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# UNIT 16 INDUSTRIALISATION: CONCEPTS AND PROBLEMS

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## 16.0 OBJECTIVES

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After going through this unit you should be in a position to:

- 1 Explain the concept of industrialisation;
- 1 Analyse various activities included in industry;
- 1 Analyse the problems created by heavy industry strategy of industrialisation;
- 1 Define industrial sickness; and
- 1 Explain factors responsible for industrial sickness.

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## 16.1 INTRODUCTION

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The attainment of Independence by India on August 15, 1947 made a tremendous difference to her industrial landscape. Indigenous enterprise was no longer required to function as the follower of foreign interests. At the time of Independence industrial production in India had declined but population was increasing. After Independence, the core strategy adopted was rapid industrialisation through investment on heavy, basic and machine-building industries. Investment in the heavy industries helps in building up a larger volume of capital stock. Also they lay the foundation for a strong and self-reliant economy, mainly through rapid expansion of all the sectors of the economy and by eliminating the dependence on imports of essential machinery and equipment.

In the beginning, as investment in the heavy sector was very high, gestation period was too long and profitability was low, the Government felt that heavy industries should be, by and large, in the public sector. The private sector was also expected to function in harmony with the overall aims and policies of economic

planning. The development strategy took India to the position of the tenth most industrialised country of the world. The industrial policy pursued in India would be discussed in the next unit. Here we confine ourselves to analysis of various segments of industrial sector and some of the major problems before the sector.

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## **16.2 CONCEPT OF INDUSTRIALISATION**

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The United Nations Economic and Social Council (UNESCO) in 1963 defined industrialisation in this way: “Industrialisation is a system of economic development in which the major part of the national resources are used to develop a technically up-to-date, diversified national economy capable of assuring a high rate of growth for the economy as a whole and of overcoming economic and social backwardness.”

This definition of industrialisation emphasises the following factors:

- 1) Industrialisation involves a process in change of the technique of production from the outdated to a modern one.
- 2) Industrialisation is undertaken with a view to accelerating economic development so that the level of living of the people can be improved.
- 3) Industrialisation can establish a multi-sectoral base by modernisation and also develop a diversified national industry. This does not imply that the development of heavy or capital goods sector is a pre-condition of industrialisation. This may happen, but is not necessary. An economy can be industrialised in several other sectors and the surplus generated can be exported to acquire capital goods.

In a nutshell, this definition does not prescribe a rigid sequence to be followed in the industrialisation strategy of an economy.

As against this approach, in Marxist economic literature, the term ‘industrialisation’ is used in two different senses. In the narrow sense, it refers to the establishment and development of heavy and basic industries or production of the means of production. But in a broader sense, it signifies the completion of industrial revolution by adopting industrial (mechanised) methods of production for all sectors of the economy. In fact, these two meanings of industrialisation indicate the initial and the final stages of industrialisation.

In the initial stage, the process of industrialisation involves the setting up of heavy industry and as the process gathers momentum, and the economy is able to build an industrial base, the process of transferring the entire economy to industrial methods of production. The Marxist definition of industrialisation, therefore, prescribes a sequence of industrialisation by first developing the heavy industry or the production of the means of production and after creating an industrial base, to transform the entire economy in the second stage to industrial methods of production. In fact, the Marxist model of industrialisation had its origin in the character of development of the Soviet Union. The soviets in the initial phase undertook the development of heavy industry. The Soviet Union did have the potential to develop both light and heavy industry, since it had a large population, adequate primary resources in the form of availability of primary factors of production such as land, mines, transport and communications and large home market. Despite that the Soviet Union opted

and decided to transform the entire economy to the industrial methods of production at a later stage.

The conditions in India at the time of Independence were more or less, similar to those prevailing in the Soviet Union. It could develop both light and heavy industry. But the Indian planners opted for the development of heavy industry in the first stage. It may be clarified that heavy industry includes all industries producing capital goods, which enlarge the productive capacity of the economy. In this sense, it also includes railways and infrastructure in the form of hydro and thermal electric power projects. This policy of developing heavy industry was incorporated in the Industrial Policy of 1956.

