. As pointed out earlier, the output of capital goods and a number of intermediate products shows an encouraging trend. The fact that both production and despatches of cement increased by 13.7 per cent during the period April-November 1975 as compared with the corresponding period of 1974 suggests that, overall, construction activity has not been affected. Nevertheless, it is a fact that certain industries relating to construction (such as paints and varnishes, hard board and insulation board, glazed tiles, house service meters and water meters) have been faced with a declining demand. This indicates that, although overall construction activity continues to grow, investment in housing, particularly for luxury houses and multi-storey buildings, has been affected. The accumulation of stocks of certain varieties of iron and steel with the major steel producers, and reduced utilisation of their capacities by the electric arc furnaces, also support this conclusion, although it is possible that reduced off-take of iron and steel is also due to a reduction of inventories in response to greater stability in prices and assure availability of steel.

3.5 Despite an encouraging trend in the production of capital goods and intermediate products, industrial growth has been affected by the unsatisfactory performance of cotton textiles and a number of other consumer durables. That the demand for consumer durables, including cloth, which is postponable, has been affected, is not surprising in the background of the sluggishness in the growth of the economy in recent years. In the case of cotton textiles, a decline in export demand and unsatisfactory arrangements for the distribution of controlled cloth seem to have accentuated difficulties, though the latter problem is likely to be resolved as a result of certain recent policy decisions for streamlining the system. The structural adjustments, in prices and production, necessitated by a steep increase in petroleum prices, have also led to a curb in demand for such items as motor cars and plastic materials. In addition, the demand for consumer durables has been affected by tightening of rules relating to tax free provision of perquisites by companies to their executives, as well as by the recent drive against tax evasion and smuggling activities.

3.6 Judging by the trend in the production of such vital inputs as power, coal, cement and iron and steel, it appears that shortages of critical raw materials are no longer a valid explanation for sluggishness of industrial production. It has also to be noted that the decline in the production of cotton textiles has come about despite a very comfortable position with regard to the supply of raw cotton. The import policy for 1975-76 is, on balance, more liberal than before, and shortages of imported raw materials are no longer as keenly felt now as in the past. There has also been a considerable improvement in the efficiency of the transport services. Moreover, since the declaration of the Emergency, there has been a notable improvement in industrial relations inasmuch as the number of man-hours lost through industrial disputes has declined drastically in recent months. It is again, a well known fact that, in a number of major industries, a sizeable proportion of capacity remains unutilised, so that output can be increased without further investment. All these factors suggest that, during 1975-76, the supply conditions were, after many years, sufficiently conducive to a rapid expansion in industrial production. If, inspite of favourable supply conditions, the overall rate of growth of industrial production in 1975-76 is not likely to exceed 4.5 per cent, the explanation must be sought, to an extent, in terms of demand conditions.

3.7 There are basically four sources of demand for industrial products. Firstly, public sector investment is a major determinant of the demand for construction materials as well as machinery and equipment. For 1975-76, the Plan outlay has been increased by 23 per cent in nominal terms. Although in real terms, the increase in the Plan outlay may not be as large, because of the somewhat higher cost of machinery this year, it appears that the generally favourable trend in the production of capital goods, and of construction materials such as cement, is largely attributable to the step up in Plan outlay. Secondly, in a number of industries the export demand exerts an important influence on production. The decline in the production of cotton textiles, and the accumulation of stocks of jute goods, are partly attributable to the sluggishness of export demand for these goods. Thirdly, there is the consumers' demand for industrial goods. As explained earlier, the sluggishness of the economy during the last three or four years seems to have affected the demand for a number of industrial products—particularly durable goods. Although this demand may be expected to revive in the wake of more favourable prospects for growth in 1975-76, the process of revival may well be slow, particularly for those consumer durables which are largely purchased by a small section of the middle class and upper middle class living in urban areas. Fourthly, there is the well known influence of the inventory cycle. In the last three years. the steep rise in prices had given rise to a general expectation that they were bound to rise all the time. And if the rate of price inflation is expected to be higher than the ruling rates of interest, businessmen have an incentive to carry a much larger stock of inventories than is warranted by the needs of current production or of current sales. The resulting rise in the ratio of inventories to output tends to create additional demand for output which cannot be sustained once business expectations become more bearish. The fact that anti-inflationary policies pursued in 1974 have proved successful has led to a revision of business expectations, so that both manufacturers and traders are now willing to carry much lower stocks of materials and finished goods than was the case in the past. This, in turn, has affected offtake and production of a number of industrial products.

