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# ORISSA ECONOMIC JOURNAL

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## ADDRESS OF WELCOME

DR. S. MISRA

*Principal, S. C. S. College, Puri*

Respected Governor of Orissa, President Dr. D. C. Misra, distinguished delegates, Ladies and Gentlemen,

I deem it a unique privilege to avail the opportunity of welcoming so many distinguished guests into the campus of this institution, the respected Governor of Orissa, Sri Akbar Ali Khan, the president of the Conference Dr. D. C. Misra, and many more others who are noted for their valuable contributions in their own fields towards building up the national life. I extend my hearty welcome to all of you into this institution. Puri, which is otherwise described as Srikhestra or Purushottam Khestra has always attracted wise men of missions through centuries. These men come here in search of truth and light, their sole mission being disseminating knowledge and illumination, to wider regions of our social life so that man could release himself from bondage and suffering. You can still detect the foot-prints of Sri Sankara and Sri Ramanuja, Sri Kabir and Sri Chaitanya buried under the sand hills of Puri. If you are sensitive enough to catch the voice, you can still listen to these great and wise men of our culture who spoke at large to mankind that an enduring social order could always be built up only on the basis of universal fraternity and love, maitri and karuna. Unless we have the sense of belongingness to each other, we cannot live together in harmony. Our best effort to build up a socialist order of society will not make any sense, if we do not enlarge our horizon and learn to live for others. Puri, therefore has always remained our cultural and spiritual capital through centuries. We come here and assemble to take the message home, the message that we must live together, eat together, thrive and prosper together in knowledge, power and light, let there be no envy towards each other.

*Saha na mavatu suha no bhunaktu  
Saha biryam karababahe  
Tejasvi ma madhita mastu ma bidhusebahe*

But even apart from our spiritual pilgrimage to Puri, the place commands an important position in our history and culture. You can always look at the great temple Jagannath as a living monument of history, our history and culture, ideas and ideals, art and music society and morals, are closely interwoven into the texture of the temple. The temple comprehends the whole evolution of a proud and ancient people who fought gallantly and lived generously. It represents a unique synthesis of race and religion, caste and creed, inter-blending into a mighty symphony, a melody of many music struck into a living harmony. Through rise and fall of dynasties, in periods of darkness and in moments of enlightenment, this great institution has always stood like an unfailing guide and an abiding lightpost. For generations. it has dominated our life and history in such wise that we have a sense of belonging to this institution. It respects our rich cultural heritage which rolls into the present, enlarging into our ever-expanding future.

But if it were merely a thing of the past, we could always turn away from this place after a fine picnic or good sea bath. There are living moments in our history when this place and this temple have inspired the architects of modern Orissa to carve out our road to freedom. Puri was the cradle of our national movement. The architects of modern Orissa were conceived here, right from the very beginning of the century, Puri became the scene of a great national upsurge under the leadership of Pandit Gopabandhu. Puri, once again led the nation, harkening and awakening a slumbering people to rise up and fight against injustice and inequality, slavery and exploitation. It was in and around this ancient place that we launched our first drive to build up a national educational system in the open air, planning education for nation-building. We made initial attempt to rebuild our shattered economy in terms of cooperative movement, reconstituting our national life in the commune.

Our life and literature, art and music received fresh impetus from this place under the creative leadership of Pandit Gopabandhu and his trusted band of followers, Acharya Sri Harihara, Pandit

Nilkantha, Pandit Godavarish and Pandit Krupasindhu who were dedicated to the cause of the nation. I am happy to welcome all of you to this ancient place where our past enlivens our presents and the present rolls on into the future, carrying our hopes and expectations for a new and prosperous society.

A society does not hang in the air. The very objective basis of any social order is constituted by the operative forces of our economic life. Marx might have over-stated the truth, but there can be no denying the fact that means of production, by and large, determine the manner and mode of our living. For over two hundred years under the British regime, our economy was kept under surveillance. Industrial revolution which brought about tremendous changes in the West, had practically no impact on our economic development during this period. Our economy was essentially colonial working under strain. We were exploited and our economic life was impoverished. Not until 1947, when India won Independence, that our economists could play any positive role in building up the nation. It was after Independence that our economists were asked to give us positive lead in planning our economy for the nation building.

Since Independence our economists have played a vital role not only in rebuilding our national economy, but in revising and reevaluating the basic economic categories in the light of a developing society. We are now pledged to build up a socialistic pattern of society. Our leaders have told us in clear and unmistakable terms that nothing less than a socialistic order could satisfy our demand for equality and justice.

Our economy is steadily being geared up in this line; a decisive step taken in this regard was nationalization of Banks and Insurance, so that the talents of the common people could be harnessed over a wide area in building up the nation. Today we have adopted 20-point economic programme as our national policy. Our main task as announced by our Prime Minister and the Chief Minister of Orissa, is to mobilise all our resources, technical manpower and talents, for fighting the dark forces of reaction and for rebuilding a new and prosperous society. This conference of learned economists, it is hoped, will enlighten our path and help us to move forward.

I, on behalf of the Reception Committee, once again extend my hearty welcome to all of you, ladies and gentlemen, who are present here in this Conference. I take this opportunity of thanking all those, the teachers and students, the members of the public and district administration, our police and P. W. D. men, department of electricity and P. H. D. for extending their sincere cooperation to make this conference a success. I am particularly thankful to Sri A. N. Nanda, the District Magistrate and Collector of Puri, our Patron-in-Chief, for rendering valuable help to our organization. I thank all of you, ladies and gentlemen, for your sincere good wishes and cooperation.

Thanking you,

*(Sarve Bhabantu Sukhinah, Sarve Santu Niramayi,  
Sarve Vadrani Pasyantu ma Kashit Dhukhabhag Bhavet.)*

## PRESIDENTIAL ADDRESS

DR. D. C. MISRA

Hon'ble Governor of Orissa, Chairman, Reception Committee,  
Fellow delegates, Ladies and Gentlemen,

I am grateful to the members of the Orissa Economics Association for inviting me to preside over the session. I offer my sincere thanks for bestowing on me this great honour, in spite of the fact that I have been cut off from the teaching of Economics for the last five years.

My present association with educational administration and planning has naturally prompted me to draw your attention to an important branch of economics; the economics of education. A large volume of literature has developed in this field during the past fifteen years which has brought about a revolutionary change in economic thinking. Yet this seems to have had no impact on the economists of our country and particularly of our State. This is perhaps due to the fact that the past and present theories of development have regarded the accumulation of physical capital as the key requirement of growth. This approach is a hang-over from the classical theory of production which was relevant to the early stages of industrial revolution and in which a distinction was made between capital goods and raw labour power. But in a modern industrial economy, the distinction between labour as an original factor and capital as a produced factor makes little sense. With the progress of technology, acquisition of increasing amount of skill and scientific knowledge on the part of the labour force has become progressively important.