Professor P.C. Mahalanobis, who was the architect of the Second Plan, clearly favoured the development of heavy industry as the basic strategy of Indian economic development. He was supported by Jawaharlal Nehru, the first Prime Minister of India who considered the development of heavy industry to be synonymous with industrialisation. Nehru categorically stated: “ If we are to industrialise, it is of primary importance that we must have the heavy industries which build machines”. In another reference, he mentioned: “There are some who argue that we must not go in for heavy industry but for lighter ones. Of course, we have to have light industries also but it is not possible to industrialise the nation rapidly without concentrating on the basic industries which produce machines which are utilised in industrial development.”

Nehru’s philosophy of industrialisation was incorporated in the Second Five Year Plan, which clearly stated:

“In the long run, the rate of industrialisation and the growth of the national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals and heavy industries generally – which increase the capacity for capital formation. One important aim is to make India independent as quickly as possible of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible speed.”

Since private sector was not willing to invest in heavy industry, which had a long gestation period and a relatively low rate of return, the task of development of heavy industry was assigned to the public sector. It was, therefore, argued that public sector would be the engine of growth. However, private sector was expected to supplement the efforts of the public sector.

**Check Your Progress 1**

- 1) Discuss the meaning of industrialisation. Does the process of industrialisation require a rigid sequence of industries to be developed at various stages?  
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## 16.3 COMPONENTS OF INDUSTRIAL SECTOR IN INDIA

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In Block 1 we learnt that economic activities could be broadly divided into three categories, often termed as three main sectors of the economy, viz., primary, secondary and tertiary. In this sort of division, industrial activities are included in the secondary sector. You might have noticed earlier, in Block 1, that secondary sector includes two major groups: industry and construction. Thus construction activities, although constitute part of secondary sector, are not considered as part of industrial sector. The secondary sector has a share of about 27 per cent in GDP of India for the year 1999-2000 (at 1993-94 prices).

### 16.3.1 Types of Industrial Activities

The industrial sector includes three main activities: i) Manufacturing, ii) Electricity, Gas and Water supply, often referred to as Electricity, and iii) Mining and Quarrying, often referred to as Mining. Manufacturing activities has the largest share in the industrial sector, about 80 per cent.

Manufacturing activities are divided into two major sub-divisions: i) the Factory Sector, and ii) Non-Factory Sector. The factory sector is also called 'registered sector' or 'organized sector'. You may note that all industrial establishments, which employ 10 or more workers working with the aid of power (20 or more workers if working without the aid of power), are required to be registered under the Indian Factories Act, 1948. Hence, these industrial units are termed registered sector. The remaining industrial units, those employing less than 10 workers working with the aid of power (less than 20 workers if working without the aid of power) are included in the non-factory sector. This sub-sector is also termed as unregistered sector or unorganized sector. Generally it includes household enterprises and small-scale non-household enterprises. For the year 1999-2000 the share of various segments in industrial sector are given in Table 16.1.

**Table 16.1: Percentage Distribution of Industrial Activities(for 1999-2000 at 1993-94 prices)**

Sl. No.	Sub-Sector	Percentage Share
1.	Manufacturing (= a+b)	63.57
	a. Registered	42.01
	b. Unregistered	21.56
2.	Electricity	9.29
3.	Mining	8.55
4.	Construction	18.96
5.	Industrial Sector (= 1+2+3)	81.04
6.	Secondary Sector (=1+2+3+4)	100.00

## Industry in India

The Central Statistical Organisation (CSO) collects data on all industrial units on a regular basis. Information on various production aspects of the factory sector is collected every year on a yearly basis in the form of Annual Survey of Industries. On the other hand, data on non-factory sector are collected every five-year.

The CSO has divided industrial establishments into 20 major industry groups. Such grouping is called the two-digit classification. For each group there is further sub-classification at 3-digit level. For example, in the 2-digit group paper and paper products we have further sub-groups of newsprint, printing and different paper products at the 3-digit level. We present these industry groups (at 2-digit level) in Table 16.2 along with their share in registered manufacturing.