3.8 That, currently, because of sluggishness of demand, industrial capacities in the country are not being fully utilised, does not warrant the conclusion that there are any easy solutions to this problem. As can be deduced from the previous paragraph, a lasting solution to the problem involves action on three fronts. First of all, every effort has to be made to step up the level of public investment. This, in turn, involves an increase in the savings rate—if the economy is not once again to hit the inflation barrier set by the availability of wage goods. In Indian conditions, increased availability of wage goods is crucially linked with the progress of the agricultural sector, or an increase in import capacity made possible by a rapid growth of exports. Apart from facilitating an increase in investment in an environment of price stability, a rapid growth of industrial exports can make an important contribution to better utilisation of industrial capacities

Therefore, exports of industrial products need to be encouraged to an even larger degree than in the past. In part, this is a matter of evolving a suitable system of incentives. However, there is also an urgent need for the Indian industry to make conscious efforts to maximise its profits or reduce its losses. It is a commonsense proposition that, when there is excess capacity at home, a profit maximising firm should seek export orders so long as ex-factory export realisations exceed marginal variable costs, and even though the fixed costs are not fully covered. There is little evidence that Indian firms look upon export markets in this manner—which is a characteristic feature of Japanese export drive. Very often, Indian firms are not interested in increasing their exports unless their export realisations (of course, inclusive of export incentives) cover their full cost, including fixed costs. To adopt such an attitude in the face of idle capacity suggests that Indian firms are not really interested in maximising their profits, or in minimising their losses. Since the home market happens to be excessively protected, these firms seem to plan in terms of securing their targeted rate of return on limited quantities of home sales, rather than through a larger turnover made up partly of home sales and partly of exports. While there is need to further streamline export procedures and policies so as to make exports more remunerative, there is also a need for a change in the outlook of business firms towards the overseas markets if our industrial capacity is to be more fully utilised. Finally, in a country like India, a sustained increase in the demand for industrial products can come about only if there is a rapid increase in productivity and incomes in the rural areas. Thus, sustained increases in industrial production can be secured only through larger exports and improved productivity in agriculture, backed up by measures designed to increase investment in the priority sectors of the economy.

3.9 It needs to be emphasised that the industrial growth rate cannot be stepped up simply by relaxation of fiscal and monetary discipline. Fiscal and monetary policies must, of course, respond quickly to changes in basic economic conditions, and it is precisely for this reason that the Annual Plan for 1975-76 provided for a step up of over 40 per cent in the outlay for industry and minerals. The monetary policy for the current busy season also envisages some liberalisation in the flow of credit. That both fiscal and monetary policies have become more expansionary is evident from the fact that money supply has expanded thus far by 6.7 per cent in the current year as against only 4.1 per cent during the corresponding period of last year. Any further relaxation in fiscal and monetary discipline has to be viewed in the context of the continued need to maintain reasonable stability of prices in the face of the inevitable fluctuations in agricultural output which characterise our economy. That certain sectors of the industrial economy are faced with difficulties which may affect employment has, no doubt, to be taken note of in the formulation of economic policies. It is in recognition of this fact that, in November 1975, Government effected some modifications in the arrangements for distribution of controlled cloth which, earlier, had led to accumulation of stocks with the mills. The decision to relax restrictions on construction activities in the public sector, and provision of more funds for low cost housing and the mass transportation system, are designed to facilitate greater utilisation of capacity in accordance with broad national priorities. The current emphasis on a sympathetic consideration of the needs of affected industries, and encouragement of exports and diversification into a socially more desirable product-mix, wherever possible, has to be continued in order to ensure that the problem of unemployment does not get accentuated.