It is T. W. Schultz, who in his path-breaking paper on "Investment on human capital" pointed out that many of the paradoxes and puzzles of economic growth could be solved by introducing the concept of human capital. The first puzzle is with regard to long period behaviour of capital-income ratio. As the stock of reproducible capital



of a country in relation to land and labour increases, it would employ such capital in greater depth on account of growing abundance and cheapness. But as a matter of fact it has been found that less of such capital tends to be employed relative to income as economic growth proceeds. This perhaps means that the decline in the capital-income ratio is matched by a relative increase in human capital relative to income. Similarly, the remarkable post-war recovery of countries which suffered from large scale destruction of plant and equipment during the war shows that much of the human capital which escaped destruction was responsible for this. In case of under-developed countries, the low absorption capacity of additional capital is due to low human resource development. The new additional capital from outside generally goes into the formation of structures equipment and inventories. It is generally not available for investment in man. Consequently, human capabilities do not keep pace with physical capital and become limiting factors in economic growth. According to Schultz, the procedure as followed for estimating physical capital formation can be followed for the formation of human capital, that is by the expenditure to produce them. In so far as the expenditure enhances knowledge and skill, they also increase the value productivity of human efforts and yield a positive rate of return. The important activities that improve human capability are (1) health facilities and services that include all expenditures that affect life expectancy, strength and stamina, vigour and vitality of the people, (2) on the job training, (3) formally organised education at elementary, secondary and higher levels, (4) study programmes for adults that are not organised by firms including extension programmes as in Agriculture (5) migration of individuals families to adjust to changing job opportunities.

Out of these, education is a very important and measurable component. Investment in education has risen at a rapid rate and may, by itself, account for a substantial part of otherwise unexplained rise in earnings.

H. G. Johnson was responsible for developing a generalised capital accumulation approach to economic development by adopting Fisherian concept of capital. According to this view, capital is anything that yields a stream of income over time and income is a product of capital. From this point of view all categories of income represent yields on various forms of capital and can be expressed as rates of



interest or return on corresponding items of capital. Alternately, all forms of income yielding assets can be given an equivalent capital value by capitalising the income they yield. The growth of income that defines economic development is necessarily the result of capital accumulation or of investment. But investment in this context includes such diverse elements as adding to material capital; and increasing the health, discipline, skill and education of human population; moving labour into more productive occupations and locations and applying existing knowledge and applying new knowledge to increase the efficiency of productive processes. All this entails costs in the form of use of current resources, an investment in them is socially worthwhile if the rates of return over cost exceeds the general rate of interest or if the capital value of the additional income they yield exceeds the cost of obtaining it. Thus the approach provides a unifying principle for statistical explanation of past growth and formulation of policy for future growth and plans for economic development.

Several attempts have been made to assess the economic contribution of education and a variety of approaches have been developed. Four main approaches are : (i) the simple correlation approach, (ii) the residual approach, (iii) the returns to education approach, and the (iv) forecasting man-power needs approach. The simple correlation approach consists of correlating some overall index of educational activity with some index of the level of economic activity. Inter-country correlations at a fixed point in time constitute one of the well known members of this group. In this approach the emolument ratios and G. N. P., per capita have been correlated. Similarly, inter-temporal correlations and inter-industry and inter-firm have been made. In case of inter-temporal correlation approach education and G. N. P. within a given country over time are correlated. In case of inter-industry and inter-firm correlation approach such measures as proportion of work force that has had training beyond secondary school level or percentage of gross receipt spent on research and development activities are adopted. Correction can then be made between one of these indices of educational activity and the profitability of industry or firm.

The second approach, the residual approach, consists of taking total increase in economic output of a country over a given period of time, identifying as much as the total increase possible with measurable inputs and then attributing the residual to unspecified inputs. As educa-

tion and advancement in knowledge are regarded as the most important of the unspecified inputs, the approach is included in the discussion on contribution of education.

The third approach, the Direct Return to education approach studies, the economic consequence of education by contrasting the life time earnings of people who had more education with those of people who had less of education. The difference in life-time earnings can thus be expressed as an annual percentage rate of return on the cost of obtaining education.

This approach has many attractions, the most important of which is that educational benefits are related to educational costs in a way that provides useful information concerning the adequacy of over-all level of investment in education and the extent to which economic benefits accrue to private individuals. But there are also many difficulties. As for example, groups with differing amount of education tend to differ in terms of other attributes which are likely to influence different earnings, earnings may not also measure productivity, there may be non-monetary attraction of jobs open to the Graduates and external economies, indirect benefits or social benefits, may also be present. Similarly, the existence of collective power which prohibits entry into certain profession may disproportionately increase the earnings. But the greatest limiting factor of this approach is that the average rates of returns of the past periods may not serve as unfailing guides for future action.

The fourth approach is the forecasting man-power needs approach to educational planning. The objective of this approach is to provide persons responsible for educational planning with information as to the likely future needs for persons with various kinds of training. Such forecasts can be expressed in terms of broad aggregates of people (e.g., Matriculates, Graduates) or in terms of specific occupational categories (Physicists, Agronomists, etc.) The great merit of this approach is that it offers definite guidelines in terms of which decisions can be made. But at the same time, one serious limitation is that the man-power projections may be disproved by the march of events, especially in a dynamic economy where future developments cannot be foreseen. Besides, there may be substitution between capital and labour, highly trained man-power and less highly trained man-power.

Balogh and Streetin who criticise these models which have been developed in the context of developed countries find them unsuitable for purposes of formulation of long term plans of economic development for under-developed countries which should also include educational planning. According to them in addition to this concept some other important factors should be taken into consideration.

A long term plan according to them must embrace a study of how and how far traditional educational pattern have contributed to the failure of social and economic progress in the past. The study must discover whether attitudes which are hostile to economic progress have been the results of a specific structure of education. On this basis, modification of the structure to accelerate economic development should be attempted. In this connection they have cited the example of former French and British Colonies, where a certain disdain has developed to technical education which has been further strengthened by low status of technical schools and restricted opening to their pupils.

The second requirement according to them is a concrete idea of the size and composition of long term development and a clear formulation of objective and goal. From these future pattern of man-power distribution can be derived which will indicate the measures and timing needed for educational planning. There is a narrow margin of tolerance and closeness of many under-developed countries to misery and starvation. Therefore, they suggest that it is crucially important that minimum needs are estimated and the required combination of measures is planned and executed. This is more or less akin to what is being attempted now under the minimum needs programme in the Fifth Five Year Plan. But they warn that failure to execute complementary measures can spell disaster. The isolation of educational expenditure distracts attention from the urgent needs not only to select the right type of education but also to combine it with provision of better seeds, drainage, fertiliser, with land reforms and price stabilisation, with improvement in transport and birth control, with improvement in rural amenities, with a reform of recruitment to the civil service and business management. The waste involved in not planning for required complementaries and pushing education too far can be detrimental to development.

In the light of the discussion above, let us now review the position in India.

It is found that in the Indian context the aggregated investment-in-man approach is largely unreal. Harbison and Myers in their studies have found a high correlation between enrolments in education, hence investment in education and a country's economic development as expressed by G. N. P. per capita. However, in case of India, while from the point of view of human resource development she ranks among the level 3 countries, i. e., semi advanced countries, from the point of view of G. N. P. per capita, she is among the level I countries. The figures of enrolment at primary level is highly unreliable and the national figure conceals the distribution of enrolment between different regions, groups of people and between sexes. Especially enrolment is low in case of backward States, districts and groups like Harijans, Adivasis and girls. Similarly enrolment between different stages of education reveals an unbalanced expansion. It is found that between 1951 and 1974, while enrolment had doubled at primary level, at the University level enrolment had increased by nearly eight times.