**Table 16.2: Share of Industry Groups in Registered Manufacturing Output**

Industry code	Industry name	Percentage share (1997-98)
20-21	Food Products	9.32
22	Beverages and Tobacco	3.09
23	Cotton Textiles	4.27
24	Wool, Silk and Fibre Textiles	3.79
25	Jute and other Vegetable Fibre Textiles	0.95
26	Textile Products	2.52
27	Wood and Wood Products	0.29
28	Paper and Paper Products	2.82
29	Leather and Leather Products	0.91
30	Chemical and Chemical Products	18.57
31	Rubber and Rubber Products	6.19
32	Non-Metallic Mineral Products	4.47
33	Basic Metals and Alloys	15.95
34	Metal Products, except Machinery & Equipment	2.49
35-36	Machinery & Equipment other than Transport Equipment	14.52
37	Transport Equipment and Parts	7.98
38	Other Manufacturing Industries	1.88
Total		100.00

### 16.3.2 Use-based Classification

impact on economic development. For example, iron and steel is used as a basic intermediate input in manufacture of other products while bread is a food product used for consumption. Variation in the contribution of iron and steel, and food products set altogether different growth path for the economy. Thus it is important to group industrial activities according to the nature of products they produce.

Manufacturing activities are divided in to four major groups on the basis their end-use. Such use-based classification helps in identifying the structural changes taking place in the economy. These four use-based categories are i) Basic goods, ii) Intermediate goods, iii) Capital goods, and iv) Consumer goods. Consumer goods are divided again into two sub-categories: i) Consumer Durables, and ii) Consumer Non-durables.

Basic goods include salt, fertilizer, heavy chemicals, cement, basic metals, electricity and mining. Intermediate goods include textile spinning, wood, newsprint, leather, rubber products, petroleum products, and certain categories of chemicals and non-metallic mineral products. On the other hand, capital goods include all types of machineries, machine tools and transport equipment, except consumer durables. In the category of consumer goods, consumer durables include furniture and fixtures, office and household equipment, electrical and telecommunication equipment, vehicles, etc. On the other hand, consumer non-durables include food products, textile, footwear, paper products, drugs & pharmaceuticals, etc.

**Check Your Progress 1**

1) Distinguish between the following concepts:

- i) Secondary sector and Industrial sector
- ii) Manufacturing sector and Industrial sector
- iii) Consumer durables and Consumer non-durables

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**16.4 REGIONAL CONCENTRATION OF INDUSTRIES**

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In Block 1 we discussed the problem of regional imbalance as one of the current issues in India. We learnt that some of the states have remained backward in terms of economic variables while others have fared better. Such disparity has widened over time, which implies that poor states have become poorer while rich states have become richer. Such a feature is prominent when viewed in terms of industrial development.

As the process of industrialisation progressed in the country, it was noted that it led to regional concentration of industries. Four states, viz., Maharashtra, Tamil Nadu, Gujarat and Andhra Pradesh have been the principal beneficiaries of industrialisation. From Table 16.3 you can observe that these four states accounted for 53 per cent of the total number of factories and provided 48.5 per cent of total factory employment during 1997-98. In terms of industrial output and value added, the share of these states was 51 per cent and 47 per cent respectively. This conveys disparities across states because these four states account for only 28.7 per cent of total population in India.

**Table 16.3: Regional Location of Industries 1997-98**

States	No. of factories	Fixed Capital	Person Employed	Output	Value Added	Population
Maharashtra	15.15	18.1	14.76	21	21.67	9.33
Tamilnadu	14.57	8.26	12.85	10.01	8.66	6.60
Gujarat	9.88	15.24	8.80	12.87	9.23	4.88
Andhra Pradesh	13.84	7.52	12.09	6.88	7.43	7.86
Total of above 4 states	53.44	49.11	48.5	50.75	46.98	28.7
Rest of India	46.56	50.89	51.5	49.25	53.02	71.3
All India	100	100	100	100	100	100

*Note:* Computed from Annual Survey of Industries 1997-98

Maharashtra has gained the most since the share of this state in total factory industrial output was 21 per cent and in value added was 22 per cent although it accounts for 9 percent population in the country. At the other extreme is Bihar, which has a very large population but ranks low in terms of number of factories. In terms of number of factories and industrial output produced, Uttar Pradesh ranks quite high. However, it has a very high percentage of population also. Thus it cannot be considered as an industrially developed state.