Industrial Investment

3.10 As stated earlier, the Annual Plan for 1975-76 provides for a step-up of over 40 per cent in the outlay for industries and minerals. More than 70 per cent of the outlay in the Central sector is accounted for by fertilisers, petroleum, steel and coal. Substantial allocations have also been made for petro-chemicals and non-ferrous metals. In view of the prevailing stability on the price front, the real increase in investment in 1975-76 will be much higher than may be indicated by comparisons in terms of nominal values.

3.11 As regards the private sector, such fragmentary data as are available point to continued sluggishness of investment. However, there is no convincing evidence of serious decline in investment from the levels prevailing in previous years. Imports of capital goods during 1974-75 amounted to Rs. 697.1 crores as against Rs. 673.5 crores in 1973-74. Taking into account the higher prices and exchange rate changes, imports of capital goods may not have increased in real terms. Such imports during April-June 1975 amounted to Rs. 184.3 crores as against Rs. 173.8 crores in the corresponding period of 1974. Here again, there may have been no increase in the real value of imported capital goods. The total assistance disbursed by the term-lending institutions—and the beneficiaries include enterprises in the public as well as joint sector—increased from Rs. 274.0 crores in 1973-74 to Rs. 364.9 crores in 1974-75. However, a major proportion of the increase was on account of cost overruns, so that the improvement in real terms may not be as large. Disbursements by the IDBI during July—December 1975 amounted to Rs. 115.7 crores as against Rs. 101.0 crores during the corresponding period of 1974. The approvals given by the Capital Goods Committee during April—December 1975 amounted to Rs. 167.3 crores as against Rs. 141.5 crores in the corresponding period of 1974. Capital raised by private sector companies (excluding bonus issues) amounted to Rs. 55.8 crores in the first half of 1975-76 as compared with Rs. 54.0 crores raised in the corresponding period of 1974-75. Allowing for cost escalations, these indicators do not suggest an increase in investment in real terms.

3.12 There is now considerable evidence that the steep increase in costs of machinery and equipment in recent years is affecting not only new investment but also modernisation and replacement of existing equipment. In a period of rapidly rising prices, depreciation formulas based on historical costs cease to provide adequate resources for replacement of the existing worn out equipment. Moreover, in industries under price control, so long as the calculations of permissible rates of return continue to be based on historic cost of fixed capital in use, there is a built-in disincentive to new investment. Faced with this problem, the Government have, in recent years, relaxed price controls on a number of industrial products. For some industries, such as sugar and aluminium, a dual pricing system has been adopted so as to provide an adequate incentive for higher investment without raising unduly the prices to consumers in the priority sectors. However, arrangements like dual prices can achieve their objective only if there is a sizeable excess demand which enables producers to secure an adequate rate of return by jacking up prices and profit margins for the non-controlled sector. It is in recognition of this fact that, despite the prevalence of a dual pricing system in sugar, the Government have recently felt it necessary to offer significant financial incentives by way of excise rebate on production from new capacity in order to induce larger investment. The problem of steep escalations in capital costs is, however, today a general problem facing Indian industry, and ways and means have to be found to deal effectively with the same.

Industrial Licensing Policies

3.13 During the year 1975-76, particularly since the launching of the New Economic Programme, important changes in the sphere of industrial licensing have been made with a view to stimulate investment in the priority sectors, and to ensure fuller utilisation of the installed capacities. Recognition has also been given to any increase in capacity which may be the outcome of replacement of old equipment and modernisation of plant and machinery, provided it does not result in any encroachment on production reserved for the small-scale sector and does not entail any increase in the foreign exchange requirements. The increase in capacity taking place through replacement and modernisation would be over and above the normal permissible limits of 25 per cent in excess of the authorised or licensed capacity. Moreover, selected engineering industries have been permitted automatic growth of capacity at the rate of 5 per cent per annum, or upto a limit of 25 per cent in a Plan period, in physical terms, over their present authorised capacity, subject to certain conditions. Besides, in order to stimulate interest in research and development, industrial firms (other than those falling within the purview of the MRTP Act and FERA) have been allowed to set up capacities based on their own in-house R&D activities with the approval of the Government.