An explanation of this distortion in the educational structure can be found from the pattern of income distribution in the country. About 40 per cent of the people of the country was getting Rs. 20/- per month at 1960-61 level of prices. These people who are popularly said to be below the poverty line have no resources either for investment in physical capital or human capital. So in the schooling facilities, children belonging to this group can hardly send their children to school. The drop out rate for children of this group is very high. It is revealed from Preliminary Report on the Third All-India Educational Survey issued by the Education Department of Orissa that out of every 100 students enrolled in Class I in the Koraput district only 7 remain up to Class V. This shows that there is a heavy wastage of educational investment and out-put tends to be negligible in relation to input. This calls for an integrated approach to human resource development as complementary to investment efforts in other sectors of the economy.

The rapid increase in number without corresponding increase in expenditure in education has also led to fall in the quality of education. This is revealed from the percentage of non-teachers' costs to teachers' cost at various levels of education.



Levels of education. cost to	Percentage of	
	teachers' cost	non-teachers' cost
	1950-51	1965-66
1. Lower Primary Schools.	24.6	11.1
2. Higher Primary Schools.	32.0	12.4
3. Secondary Schools.	44.8	37.0
4. Colleges of Arts and Science.	73.7	63.8

(Education Commission Report-P.478)

This calls for improvement in the quality of education at all levels. Improvement of quality of course means increase in costs, regardless of the specific orientation and content of education whose quality is being increased. Another important aspect of varying quality levels of education relates to effect of different quality of education on the students. Thus the important aspect of variation in educational quality can be studied under either or both of these heads-difference in cost and difference in the value of product. The task of the educational planner is to choose the expenditure point giving the maximum cost-benefit ratio.

According to the Report of the Education Commission the national economy has grown at 5.4 per cent per year during the first three plans while educational expenditure has grown at the rate of 11.7 per cent per year. The effort or the national income devoted has thus increased at more than twice the rate of ability or national income. But it seems that the efforts have been mainly in the direction of quantitative expansion without what Myrdal calls the "distributional spread" of educational inputs among districts, social class and the two sexes. What has happened during these years is merely an expansion of the earlier system with a few marginal changes in content and technique.

The new national pattern of education 10+2+3 seeks to remedy some of the defects and distortions in the educational systems. But the class character of education inherited from the pre-independence days which emphasised on academic and literary type of education to the neglect of training for life and work, still dominates the field and the old values are still in vogue. The new policy aims at a proper balance between primary, secondary and higher education with greater emphasis

on quantity and quality in the case of primary education and on quality in case of secondary and higher education. In view of the great inequality in income distribution and lack of access of large percentage of people to any education, there is a danger that these objectives may not be attained in the near future and greater investment in education may lead to greater inequality in the distribution of income.

I would like to end my talk with a quotation from the report of the International Commission on Education which summarises the task of education in a changing world.

“The present day world is marked by population explosion, the imperative requirements of economic development, and the fight against hunger, the scientific and technological revolution, the multiplication of knowledge, the rise of the masses, the consequences and new expressions of democratic idea, the extension and proliferation of information and communication media. The world is making and will be making many new demands on education. Does it not contain new means which education may and must make use of, if it is not to fail in its tasks ?”

(Learning to be—Page 40)



## FISCAL POLICY IN THE CONTEXT OF DEVELOPMENT PLANNING

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The major concern of the world to-day is to eradicate poverty. Underdevelopment is not an immutable fact. The poverty of underdeveloped countries can be done away with and the economic development can be initiated and brought into being by deliberate governmental intervention. Not only the economic development can be stimulated and brought into being but it can also be sustained by government policy. Fiscal tools like taxation, public expenditure and public debt can be deliberately manipulated to accelerate the rate of economic development of less developed countries. What is important is planning for economic development. To-day almost all the different countries of the world have adopted economic planning even though objectives of planning in different countries are quite different. The primary objective of economic planning in India is to eradicate the poverty of its people through an increased rate of economic development. Let us discuss the role which fiscal policy can play in the context of development planning.

Fiscal policy in the context of development planning in a mixed economy has to subserve a number of objectives, the most important of which are :

- (i) to accelerate the rate of capital formation ;
- (ii) to secure optimum allocation of factor resources;
- (iii) to reduce inequalities in the distribution of income and wealth;
- (iv) to maintain reasonable degree of economic stability, and
- (v) to achieve balanced regional development.

There might be conflicts in the fulfilment of these objectives. The conflicts must be resolved in favour of optimal rate of growth. In the early stages of economic development the people of the developing countries are required to tighten their belts for a rapid rate of economic development.

A rapid rate of economic development requires investment, investment requires savings, and a properly-structured fiscal policy is essential to generate adequate volume of savings. The fundamental objective of fiscal policy is not only to generate savings but to mobilise these savings for productive investments. Since the magnitude of voluntary savings in a less developed country is small, fiscal policy is to be geared to squeeze out the 'economic surplus' which can be productively invested by the government. Creation of infrastructural facilities is an important precondition of economic development. In the initial stage of development, it is the exclusive responsibility of the government to build up economic and social overheads which will induce the participation of private capitals in economic development. The development specialists are unanimous about the fact that the resource-shifts are an integral part of the developmental process. Fiscal policy can play an useful role in shifting resources from unproductive uses to socially desirable productive uses. In other words, fiscal tools can be utilised to encourage as well as discourage the production of certain products. Given the availability of factor resources, fiscal policy should aim at bringing about an optimum and efficient use of these factor inputs. Tax concessions can be used to establish some industries which will help in exploiting to the full natural resources available in the country. In a developing economy tax concessions are intended to induce the establishment of new businesses that otherwise would not have been established. Governments of developing countries should offer tax concessions of many different types to attract foreign and domestic capital. Tax policy can be successfully used to diversify and broaden the manufacturing base of the economy. The manufacturing industries must be developed to redress the adverse terms of trade experienced by the primary-producing nations *vis-a-vis* industrial nations. It is widely believed, that the fruits of economic development in India have not been equitably distributed. Popular enthusiasm is considered to be the petrol of economic development. If the people of the country are to be made enthusiastic about the economic development, the benefits of development

must reach the rural masses. Fiscal policy can be tailored in such a way that it will not only reduce the inequalities in the distribution of income and wealth but it will also aim at an equitable growth. Regional imbalances in economic development might ultimately lead to the disintegration of a country. Regional disparities in economic growth is another important problem in India which fiscal policy is required to tackle. A properly structured fiscal policy would be able to encourage the establishment of new businesses in comparatively underdeveloped regions of India. Established businesses should be given special incentives to reinvest their earnings in the underdeveloped regions because profits of big businesses are a primary domestic source of capital for new investment. Growth with economic stability is another objective which fiscal policy is called upon to achieve in the context of development planning. Changes in the rates of direct and indirect taxation can be used as compensating policy measures. Public debt and government expenditure can also be manipulated to achieve this stability. In the early days of the development of fiscal policy, it was thought that the new gospel of fiscal policy was as much applicable in underdeveloped countries as in the developed countries. But the Keynesian type of fiscal prescription cannot be applied in its unmodified form in the context of a developing country like ours.

#### **Taxing Agriculture in the context of development**

Agriculture happens to be the largest economic sector in India and also in most of the developing countries of the world. The importance of agriculture has been emphasised in the Five Year Plans and the Government of India has invested huge amounts in the agricultural sector. In spite of this heavy investment, the contribution of agriculture to the overall economic growth of the country has not been substantial. Even though there are strong reasons for heavy taxation, the agricultural sector has been, in fact, taxed relatively lightly in India. Thus a squeeze on agriculture and agricultural land is an essential element of development in the Indian context. Agriculture being the predominant economic sector, the growth of the non-agricultural sector may be retarded unless agriculture is heavily taxed with a view to mobilising the maximum possible "agricultural surplus". Thus, there is close structural interdependence between agricultural and the non-agricultural sectors in the process of development. In a closed economy, rising agricultural productivity is a prerequisite for industrial development.