The regional imbalance in the growth of factories, value of industrial output and value added indicate that the country did not succeed to develop a balanced regional pattern of industrialisation. Secondly, poor states have low level of industrial development.

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## **16.5 INDUSTRIAL SICKNESS**

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Indian industries, large, medium and small scale, are afflicted with the problem of industrial sickness. It would be of interest to study this problem.

### 16.5.1 Definition of Sickness

Industrial sickness is said to prevail when an industrial unit suffers losses year after year and in the process the accumulated losses lead to an erosion of its net worth. According to the Sick Industrial Companies (Special Provisions) Act (1985), a sick company means a medium or large (i.e., non-SSI) industrial company which at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in the financial year and the financial year immediately preceding such financial year. This definition does not cover government companies, shipping companies and small-scale industrial units/ancillary units.

However, before being declared a sick company, a unit does become 'weak'. It is necessary to initiate action at the stage when a unit is considered to be 'weak' so that it does not slide into the category of a sick unit. Any industrial unit is termed as weak if at the end of any accounting year, it has accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediate preceding five accounting years.

The term 'net worth' implies the sum total of 'paid-up capital' and 'free reserves'. Free reserves mean all reserves credited out of the profits and share premium accounts.

Since industrial sickness is widespread among small scale industries (SSIs), the definition of a sick SSI-Unit adopted in 1989 states: "A small industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years".

### 16.5.2 Incidence of Industrial Sickness in India

Industrial sickness has been growing in India during the last decade. It has not only penetrated some of the traditional industries like cotton textiles, jute, sugar and paper but has also affected some important industries, established more specially after Independence like engineering, chemicals, iron and steel, cement, etc.

Growing sickness in the industrial sector results in locking up a substantial amount of bank credit loaned to industry. It, therefore, signifies wastage of resources.

**Table 16.4: Industrial Sickness in India at the end of March, 1994**

	No. of Sick Units	Total Bank Credit Locked-up (Rs. Crore)	Per cent of Total
1. Non-SSI Sick Units	1909	8151	59.5
2. Non-SSI Weak Units	591	1864	13.6
3. SSI Sick Units	2,56,452	3680	26.9
Total	2,58,952	13,695	100.0

Source: RBI, Report on Currency and finance (1994-95).



## Industry in India

As on 31<sup>st</sup> march, 1994, in the large and medium industries sector (referred to as Non-SSI sector), there were 1,909 sick units in which total bank credit of the order of Rs.8151 crore was locked up. Along with them, there were 591 Non-SSI weak units, which had a total locked-up bank credit of the order of Rs.1,864 crore. Taking both of these together, in the large and medium sector a total of Rs.10,015 crore of bank credit was locked-up in 2,500 Non-SSI sick and weak units, accounting for nearly 73 per cent of the total bank credit. Besides these, there were 2,56,452 SSI sick units in the small-scale industries sector and a total of Rs.3680 crore were locked up in them. This implies that nearly 27 per cent of bank credit was locked up in SSI sick units.

**Table 16.5: Industry-wise Classification of Sick and Weak Units in Large and Medium Industries**

(as on 31<sup>st</sup> march, 1994)

	No. of Sick and Weak Units	Per cent of Total	Outstanding Bank Credit	Per Cent of Total
Textiles	466	18.7	2018	20.1
Engineering	297	11.9	1303	13.0
Chemicals	207	8.3	866	8.6
Iron and Steel	142	5.7	749	7.5
Electrical	87	3.5	768	7.7
Paper	134	5.4	405	4.0
Cement	67	2.7	336	3.4
Sugar	32	1.3	100	1.0
Jute	44	1.8	187	1.9
Rubber	52	1.7	129	1.3
Miscellaneous	975	39.0	3154	31.5
<b>Total</b>	<b>2500</b>	<b>100.0</b>	<b>10,015</b>	<b>100.0</b>

Source: RBI, Report on Currency and Finance (1994-95)

Data given in Table 16.5 reveal that five industries, viz., textiles, engineering, chemicals, iron and steel, and electrical accounted for a total of 1,199 weak and sick units in the large and medium industries and they accounted for a total of Rs.5704 crore of locked-up bank credit (about 57 per cent of total). This indicates a high degree of concentration of sickness in these five industries. There is no doubt that sickness was prevalent in paper, cement, sugar, jute, rubber, etc. but the magnitude in these industries was rather very small.