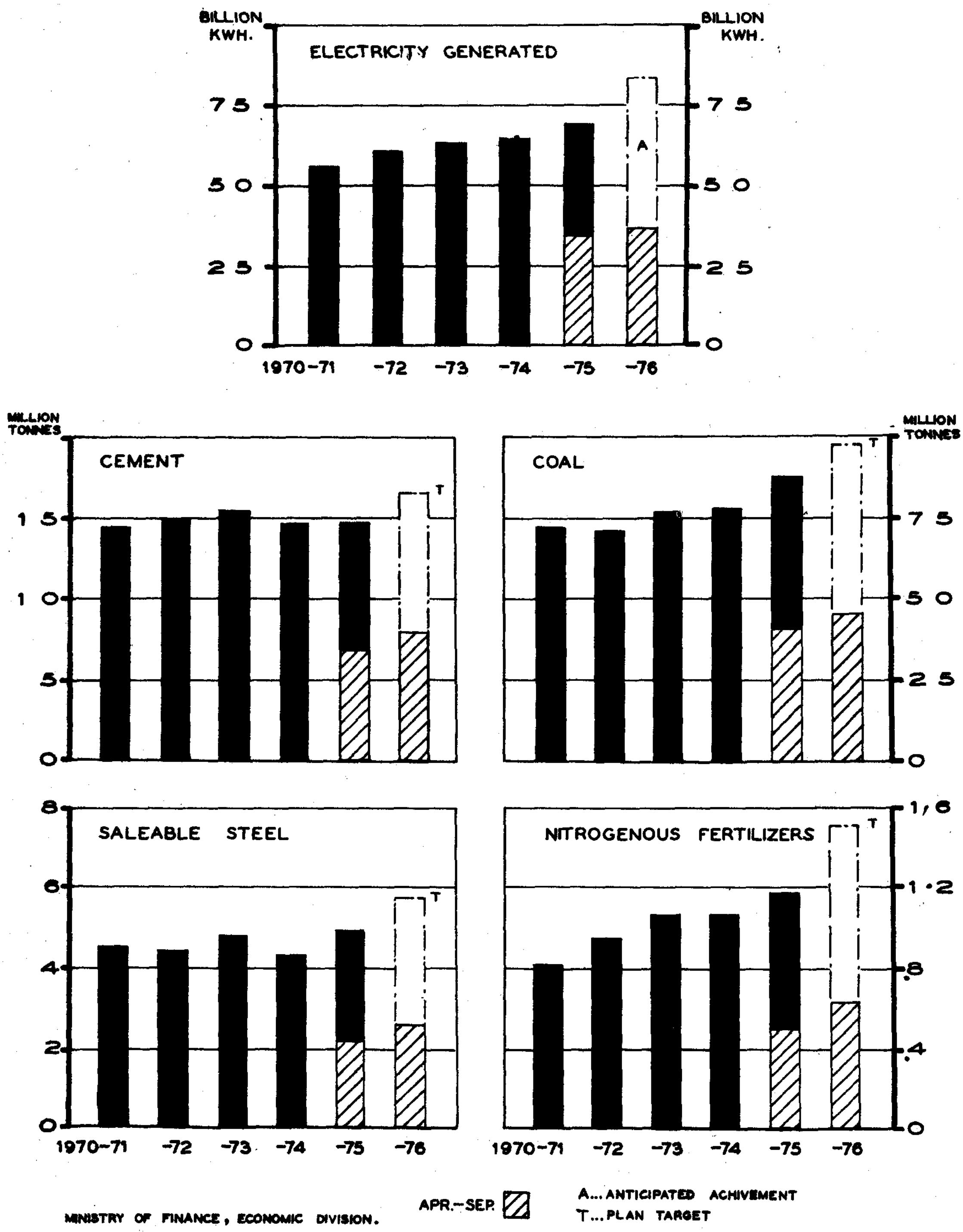
3.14 In order to encourage investment in industry, it has been decided to delicense 21 industries. However, firms covered by the MRTP or Foreign Exchange Regulation Acts would still have to seek an industrial licence. In addition, medium entrepreneurs in 29 specified industries have been allowed to use their existing installed capacity without limit, even though this may be in excess of their licensed capacity. Even firms covered by MRTP and FERA regulations can take advantage of this facility if the additional output is meant for export, or is to be disposed of in accordance with the manner prescribed by Government.