Rising agricultural productivity supports and sustains industrial development in several ways. First, it permits agriculture to release part of its labour force for industrial employment while meeting the increasing food needs of the non-agricultural sector. Second, it raises agricultural income thereby creating the rural purchasing power needed to buy the new industrial goods and rural savings which may then be mobilised, by direct or indirect means, to finance industrial development to supply the major wage-good ( food ) for industrial workers at prices favourable to the profitability of new industry.<sup>1</sup> If a country participates in the international trade, in that case the contribution of generally rising agricultural productivity to industrial development may be diminished. It is true that increasing agricultural productivity contributes to the overall economic development of a country but it is also equally true that the industrial development creates conditions for increasing agricultural productivity and output. Industrialisation stimulates the agricultural development by increasing the demand for wage goods and the industrial raw-materials. Overpopulated under-developed countries very often suffer from the problem of disguised unemployment. The lack of alternative employment opportunities explains the prevalence of disguised unemployment in these countries. "By creating more productive non-agricultural employment opportunities industrialisation diverts redundant labour from agriculture to the benefit of both those who leave and those who remain in agriculture."<sup>2</sup>

Agriculture being the largest economic sector in India it is more a case of agricultural growth limiting the growth of industries than vice-versa. The major problem is how to create and mobilise "surplus" from agriculture for financing industrialization. Both Japan and Russia, in the early stages of their economic development, imposed heavy agricultural taxes for financing their economic development. "The taxation of agriculture, by one means or another, has a critical role to play in the acceleration of economic development since it is only the imposition of compulsory levies on the agricultural sector itself which enlarges the supply of 'savings' for economic development. Countries as different in their social institutions or economic circumstances as Japan and Soviet Russia have been similar in their dependence on heavy agricultural taxation for financing their economic development."<sup>3</sup> While emphasising the importance of agricultural sector in the context of economic development, W. A. Lewis has rightly pointed out, "If it is desired to accelerate capital formation at a time



when profits are still a small proportion of national income there is in practice no other way of doing this, than to levy substantially upon agriculture, both because agriculture constitutes 50 to 60 per cent or more of the national income, and also because levying upon other sectors is handicapped by the fact that it is desirable to have these other sectors expand as part of the process of economic growth."<sup>4</sup> Heavy agricultural taxation will not hamper increase in agricultural productivity rather it may even stimulate productivity. This paradoxical conclusion lies behind the assumption that there exists "slacks" (or unutilised potential in the agricultural sector which can be mobilised through heavy agricultural tax. The ideal tax system for the agricultural sector would be one which will not only extract any "surplus" that is available but which will also provide incentive to agriculturists to produce more. One possibility might be to impose a tax on potential productivity of land to check the wastage of good land and to encourage improved methods of cultivation. For the purpose, the country may be divided into a number of homogeneous crop Zones on the basis of the soil-fertility, climate, and irrigation availability. For each of such zones, the average productivity for each crop may be assessed on the basis of sample survey. For a particular year under the consideration for which the tax has to be levied on the basis of crop-cutting experiment the average productivity may be adjusted for the changes specific to the year. This average productivity can be taken as the actual productivity for all farms for purposes of calculating the incomes. This ensures that farms having productivity below the average are penalized while the farms above the productivity provided with incentives. "The increased tax burden will make the farmer work hard and recover the slack by making better use of presently under-utilized resources, including his own labour and other investible resources, government-provided technical knowledge, irrigation facilities and fertilizers"<sup>5</sup>. The proponents of a progressive tax on potential output of agricultural land argue that it would discourage absentee landlordism and speculative holding of idle land and promote sale of such land to small-scale, intensive land utilizing farmers.<sup>6</sup>

The transference of "surplus" from agricultural to industrial sector can be effected through a variety of fiscal tools like taxes on land area, on land value, and on net income ; there are marketing taxes, export taxes, land transfer taxes, and special assessments, there is taxation

through marketing boards, exchange rates, and so on. The particular combination of taxes actually levied on agriculture in any country usually results more from historical circumstances than from economic policy <sup>7</sup>. Heavy taxes on agricultural land are the most convenient and desirable way to mobilize and transfer resources from the agricultural to the industrial sector of the economy if political and administrative conditions permit. Only the land related taxes can perform this task without adverse effects on agricultural production. But land taxes yield relatively little amount in most developing countries. In many developing countries, the hesitation to tax the agricultural sector is traceable to political factors rather than the administrative difficulties. Export taxes on the agricultural products are another method of extracting resources from agriculture. Both politically and administratively the export taxes are the most desirable way of producing large amount of revenues but these taxes might produce the disincentive effects. Another way of taxing agriculture is to levy agricultural income tax. The main problem here is how to assess the agricultural income properly.

In addition to developmental virtues, a strong equity case is often put forward in support of heavy taxes on agricultural sector. The agricultural sector and particularly the higher income groups in the agricultural sector are under taxed relatively to non-agricultural sector. This inter-sectoral inequity can be to some extent corrected by heavy land taxes. Heavy land taxes will not only force many large land owners to sell off some of their land, but they will also, by reducing land prices, permit low-income peasants to acquire them. Land taxes have therefore often been suggested for use as a redistributive instrument to complement or replace land reform efforts.<sup>8</sup>

If the tax structure of the agricultural sector is to be tailored to economic development then, first, the tax system as it applies to the agricultural sector must be made progressive ; second, the tax system of the agricultural sector must be made income and production elastic ; and third, the tax system of the agricultural sector must reach the lower classes in order to restrain in their additional consumption and to utilize their surplus resources, e. g., labour, for economic development.<sup>9</sup>.

In the foregoing discussion we have emphasised that the theoretical case for heavy agricultural taxation in the context of economic development of an overpopulated underdeveloped country like ours is



very strong. But sufficient care must be taken to ensure that heavy agricultural taxes do not impair the incentives to increased agricultural production.

Besides tapping resources from agriculture, the governments of underdeveloped countries rely heavily on consumption-related taxes to mobilise resources for economic development. The heavy reliance on indirect taxation arises mainly because commodity taxation makes it possible to reach the people that cannot be brought within the ambit of direct taxation. An important advantage of the commodity taxation is that it is felt less than a direct tax of equal yield because it is generally camouflaged in the price of the taxed commodity. Thus, commodity taxes invite less resistance than the direct taxes from the tax payers. Commodity taxation is regarded as inferior on welfare grounds but the "purely theoretical case against indirect taxation is an illusion."<sup>10</sup>

Public enterprises are another source from which the investible surpluses can be generated. In view of the heavy investments in public undertakings, they are required to create investible surplus for economic development. The price policies of these public undertakings are to be reoriented to achieve this objective.

### Conclusion

Economic planning is an important and efficient tool of economic development. To-day almost all developing countries of the world have accepted economic planning as a means of accelerating the rates of their economic growth.

Resource mobilisation is the most fundamental problem which fiscal policy is called upon to tackle in the context of economic development. In the first instance the availability of the "economic surplus" in the different sectors of the economy is to be located and then the fiscal tools are to be pressed into service to mobilise the same for development. "As fiscal policy depends heavily on planning, in addition to the development of sufficiently large underlying aggregates in the real world, it is also necessary in order to make fiscal policy practical, that their magnitudes should be perceived by planners and politicians. When the magnitudes of the underlying aggregates are approximately and contemporarily known to economic planners, an entirely new type of the thinking arises....."<sup>11</sup> "Planning in the context of development must be" "planning from below but not planning from above."