### State-wise Analysis of Industrial Sickness

Data given in Table 16.6 provides information regarding the number of non-SSI (sick and weak units) and SSI sick units and the corresponding outstanding

bank credit across states. The number of units can be a misleading indicator because the units involved may be of different sizes. The more important indicator is outstanding bank credit. Taking this as the basis, the data reveal that seven industrially advanced states (Maharashtra, West Bengal, Uttar Pradesh, Andhra Pradesh, Gujarat, Tamil Nadu and Kerala), account for Rs.7376 crore (74 per cent of total) of outstanding bank credit in Non-SSI sick and weak units. In the SSI sick units, these 7 states account for Rs.2593 crore of outstanding bank credit (70.5 per cent of total). Taking all units together, a total of Rs.9,969 crore (72.7 per cent of total) outstanding bank credit was locked up in these states. This indicates a sufficiently high degree of concentration of industrial sickness. Maharashtra was at the top with locked-up bank credit of Rs.2677 crore (19.5 per cent), followed by West Bengal Rs.1761 crore (13 per cent), Uttar Pradesh Rs.1256 crore (9.2 per cent).

**Table 16.6: Statewide Analysis of Industrial Sickness in India**

(on 31<sup>st</sup> March, 1994)

	Number of Units		Outstanding Bank Credit (Rs.crore)			% of Total
	Non-SSI (Sick and Weak)	SSI Sick	Non-SSI (Sick and Weak)	SSI Sick	Total	
1. Maharashtra	436	21,350	1909	768	2677	19.5
2. West Bengal	292	56,083	1401	360	1761	12.9
3. Uttar Pradesh	201	33,915	948	335	1275	9.3
4. Andhra Pradesh	263	13,842	993	263	1256	9.2
5. Gujarat	222	7,812	862	235	1097	8.1
6. Tamil Nadu	207	8,125	644	428	1072	7.8
7. Karnataka	151	15,145	627	204	831	6.1
Sub-Total (1 to 7)	1772 (70.9)	1,56,272 (60.9)	7376 (73.6)	2593 (70.5)	9969 (72.7)	72.7
8. Kerala	85	10,792	519	169	688	5.0
9. Haryana	88	1,669	366	80	446	3.3
10. Bihar	71	17,063	322	114	436	3.2
11. Madhya Pradesh	117	9,795	283	144	427	3.1
12. Orissa	61	17,235	281	75	356	2.6
13. Rajasthan	82	14,665	225	75	300	2.2
14. Punjab	51	2,434	122	65	187	1.4
15. Assam	35	14,210	145	40	185	1.4
16. Others	138	12,317	376	325	701	5.1
Total (1 to 16)	2,500 (100.0)	2,56,452 (100.0)	10,015 (100.0)	3,680 (100.0)	13,695 (100.0)	100.0

Source: Compiled from RBI, Report on Currency and Finance (1994-95).

**Table 16.7: Growth of Industrial Sickness in India**

	Outstanding Bank Credit (Rs. Crore)		Average Annual Growth Rate
	Dec.1980	March 1994	
Non-SSI Units (Large and Medium)	1520	10,015	15.6
SSI Sick Units	306	3,680	24.9
<b>Total</b>	1826	13,695	16.8

### Growth of Industrial Sickness

Table 16.7 provides information about the growth of industrial sickness during

1981-94. The data reveal that in the large and medium Non-SSI units, total outstanding bank credit increased from Rs.1520 crore in December, 1980 to Rs.10,015 crore in March, 1994. The annual average rate of growth works out to be 15.6 per cent. As against it, outstanding bank credit in SSI sector increased from Rs.306 crore in December 1980 to Rs.3680 crore in March 1994, indicating an annual average growth rate of 24.9 per cent. This implies that incidence of industrial sickness has been growing at a faster rate in the SSI units as compared with Non-SSI units. Taking both the sectors together, outstanding bank credit increased from Rs.1826 crore to Rs.13,695 crore, indicating an annual average growth rate of 16.8 per cent.

