Sharade Marathe. *Regulation and Development: The Indian Policy Experience of Controls Over Industry.* New Delhi: Sage Publications India Pvt. Ltd. 1986. 328 pp. Price: (Hardbound edition) Rupees (Indian) 195.00.

This book documents in a comprehensive manner the 'twists and turns' in India's industrial policy and strongly suggests the need for a re-orientation of this policy to overcome the weaknesses in the industrial structure and to utilize the sources of its strength. The author has had a distinguished career in the Indian Economic Service and brings this experience to bear on his analysis of the evolution of industrial policy in India.

In India, the primary objective of planned development has been the creation of a technologically mature society capable of sustaining a process of self-propelled growth without extreme concentration of wealth in a few hands. It is rightly pointed out in the book that this objective is possible only in the context of rapid growth, which is the ultimate test of industrial policy. The book traces the origins of India's industrial policy and analyses its evolution during the past thirty years, showing how there has been an increasing gap between the objectives of this policy and the performance of the industrial sector.

The book is divided into ten chapters. The first five chapters describe the evolution of Indian industrial policy and show that even before Independence the regulatory role of the State with regard to industrial development was dominant in Indian national thinking. The Industries Act, 1951, provided the legislative framework for this role. But over the years the legislation was amended a number of times to allow an increasing role to be played by the government in industrial activity, which contributed to a greater centralization of powers and made the system of government regulations more complex. It is suggested that an effective monitoring system should be evolved to determine, on a regular basis, the relevance of the industrial policy to the new situation and to modify it accordingly so that the growth potential of the system is not inhibited.

The subsequent four chapters review the effectiveness of the policy of import substitution, and of the industrial policy in the removal of regional disparities. They also provide useful insights into the role of the State sector as an instrument of growth, and examine the issue of the pricing policy for industry. In the last chapter, the author 'looks ahead' and reviews the various ways and means of removing the factors constraining efficiency and growth of productivity in Indian industry.

In recent years there has been a lot of debate about the possible causes of the decline in the growth rate and of the increase in inefficiency of the industrial sector since the late Sixties. A number of explanations have been put forward, which include the poor performance of the agriculture sector; adverse shift in the terms of trade against industry; a sluggish aggregate demand due to an unequal distribution of income; slow growth of public investment; and increasing government controls over industry. There is also the resource-constraint argument, according to which it is believed that despite India's high rate of saving of 23 percent, the economy is not generating enough resources to finance industrial and agricultural development as well as rural poverty programmes. The main reason cited for this is that agricultural incomes accounting for around 45 percent of the total national income remain untaxed.

This book, however, deals only with the issue of the government industrial policy, and in this context the author notes that even though the inadequacies of industrial policy were noted by various government committees and reports, nothing substantial was done to alter the basic policy-framework. The main reason for this was the "emergence of the combined and powerful vested interests of politicians, bureaucrats and businessmen". Oppressive controls over industrial activity blunted competition and led to an inefficient production system.

Over time, State control over industrial activity became inconsistent with the ideals of democratic socialism pursued by all successive governments, and contradicted the objective of attaining rapid growth of industry. This view is shared by many political scientists who have searched for an explanation of the paradoxes and 'irrationalities' of the Indian economic system in the increasing power of the State and the concomitant shift in the aim of economic policy from management and institution-building to patronage and the maximization of the interests of the State elite. But it is often overlooked that some economic waste and inefficient allocation of resources may be inevitable in the context of the Indian political system operating in a semi-developed transitional society and dominated by a coalition of powerful but heterogeneous and conflicting vested interests.

Since the mid-Fifties an important feature of industrial policy in India was the emphasis on import substitution, which was inspired in part by the continuing shortage of foreign exchange. In the process, comparative costs of imports versus indigenous production were overlooked and no rational criterion was developed for the extent and duration of protection from foreign competition. And as import substitution covered the entire spectrum of manufactured goods, it resulted in a high-cost industrial structure, which, among other things, priced India's exports out of the world market and left this important source of additional demand untapped.

The continuation of the import-substitution policy, which had led to the rapid expansion of industrial capacity before the mid-Sixties, was increasingly growth-dampening. To improve productive efficiency and to reduce costs in Indian industry the author advocates a gradual relaxation of import controls and a reduction in the effective degree of protection along with a liberal approach to induction of technology from abroad.

Apart from the active role of the State in economic mechanism, the other outstanding feature of the Indian development experience has been the rapid growth of the public sector. The emphasis on the growth of the public sector was, in part, due to the inability of the private sector to develop productive capacity in vital industrial sectors. As a result, the public sector grew enormously and by 1981-82 had a virtual monopoly in the petroleum, oil, coal, telephones and communication industries and had the dominant share in a large number of other industries. The size and efficiency of the public sector has thus important implications for the growth of the economy, in terms of both supplying vital inputs to other industries and generation of a surplus for financing investment. The author points out that in both these aspects the performance of the public sector has been lacking, pointing to the need for streamlining the operation and management of this vital sector and for generating substantial surpluses for investment.

In the concluding chapter, the author goes a step further and advocates a move away from "our traditional concepts regarding the efficacy of state ownership over the means of production and detailed regulation and control over the private sector". No doubt the public sector is in need of streamlining and the economy at this stage of development may benefit from lesser controls. But to radically alter the present balance between the public and private sectors may have serious consequences for income distribution, technology transfer, employment, regional disparities, etc. It is only with great caution that such a policy can be implemented.

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