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## ROLE OF PROPERTY TAXES IN MUNICIPAL FINANCE

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Local self-governments have now become an integrated part of the national administrative machinery in India; and their growth is associated with that of local finance. It is an admitted fact that the sources of finance assigned to the local bodies are generally treated as inelastic. A sound system of local finance, it is clear, rests on a sound foundation of local taxation. Taxes levied by the local bodies should provide the basic revenue and the additional finances may be supplemented by some other sources.

The problem of local finance was comprehensively studied by the Local Finance Enquiry Committee, 1951, and then by the Taxation Enquiry Commission, 1953-54. Both these bodies were of the view that a sound local finance is to depend on a broader tax-base. The Taxation Enquiry Commission had suggested a detailed list of sources of municipal finance which includes the taxes on lands and holdings, taxes on the entry of goods for consumption thereof in the municipal area, taxes on vehicles, animals, boats, professions, trades, callings as well as advertisement other than those published in the news papers.<sup>1</sup> A part from taxation, the other sources of finance generally tapped by the urban local bodies are grants-in-aid and some non-tax sources of revenue.

Taxation, undoubtedly, accounts for the larger part of the municipal finance in every State. Municipalities in some States, attach more importance to Octroi and terminal taxes, and in some others to property taxes. In almost all the States, the budgets of the urban local bodies are precariously balanced; and there is a clear gap between their revenue and expenditure. But in a few States like Madras and Karnatak, where the municipalities concentrate on land, property and entertainment, they receive proportionately higher incomes. In other States including



Orissa, the property taxes have not proved to be quite productive; and as a result, the municipal authorities have rather been forced to introduce Octroi and terminal taxes, which apparently seem to be more revenue yielding than the other sources of finance. They have been introduced primarily on account of the inability of the other sources to meet a significant part of their expanding financial requirements. Octroi, of course, has produced good results and the Orissan municipalities depending on Octroi, have shown better pace of development than those depending usually on property and service taxes. It has saved some municipalities of the State from economic bankruptcy by meeting a substantial part of their finance. But in spite of the good results produced by the Octroi and terminal taxes, the fact remains that they are followed by adverse effects on the promotion of business and social justice, being levied irrespective of the purchasing capacity of the people. The incidence of these taxes is mostly on the less privileged section of the urban society.

The political leadership in the urban local bodies is often reluctant to raise revenue through direct taxes, such as on property; which, if administered effectively, would prove to be productive as well as fair and just from the point of view of social welfare. This is bound to serve one of the pressing demands of the urban local bodies to have a definite and assured source of revenue. This can be materialised more effectively by making a proper integration of the property taxes than by depending on the indirect taxation such as Octroi and terminal. In Orissa, even though the property taxes have been common to almost all municipalities, the yield from this source has remained meagre because the rate of these taxes has lagged behind the price and income rises and at the same time it is inefficiently administered.

#### **Integrated Scheme of Property Taxes**

As noted above, the property taxes remain the largest source of tax revenue for the local authorities, particularly in States like Karnatak, Andhra Pradesh, Maharashtra, Tamilnadu, Bihar and Orissa. It is known as the holding tax in Orissa and based on the annual value of immovable property. The Taxation Enquiry Commission has suggested that rent should be taken as the main basis for calculating the annual value. The Local Finance Enquiry

Committee was of the view that the tax should be reasonably progressive, as it is largely borne by the propertied classes.<sup>2</sup> In Orissa, the service taxes are also included in the property taxes. Almost all the municipalities of the State levy service taxes like water tax, drainage tax and lighting tax. The Taxation Enquiry Commission was of the view that the property tax should be made compulsory and was definitely preferable to the indirect taxes like the Octroi.

As property forms the base for more than one tax, there is need for co-ordination between the various taxes levied on that base.

### **Growth of Monopoly in the Urban Sector**

The Report of the Committee on Distribution of income and Levels of Living sponsored by the Planning Commission and headed by Prof. P. C. Mahalonobis revealed that the degree of concentration of land holdings in India is considerably great, and it is much greater in the urban sector than in the rural sector.<sup>3</sup> The top 5 P. C. of the urban families own 52 P. C. of the land operate nearly 75 P. C. of landed property. The top 25 P. C. of the urban families own 93 P. C. of the landed property and operate practically the entire land belongings of the urban sector. The bottom 25 P. C. of the families in the urban sector own or operate no land at all. The Report has further revealed that the degree of concentration is the greatest in the Eastern States like Orissa and West Bengal. The top 10 P. C. families in the urban sector account for 57 P. C. of the total wealth in the shape of housing and the top 20 P. C. account for 73 P. C. of the housing property. The bottom 10 P. C. account for less than 1 P. C. of the same. The taxation Enquiry Commission had suggested that the property taxes at concessional rates on costly buildings prevalent in Orissa, Assam, Bihar and West Bengal should be abolished. They have made it also specific that the tax rates may vary between 3 P. C. and 6 P. C. of the annual value of the property.

A perusal of the history of local finance particularly in Tamilnadu and Karnatak gives a clear indication that the property taxes are the most appropriate source of revenue at the local level. As a source of revenue it is more permanent than even local income tax prevalent in States like Bihar.<sup>4</sup> It is difficult to escape

the tax except by selling away the property. Even if the property is sold, there would be somebody to pay it. Further, it is not likely to create any clash of jurisdiction like Octroi. Property values remaining reasonably stable, property taxes can be taken as stable and dependable. It is productive in the sense that revenue from this source can be increased by arranging frequent revaluation of the real estates. Moreover, from the administrative point of view this tax claims superiority, because, land and buildings being fixed and tangible, it is easy to collect information about the number of assesseees as well as their taxable capacity.

An objection, generally raised against the property taxes, is that they are regressive as well as rigid in nature. If concessional rates applicable to costly buildings is withdrawn, it would make the taxes proportional if not progressive. Steps need, of course, be taken to make it progressive.

The progressivity of the property tax cannot be easily achieved without its association with the betterment levies and taxes on the transfer of immovable property. Betterment levy is a tax on the increased land value caused by the execution of town improvement schemes. The Taxation Enquiry Commission had suggested to tax away 50 P. C. of the enhanced land value and it should be extended to all the development schemes taken up by the Urban local bodies. Tax on transfer of immovable property has been a productive source of income for the municipalities in Madras and Andhra Pradesh. It is levied in addition to the stamp duty imposed by the State Governments.<sup>5</sup> The development trusts for the cities like Calcutta and Madras receive a large sum of funds from this important source.<sup>6</sup> It would serve as a suitable source of finance for the development trusts created for the towns like Cuttack, Bhubaneswar, Sambalpur, Rourkela and Berhampur. It would also help checking the growth of monopoly in urban housing in Orissa. The effective integration of the three aforesaid sources like the holding tax, betterment levy and tax on the transfer of urban property would enable the municipalities to raise larger revenues and attach less weightage to the indirect taxes like Octroi and terminal. The dependence on the property taxes would, of course, require a permanent valuation department in the State, if possible, with independent powers, for impartial assessment of the value of



the property taxed. It would go very far in rationalising valuation to be undertaken on a quinquennial basis.