### **17.5.3 Factors Responsible for Sickness in Large Units**

Two sets of factors are responsible for industrial sickness: external and internal.

Among the external factors can be listed (i) government policies pertaining to production, distribution and prices, (ii) change in investment pattern as a consequence of new priorities in the plans, (iii) shortage of power, transport, raw materials, and (iv) deteriorating industrial relations.

Government policies have contributed to industrial sickness in various ways. For instance, the controlled cloth scheme did not allow even the cost of cotton to be recovered and thus became a principal cause of sickness in the textile industry. Similarly, imposition of rigid control on the price of coal before nationalisation led to sickness in coal industry. But soon after nationalisation, the price of coal was increased two and a half times in a period of 3 years. Such irrational policies cause industrial sickness.

Another factor, which is responsible for industrial sickness, is the absence of a clear policy regarding wages and incomes. The government has been accepting very high wages and other perks for Reserve Bank of India, State Bank of India, nationalised commercial banks, LIC and similar high profit making enterprises. This induces workers in other undertakings/industries to demand higher wages. The government should accept the principle of equal pay for employees with equal or nearly equal qualifications across the board. If this is not done, the industrial atmosphere will be plagued by strikes.

Among the internal factors, the following are important: (i) mismanagement by owners, (ii) diversion of funds, (iii) wrong dividend policy, (iv) excessive overhead expenses, (v) lack of provision for depreciation of machinery and other equipment and (vi) over-estimation of demand.

### **16.5.4 Factors Responsible for Sickness in Small Scale Units**

On the basis of various studies, the following factors are identified:

- i) Non-observance of basic principles of business management – Many small entrepreneurs start with small amount of initial capital and do not make efforts to build internal financial strength during good business years. They borrow for a short-term but invest in medium-term projects and create resource crunch. Their slender capacity to face difficult times results in sickness of such units.
- ii) Lack of management expertise – it has been observed that young entrepreneurs start with romantic ideas. They increase their overhead expenses by establishing

deluxe offices. They borrow at high rates of interest. They do not try to be particularly careful about keeping costs low. They also sell on credit to various customers and this results in many defaults. Thus, inexperienced management having inadequate knowledge of the market becomes the cause of sickness.

- iii) Under utilisation of capacity may be due to shortage of working capital, or lack of demand or non-availability of raw materials. All these factors contribute to sickness.
- iv) Non-payment by the principals - Many small units supply goods to large units and the principals who buy them do not pay small entrepreneurs for several months. This causes a shortage of cash flow and small enterprises go sick.

The government has been taking steps to prevent sickness at various levels. Sick Industrial Companies Act (SICA) was passed in 1985. The Reserve Bank of India established a special cell to monitor the performance of sick units. The government has also passed a law forcing the principals to pay the small-scale units within a time frame, failing which they have to pay a penalty. Despite various measures taken by the government, it has not been possible to control industrial sickness. The government should, therefore, re-examine the measures undertaken so far.

**Check Your Progress 3**

- 1) Define a sick and a weak unit as per Sick Industrial Companies Act (1985).

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- 2) List five principal causes of industrial sickness in large and medium units.

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- 3) List three major causes of industrial sickness in small-scale units.

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**16.6 LET US SUM UP**

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Industrialisation involves a process of change in technique of production from an outdated to a modern and up-to-date technique. Marxist economic literature

prescribes two stages of industrialisation. The first stage involves the establishment of heavy and basic industries. The second stage involves the transformation of the entire economy to industrial methods of production. The Marxists suggested the Soviet model of industrialisation as the only correct method for non-industrialised developing countries. Non-Marxist economists do not prescribe any sequence.