3.15 With a view to facilitate quicker disposal of applications for diversification, carrying on business, and extension of the validity period of industrial licences, the Rules framed under the Industries (D&R) Act are being amended so as to provide for delegation of powers to the administrative Ministries concerned. The facility of endorsement of industrial capacities on the basis of maximum utilisation of plant and machinery would also be extended to units registered with the technical authorities or the Directorates of Small Scale Industries.

Industrial Relations

3.16 The number of man-days lost through industrial disputes during January—June 1975 amounted to 16.3 million as compared with 30.4 million during the corresponding period of 1974. There has been a major improvement in the situation since July 1975. The Prime Minister's appeal to workers and managements for resolution of industrial disputes without resort to strikes or lockouts has borne fruit,

PRODUCTION OF SELECTED INDUSTRIES



and, according to preliminary reports, the number of man-days lost during July—September 1975 fell to 1.56 million as compared with 6 million man-days lost during the corresponding period of 1974. Even more significant is the fact that, since July 1975, there appears to have been a progressive decline in work time lost. Thus, man-days lost through industrial disputes fell from 0.83 million in July 1975 to 0.60 million in August and to a mere 0.13 million in September 1975.

3.17 The significant improvement in labour relations in recent months reflects the impact of the positive measures taken to improve the climate for industrial relations as part of the New Economic Programme. The establishment of a National Apex Body deserves mention in this connection. This Apex Body consists of 22 representatives of various national trade unions and manufacturers' organisations. The Apex Body has discussed worker-management relations and unanimously approved a scheme to achieve industrial peace, and has laid down certain guidelines in this connection. The Committee has recommended the setting up of a National Industrial Committee for each industry to advise on disputes. Following this, a fourteen-member National Committee for Textiles has been constituted to sort out problems relating to the textile industry. Similarly, a bi-partite National Committee has been set up for the vanaspati industry to consider problems relating to production. The National Apex Body has disapproved of unilateral lay-offs and opted for bi-partite discussions at the plant level. Government also having decided to take action to prevent unjustified lay-offs, etc., the Industrial Disputes Act has been amended, with the result that industrial establishments having 300 or more workers have to secure approval of the Government before effecting lay-offs, retrenchment or closures. The importance of associating workers in the management has been recognised, and, as laid down in the New Economic Programme, Joint Management Committees are being constituted at the shop and department levels in a number of industrial units, particularly in public sector enterprises.

3.18 Another development of note is the amendment of the Payment of Bonus Act, reversing an earlier amendment which had raised the minimum bonus from 4 per cent to 8.33 per cent of the wages. Insistence on payment of bonus even by loss-making enterprises has, in the past, contributed to growth of "sickness" in industry, which, in turn, has affected growth of employment opportunities. Hence, units making losses have been exempted from the obligation of paying the minimum bonus; this provision does not apply, however, to the accounting years commencing from any day prior to the first day of January 1975. At the same time, in order to avoid a sharp change in the absolute level of bonus, the minimum amount payable has been raised from Rs. 40 to Rs. 100 for adults and from Rs. 25 to Rs. 60 for children. Government have made it clear that bonus is linked to profitability and productivity, and is not a deferred wage. It can, therefore, be hoped that, while the new provision will add to the economic viability of industrial concerns, there will be an added motivation for raising productivity.