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## TAX STRUCTURE IN ORISSA—A REVIEW

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### Introduction

Mobilisation of resources is very essential from the point of view of economic development of any society. Tax revenue forms an important source of capital resource in the developed countries like U. S. A., U. K. and Japan. But in a developing State like Orissa the position is different. The earnings of the State by way of taxation is not even sufficient to meet the expenditure on salaries of the Government employees. Hardly any surplus is generated for the development expenditure. Efforts can be made to meet the entire expenditure on administration and a part of development expenditure from the tax source.

With better utilisation of resources and increase in employment and income, the State's efforts in raising additional taxes become easy. In Orissa, although there is vast potential of natural resources, it has become difficult to utilise these fully due to capital shortage. As a consequence of this, the magnitude of both under employment and unemployment is very high. At micro level per capita income is low which results in low saving hence low capital formation. The per capita income of Orissa at current prices in 1970-71 was Rs. 496 whereas the all India per capita income of that year was Rs. 628. The marginal propensity to consume in the low income group is very high. The percentage of population living below poverty line as in October, 1969 was 64.70 whereas at all-India level it was 41.20. In view of this it is difficult to raise the tax revenue appreciably in Orissa. Yet more taxes must be raised if the revolution of rising expectations is not to be suppressed.

With these constraints and need for greater investment, ways must be found out to increase both the tax base and tax rate particularly

in the sectors which have benefitted most from the plan investments of the last 2½ decades.

This paper attempts to analyse the relative importance of different taxes now in vogue in Orissa and discusses the future prospect of each.

#### **A historical background of tax structure in Orissa**

Orissa became a separate province on 1st April, 1936. The year, 1936-37 was, therefore, a year of formal financial settlement. This year's budget showed a small surplus of Rs. 18.66 lakhs. However, this surplus gradually decreased in the subsequent years' budgets. The magnitude of revenue surplus was to the tune of Rs. 0.71 lakhs only in the year 1938-39. On the other hand the net debt and other liabilities gradually increased. At that time there were innumerable financial problems as a result of which Orissa was recognised as deficit province. During these earlier years the principal sources of revenue were share from Income Tax, Land Revenue, Excise, Stamps, Forest and Registration. It was not possible in those days to raise these taxes or to levy new taxes due to the abject poverty of the people of the State.

This condition generally prevailed during the War period (1939-46) also. Though no new tax was levied during this period, the revenue surplus increased due to increase in central grants and subsidies on temporary basis and increase in certain other taxes such as share of Income Tax, Excise, Stamps, etc.

The post war period (1946-49) was one of the most remarkable period with regard to the taxation policy of the State. During this period some new taxes such as entertainment, General Sales Tax, Sales Tax on Motor Spirit and Agricultural Income Tax were levied and the rates of existing taxes were enhanced. The percentage share of Income Tax from Centre was raised from 2 to 3. As a result of all this the total revenue receipt of Orissa increased from Rs. 170.36 lakhs in 1936-37 to Rs. 604.34 lakhs in 1947-48.

The expenditure of the State increased at a very high rate during the pre-plan period (1948-49 to 1950-51) due to the merger of princely States in 1948-49 and revision of scales of Pay and Dearness allowance for the Government employees retrospectively from 1947-48.

In order to overcome this difficulty, Government was forced to enhance the rates of some of the existing taxes during this period.

The first Finance Commission was appointed during the 1st Five Year Plan period and its recommendations came into force on 1st April 1953. As per their recommendations, share of Income Tax was raised from 3 to 3.5 per cent and the State received share from the Excise duty in addition to some other grants and aids from the centre.

It was very difficult on the part of the Government to meet the plan expenditure during the 2nd Five Year Plan period in spite of raising a public loan of Rs. 14.36 crores from the open market and getting an increased amount of Central assistance. It was, therefore, necessary to raise existing taxes and to levy new taxes. As a result of additional taxation measures a sum of Rs. 4.26 crores could be raised during this period.

Another notable feature of financial importance during the 2nd Five Year Plan period was the appointment of the Second Finance Commission. As a result of the recommendations of this Commission, the share of Income Tax was raised from 3.5 to 3.73 per cent and the share of Excise Duty was raised from 4.22 to 4.46 per cent in addition to upward revision of some other grants and aids.

#### **Importance of tax revenue as a source of total revenue**

From 1961-62 onwards, although non-tax revenue has increased considerably mostly due to receipt of grants and aids at enhanced rates from the centre, tax revenue still plays an important role in the state finance. The table 1 gives the percentage share of tax revenue in the total revenue of the State.

The figures in table 1 indicate that the tax revenue is hovering around 40 per cent of the total revenue during the last 15 years with the exception of 1973-74 when it exceeded 50 %.

#### **Rise in the tax revenue over years**

New taxes have been levied and the rates of existing ones have been enhanced at different times. As a result receipt, from each tax source has increased.

The figures in table 2 show that the revenue receipt from each source has increased over years. The total revenue receipt from

TABLE 1  
PERCENTAGE SHARE OF TAX REVENUE IN THE TOTAL  
REVENUE OF THE STATE

Rupees in lakhs				
Year	Tax Revenue	Non-Tax Revenue	Total Revenue	Tax Revenue as percentages to total Revenue
1	2	3	4	5
1961-62	1685.45	2927.86	4613.31	36.53
1962-63	2369.82	3856.97	6226.79	38.06
1963-64	2873.81	4055.09	6928.90	41.48
1964-65	3079.65	4417.90	7497.55	41.08
1965-66	3274.05	4765.01	8039.06	40.73
1966-67	3635.90	7043.70	10679.60	34.05
1967-68	4076.14	6826.78	10902.92	37.39
1968-69	4603.70	7057.91	11661.61	39.48
1969-70	5365.35	7747.21	13112.56	40.92
1970-71	6372.76	7210.09	13582.85	46.92
1971-72	7235.29	7896.72	15132.01	47.81
1972-73	7958.87	9130.21	17089.08	46.57
1973-74	8862.05	8600.04	17462.09	50.75
1974-75*	9657.20	13883.96	23541.16	41.02
1975-76**	11155.00	15654.78	26809.78	41.61

Source :—Statistical outline of Orissa, 1971 & 1972, Budget Estimates for the year 1975-76, Vol. I.

\* Revised Estimate.

\*\* Budget Estimate.

taxes and duties in 1975-76 is about two and half times the total revenue receipt from taxes and duties in 1968-69. The magnitude of increase over years is the highest in case of other taxes and duties which consist of Entertainment Tax, Estate Duty, Taxes on goods and passengers and Taxes and Duties on electricity. The land Revenue which was abolished in the year 1967 has assumed a great deal of significance in the tax structure of the State after its reimposition in the current year. Other sources of tax revenue which have shown a high rate of increase over years are the General Sales Tax, Shares of Central



TABLE 2  
INDICES OF TAX REVENUE

Year		1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
Source of Revenue									
1	2	3	4	5	6	7	8	9	
Land Revenue	100	110	106	113	112	147	145	275	
State Excise Duty	100	101	102	112	114	122	129	135	
General Sales Tax	100	112	136	133	149	186	214	243	
Shares of Central taxes	100	126	152	188	211	230	235	252	
Agricultural Income Tax	100	88	113	139	92	91	138	138	
Stamps and Registration	100	111	125	150	128	163	175	192	
Taxes on vehicles	100	100	113	119	121	140	176	196	
Sales Tax on Motor Spirit	100	101	111	137	150	N.A.	149	164	
Other taxes & Duties	100	119	165	183	222	225	259	448	
Total	100	117	138	157	173	193	210	242	

Source :—Statistical outline of Orissa, 1971 & 1972, Budget Estimate for the year 1975-76, Vol. I.