Two major problems before industrialization in India are regional concentration of industrial units in certain states and sickness of firms. Certain states particularly Maharashtra, Gujarat, Andhra Pradesh and Tamil Nadu are industrially developed than other states.

Industrial sickness is said to prevail when a unit suffers losses year after year and in the process the accumulated losses lead to erosion of its net worth. If the erosion of net worth is upto 50 per cent, the unit is considered as 'weak unit', but if the erosion of net worth is 100 per cent or more, the unit is considered to be 'sick'.

Industrial sickness prevails in large and medium industries as well as in small-scale industries. High degree of concentration of industrial sickness is witnessed in five industries, viz., textiles, engineering, chemicals, iron and steel and electrical. On the other hand, high degree of concentration of industrial sickness is seen in seven states, viz., Maharashtra, West Bengal, Uttar Pradesh, Andhra Pradesh, Gujarat, Tamil Nadu and Kerala.

Industrial sickness measured in terms of outstanding bank credit has grown by 16.8 per cent per annum during 1981-94 for the industrial sector as a whole. In Non-SSI units, this growth rate was 15.6 per cent, while in SSI units, it was 24.9 per cent. Factors responsible for sickness of industrial units can be both external and internal to the firm. Government has initiated a number of measures to ameliorate the problem of industrial sickness. However, such efforts have not been effective in all cases.

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## **16.7 KEY WORDS**

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***Capital Intensive Industries:*** are those industries, which employ more capital per unit of labour.

***Economic Infrastructure:*** refers to projects devoted to the production of electric energy, irrigation, transport and communications.

***Heavy Industry:*** includes iron and steel, heavy machinery, engineering industries, electricity, coal, heavy chemicals which belong to the capital goods sector.

***Industrial Sickness:*** is said to prevail when an industrial unit suffers losses year after year and in the process, the accumulated losses lead to erosion of its net-worth.

***Industrialization:*** is a system of economic development in which major part of the national resources are used to develop a technically up-to-date diversified national economy capable of assuring a high rate of growth for the economy as

a whole and of overcoming economic and social backwardness.

**Net Worth:** implies the sum total of the paid-up-capital and free reserves. The free reserves mean all reserves credited out of the profits and share premium account.

**Poverty Ratio:** indicates the proportion or percentage of population below the poverty line.

**Regional Imbalance:** refers to unequal or disproportionate development of various regions within a country.

**Social Infrastructure:** refers to infrastructure in the form of health and educational facilities such as schools, colleges, universities, polytechnics, primary health centres, dispensaries and hospitals.

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## **16.8 SOME USEFUL BOOKS**

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Ruddar Datt & KPM Sundaram (1999); *Indian Economy*, 38<sup>th</sup> Ed. S.Chand & Co., New Delhi.

Reserve Bank of India, *Report on Currency and Finance*, (1994-95).

Government of India (1961), *Problems in Third Plan- A Critical Miscellany*.

Planning Commission (1961), *Second Five Year Plan – The Framework*.

Shirokov, G.K. (1973), *Industrialisation of India* , Peoples' Publishing House, New Delhi.

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## **16.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES**

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### **Check Your Progress 1**

1) Study Section 16.2 and attempt yourself.

### **Check Your Progress 2**

1) Five major industries included in heavy industry are:

- a) coal
- b) iron and steel
- c) heavy machinery
- d) engineering industries
- e) chemicals

2) The major problems created by the heavy industry strategy of industrialisation are:

- a) inadequate development of agriculture
- b) capital intensive strategy did not enlarge employment
- c) high cost inefficient economy via public sector expansion

d) regional imbalance

**Check Your Progress 3**

- 1) Study Section 16.5.1 and attempt your answer.
- 2) Five main causes of industrial sickness in large and medium units are:
  - a) Government policy pertaining to production distribution and prices.
  - b) Shortage of power, transport, raw materials, etc.
  - c) Mismanagement by owners
  - d) Diversion of funds to other use
  - e) Lack of modernisation
- 3) Three major causes of industrial sickness in a small scale units are:
  - a) non-observance of basic principles of business management
  - b) under-utilisation of capacity
  - c) non-payment by the principals