Employment in the Organised Sector

3.19 Employment in the organised sector increased by about 2 per cent in 1974-75, the rise being almost entirely associated with the public sector. All the major groups (barring construction) contributed to the increase. The Services sector, which accounts for about two-fifths of the total employment, registered an expansion in employment of 2.3 per cent. The Manufacturing group showed a modest increase of 0.7 per cent, and that too because of the public sector; private sector employment fell slightly. Significant increases, were, however, recorded in the spheres of Mining and Quarrying (+7.6 per cent), and Trade and Commerce (+8.8 per cent), in the former because of the substantial rise in output of the coal industry requiring larger numbers for loading and unloading, and, in the latter, due to expansion of banking activities. In the Plantations, Forestry, etc. sector, growth in employment was the lowest at 0.5 per cent. The fall of 2.4 per cent in the number of workers engaged in construction would be largely due to restrictions placed on such activities, particularly in the public sector, following shortages of basic inputs such as cement and steel.

3.20 Region-wise, employment growth in the organised sector in 1974-75 was the highest in the Eastern Zone (+2.5 per cent), followed closely by the Southern Zone (+2.4 per cent). The growth rate was, however, below that of the all-India average in the case of the Western Zone (+1.6 per cent), Northern Zone (+1.5 per cent) and the Central Zone (+1.3 per cent). In the Northern Zone, Rajasthan, Haryana and Jammu & Kashmir recorded increases of 5.2 per cent, 4.8 per cent and 2.8 per cent respectively, while in the Southern Zone, Karnataka and Andhra Pradesh made gains of 3.9 per cent and 3.8 per cent respectively. Gujarat topped in Western Zone (not taking account of Goa, Daman & Diu) with a growth of 3.0 per cent

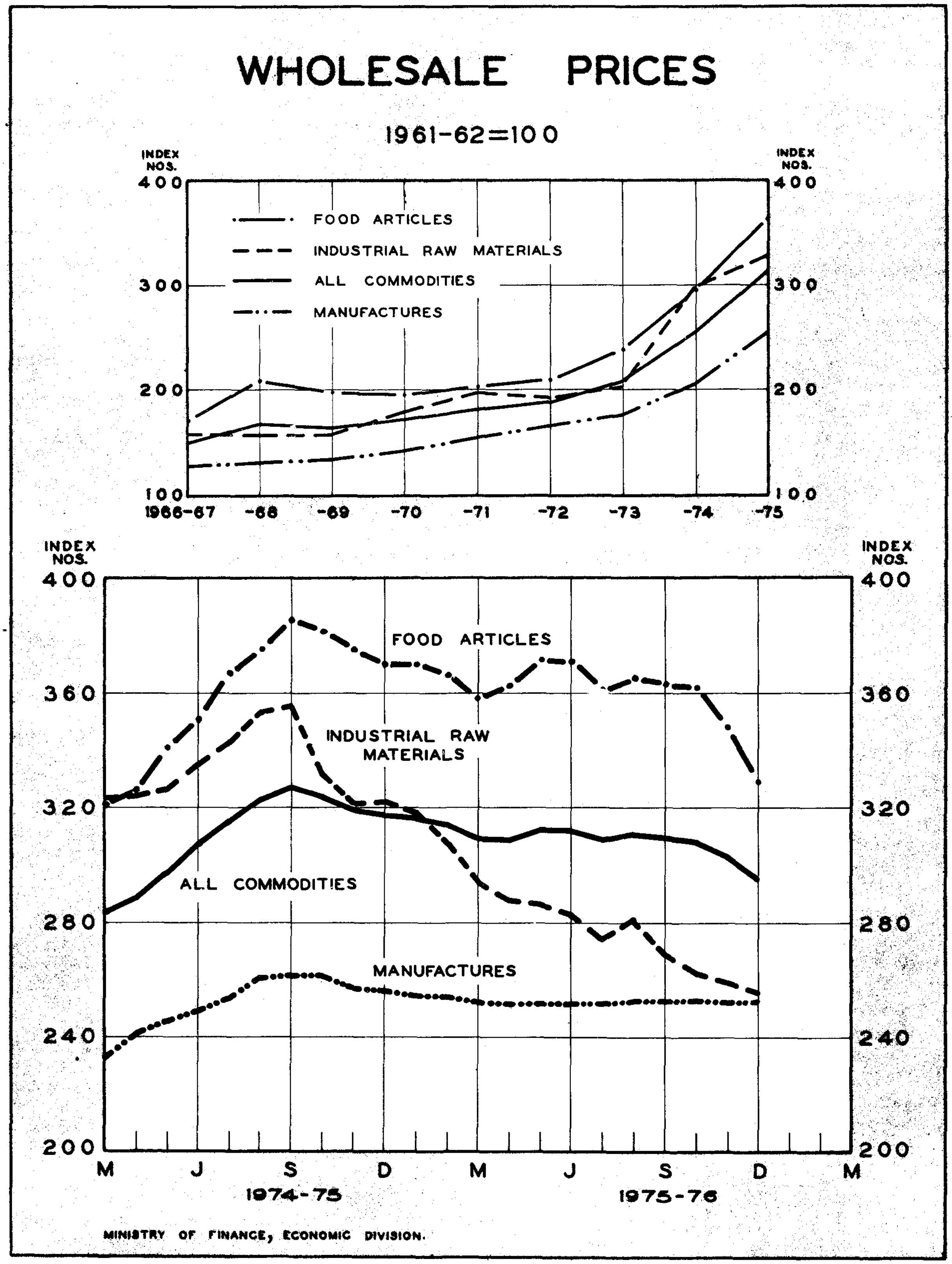
Similarly, in the Eastern Zone, Orissa had the highest rate of growth (+4.1 per cent), followed by West Bengal (+3.0 per cent).