TABLE 3  
PERCENTAGE SHARE OF VARIOUS TAXES AND DUTIES IN THE  
TOTAL TAX REVENUE OF THE STATE

Year	Rupees in lakhs								
	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	
Source of Revenue									
1	2	3	4	5	6	7	8	9	
Land Revenue	3.42	3.22	2.62	2.47	2.21	2.61	2.37	3.89	
States Excise Duty	9.03	7.87	6.66	6.42	5.94	5.74	5.54	5.05	
General Sales Tax	26.19	25.13	25.78	22.24	22.60	25.35	26.67	26.21	
Shares of Central Taxes	43.41	47.07	47.80	51.92	53.04	51.95	48.58	45.16	
Agricultural Income Tax	0.14	0.11	0.12	0.13	0.08	0.07	0.09	0.08	
Stamps & Registration	4.63	4.41	4.17	4.43	3.42	3.92	3.87	3.67	
Taxes on Vehicles	5.62	4.84	4.60	4.24	3.93	4.08	4.71	4.54	
Sales tax on Motor Spirit	2.19	1.89	1.75	1.91	1.90	—	1.55	1.48	
Other Taxes & Duties	5.37	5.47	6.50	6.24	6.88	6.28	6.62	9.92	
Total	100	100	100	100	100	100	100	100	
Total Tax Revenue of the State	4603.70	5365.35	6372.76	7235.29	7958.87	8862.05	9657.20*	11155.00**	

Source :—Statistical outline of Orissa, 1971 & 1972, Budget Estimates for the year 1975-76, Vol. I.

\* Revised Estimate

\*\* Budget Estimate

TABLE 4  
AVERAGE YIELD PER HECTARE OF PRINCIPAL CROPS OVER YEARS IN ORISSA

Crop	Yield per hectare in Kg.							
	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	
1	2	3	4	5	6	7	8	
Rice	771	868	866	977	953	960	779	
Maize	690	932	832	820	851	820	840	
Ragi	501	899	853	986	819	900	930	
Wheat	771	896	1056	1128	1209	1420	1850	
Groundnut	944	1102	1263	1182	1169	1240	1410	
Potato	10303	12486	11926	11760	10875	10790	7916	
Sugarcane	4935	4900	4969	5773	5207	5380	6260	
Jute	1100	1184	1256	1246	940	750	1332	
Cotton	247	144	284	275	236	190	342	

Source :—Statistical outline of Orissa, 19 972.

Taxes, Stamps and Registration and Taxes on Vehicles. The increase in the rate of State Excise duty, Agricultural Income Tax and Sales tax on Motor Spirit has been rather slow over these years.

#### **Relative importance of various sources of tax revenue**

The percentage of revenue receipts from various taxes and duties to the total tax revenue have been presented in table 3.

The following inferences may be drawn from the table 3.

##### **(i) Land Revenue**

Land Revenue was an important source of tax revenue in the earlier years. Due to its abolition in 1967, the share of land revenue in the total tax revenue of the State declined gradually in the subsequent years. The percentage of land revenue to total tax revenue was 3.42 in 1968-69 but it came down to 2.37 in 1974-75 for this reason. However, the agricultural sector has improved a lot in the meantime due to high public expenditure in this field. Studies are not wanting to prove that the cultivators have been able now to produce much more than what they were producing previously.

Table 4 reveals that there is a steady increase in the per hectare yield of almost all principal crops over years. The average yield of some principal crops has declined of course during the abnormal years. For this reason, the cultivators may not be affected during normal years by reimposition of land revenue which they have been paying from the days immemorial. On the other hand, if capital is not formed by collecting revenue from this source, development of the State cannot be achieved at a rapid rate. Government have, therefore, taken right steps by reimposing land revenue. It is expected that the position of land revenue will improve in 1975-76 and in the subsequent years.

##### **(ii) State Excise Duty**

State Excise Duty constituted a high proportion of tax revenue in the earlier years. It depends fully on the prohibition policy of the Government. The State Government have tried from the beginning to discourage consumption of liquor, opium, bhang, etc. As a matter of fact the share of State Excise Duty in the total tax revenue has declined over years. Now there is a fresh thinking towards total prohibition. So the future yield of revenue from this source is uncertain.

### (iii) General Sales Tax

This source of tax revenue has been the most important of all sources. The yield from this source as percentage of total tax revenue has varied from a minimum of 22.24 in 1971-72 to a maximum of 26.67 in 1974-75. The yield of revenue from this source depends to a large extent on the rate of urbanisation, level of trade and commerce and the standard of living of the people. The indices of urban population and their percentages to total population in the last 3 censuses are as follows.

Census	Indices of urban population	Percentage of urban population to total population
1951	100	4.06
1961	187	6.32
1971	311	8.41

The rise in the level of trade and commerce and Standard of living is a result mostly of rise in per capita income which in Orissa has gone up from Rs. 210.94 in 1960-61 to Rs. 252.90 in 1970-71 (at constant prices). With such rising trends of the associating factors, the future of this tax is bright.

### (iv) Share of Central Taxes

Almost 50 per cent of the tax revenue have been collected from this source every year. In consideration of economic unhealthiness of the state and gross disparities in economic development of various regions of the country, the Centre should still increase Orissa's percentage share of central taxes that this State may be brought at par with the more developed States of the union.

### (v) Agricultural Income Tax

This minor tax is very insignificant from fiscal point of view. This is progressive, rising from a minimum of 2 % on the lowest slab to a maximum of 78 per cent on the highest slab. This tax is levied on the cultivator when his net agricultural income exceeds Rs. 5000.00. The tax is levied on the basis of effective acreage the unit of which is a standard acre or multiple thereof. For the first 6 effective acres, the cultivator is not required to pay any A. I. T. For the next 4 effective acres the rate of A. I. T. is Rs. 10.00 per effective acre and it rises with the rise in size of effective holdings. However, in Orissa the percentage of rural house-



holds with less than 10 acres of cultivated land is 87.8 as per the Agricultural census of Orissa, 1971. Again 10 acres of such land may be less than 6 effective acres in most of the cases. Thus the percentage of rural households coming under A. I. T. is very low. On the other hand due to fixation of ceiling limits on land, the number of big farmers may decrease. A better yield of revenue from this source in future is, therefore, uncertain.

#### (vi) Stamps and Registration

Stamps and Registration form another important source of tax revenue. Although revenue from this source has declined gradually over years, still it yields about 4 per cent of the total tax revenue. Stamp Duty includes duties on bonds, deeds, affidavit, agreements, associations, cancellations, certificate of sale, charter party, conveyance, exchange of property, divorce, gifts, lease, licences, mortgages, etc. Registration fees are collected for registration of various types of documents. It differs from document to document and is determined ordinarily on the basis of the value of the document. As such both Stamp duty and the Registration Fees are dependent on Government policies on revenue, law, registration and related matters and the magnitude of financial and other transactions. Therefore, with the rising standard of living of people of Orissa there is much scope to increase the revenue from this source by raising the rates of these duties and fees.

#### (vii) Taxes on vehicles

This source of tax revenue has been quite elastic. There is also ample scope for increasing the yield from this source in future as the transport industries are developing a lot with the construction of new roads and remodelling of old roads. The figures below indicate the increase in road length between the period, 1st April, 1971 and 31st March, 1972.