3.21 The number of job-seekers on the Live Registers of Employment Exchanges at the end of September 1975 stood at 92.54 lakhs, i.e., 7.1 per cent more than a year ago. This represents some deterioration in the employment situation, as in the previous twelve months, there had been an increase of 5.4 per cent. This deterioration is, no doubt, linked to the slow growth of industry upto the middle of 1975. The improvement in industrial production since then appears to be reflected in the figures of vacancies notified, and placements effected, which, in July—September 1975, were appreciably higher than in the corresponding quarter of 1974.

3.22 The New Economic Programme has envisaged an increase in employment opportunities, particularly for the educated youth, by filling up of all existing vacancies of apprentices expeditiously. At the time when the programme was announced only about two-thirds of the one lakh places available were actually filled. In the three-month period ending September 1975, practically all the vacancies had been filled. More recently, there has been an addition to the list of notified industries and trades. As a result, the number of apprentices is likely to go up substantially.

The Emerging Industrial Prospects

3.23 It has been pointed out earlier in this Chapter that the major determinants of industrial production are the trend of investment, particularly public investment, the state of export demand and the performance of the agricultural sector. Both the supply of foodgrains and the state of our balance of payments are such that a substantial step-up in public investment can be planned for in 1976-77 without undermining the stability of prices. As for the export sector, taking into account both the expected recovery in major industrial countries and the efforts that are now being made to stimulate growth of industrial exports, the prospects for 1976-77 seem to be quite promising. Agricultural output is inevitably subject to fluctuations. Nevertheless, the prospects for the rabi crop of 1976 appear highly favourable. In addition, the vigorous efforts that are now under way to modernise agriculture through speedy expansion of the area under irrigation, and supply of such critical inputs as quality seeds and fertilisers, would help to reduce the amplitude of fluctuations as well as stimulate growth of output in the future. Taking all factors into account, one can, as of now, take an optimistic view of industrial prospects for 1976-77.



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