Category of roads	Increase in road length in Kms.
National High Way	345
State High Ways	15
Major District Roads	48
Other District Roads	7
Classified Village Roads	40

(Source :—Statistical outline of Orissa, 1971 & 1972)

The increase in number of motor vehicles over years is as follows :

Years	Total number of motor vehicles
1960-61	11667
1965-66	31684
1970-71	32792
1971-72	37305

Source :—Statistical outline of Orissa, 1971 & 1972

The figures below indicate the rapid development of transport industry over years.

Item	State Transport Service			Road Transport Service		
	1964-65	1969-70	1971-72	1964-65	1969-70	1971-72
Route in KMS	12279	26781	30472	9269	11852	13000
No. of routes	237	240	265	97	114	118
Service KMS	18241	23085	26312	9976	12083	13390
No. of vehicles	498	N. R.	623	214	244	339
No. of buses plying	378	428	458	164	213	231
No. Passengers carried ('000)	12649	17418	20849	9432	12970	15276

Source :—Statistical outline of Orissa, 1971 & 1972.

#### (viii) Sales Tax on Motor Spirit

The revenue from this source of tax as percentage of total tax revenue has not shown any improvement over years. Since the volume of sale of motor spirit has been reduced much during recent years due to inordinate rise in prices of this commodity, it is difficult to increase revenue from this source without raising the rate of this tax. Again the consumers of this commodity who are already paying a higher price will be affected much if the rate of this tax is enhanced. This may further reduce the consumption of this commodity. However, this tax is related to transport industry and therefore, with the expansion of this industry the revenue from this source may increase in future.

(ix) Other Taxes and Duties

The percentage of revenue received from sources like Entertainment Tax, Estate Duties, Taxes on Goods and passengers and Taxes and Duties on electricity to the total tax revenue has shown a steady increase over years. The yield from these sources will certainly increase in future with the overall economic development of the State.

**Importance of tax revenue in meeting the total expenditure of the State.**

The percentage contributions of various types of tax revenue to the total expenditure have been presented in table 5 in order to give an indication of relative importance of each.

TABLE 5  
PERCENTAGE CONTRIBUTION OF DIFFERENT SOURCES OF  
TAX REVENUE TO THE TOTAL EXPENDITURE OF THE STATE

Year	1968-69	1969-70	1970-71	1971-72
Source of revenue				
1	2	3	4	5
Land Revenue	1.20	1.32	1.19	0.99
State Excise Duty	3.16	3.22	3.04	2.57
General Sales Tax	9.15	10.29	11.74	8.90
Shares of Central Taxes	15.16	19.28	21.78	20.77
Agricultural Income Tax	0.05	0.04	0.	0.05
Stamps and Registration	1.62	1.81	1.90	1.77
Taxes on Vehicles	1.96	1.98	2.10	1.70
Sales Tax on Motor Spirit	0.76	0.77	0.80	0.77
Other Taxes and Duties	1.88	2.24	2.96	2.49
Total Tax Revenue	34.94	40.95	45.56	40.01
Total Non-Tax Revenue	53.56	59.14	51.54	43.66
Total Revenue	88.50	100.09	97.10	83.67
Deficit (D) or Surplus (S)	11.50 (D)	0.09 (S)	2.90 (D)	16.33(D)
Total Expenditure	100	100	100	100
Total Expenditure in Lakhs of Rs.	13177.41	13100.40	13988.10	18085.00

Source :—Statistical outline of Orissa, 1971 & 1972

Table 5 depicts that the contribution of non-tax revenue to the total expenditure was one and half times the tax revenue in 1968-69.

However, both the types of revenue almost equally contributed to the total expenditure during 1971-72. The share from central Taxes and the General Sales tax were the two most important sources of tax in meeting the State expenditure. These two sources together contributed 24.31 per cent of the total expenditure to the State exchequer in 1968-69. This percentage contribution increased to 29.57 in 1969-70 and further to 33.52 in 1970-71. Among other taxes which contributed significantly to the total expenditure were State Excise Duty, Stamps and Registration, Taxes on Vehicles and other Taxes and Duties.

### **Summary**

It is very much necessary to supplement the non-Tax sources of revenue with the taxation measure in order to improve the financial resource position of the State. Tax revenue plays a crucial role in the State finances by providing about 40 per cent of the total revenue. Among the various types of taxes and duties, General Sales Tax, Share of Central Taxes, Stamps and Registration, Taxes on Vehicles and other Taxes and Duties were very elastic sources of tax revenue. Share of Central Taxes and General Sales Tax yielded about 50 % and 25 % of the tax revenue respectively. Other elastic sources of tax revenue were also high revenue-yielding taxes. The share of Central Taxes and General Sales Tax met about 20 and 10 per cent of the total expenditure of the State respectively. Other elastic sources of tax revenue also played an important role in contributing to the State expenditure.

The land revenue which was abolished in 1967 has been reimposed from the current year. This may yield a good revenue. The future prospect of General Sales Tax, Stamps and Registration, Taxes on Vehicles, Sales Tax on Motor Spirit and other Taxes and Duties is bright. However, the future yield in case of State Excise Duty is uncertain. Agricultural Income Tax is quite insignificant from fiscal point of view.

### **Conclusion**

Since financial resource position of Orissa is very weak, it is highly essential to augment this by way of collecting revenue from both tax and non-tax sources. There is possibility of getting increased amount of tax revenue from some sources in future. But this will not be sufficient to meet the expenditure of the State. Therefore, Centre should be generous enough to increase the amount of grants, aids and Shares of Central Taxes



and some new sources of tax and non-tax revenue should be developed in order to bring the State at par with other developed States of the nation.

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## MEASUREMENT OF TAX EFFORT BY THE STATES

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In the present fiscal pattern of plan finance, tax effort is considered as an index of resource mobilisation. In India tax effort has been used as an important variable in the matter of distribution of central assistance to the States. During the Fourth Five Year Plan, National Development Council decided certain principles for distribution of central plan assistance to States, which *inter-alia* envisages that 10 % of the State's share in the public sector plan outlay shall be distributed among the States on the basis of tax-efforts by the States. This principle also continues to hold good during the Fifth Plan period. Hence the methodology adopted in the measurement of tax effort is of crucial importance in determining the share of each State.

2. Tax effort may be measured in a number of different ways, namely —

- (i) By the method of per capita tax burden;
- (ii) By tax-ratio method;
- (iii) By taxable capacity method;
- (iv) By Best-fit-ratio method.

The objective of this paper is to study whether and to what extent the inter-state position in regard to tax effort varies when measurement is done by adopting alternative methods indicated above.

3. The method of measuring tax effort, by way of per capita tax burden means dividing the tax revenue of a State by its population. But a major component of tax revenue exhibited in State Budget is the share of Central taxes received by States. As all States are not equally placed in the matter of sharing the Central taxes those which have a favourable position receive a higher share and show a higher total tax revenue, along with their States' taxes in their budgets. On the other hand, exclusion of

the share of central taxes from the State's tax revenue for calculating the per capita tax burden may be a different approach. Thus measurement of tax effort by each method is amenable to two alternative approaches, on the basis of how one defines the tax-revenues of a State. In the table below, figures for different States have been worked out in both these alternative methods, one by including the share of the Central taxes and the other by excluding it for the year 1970-71 and their *inter-se* ranking is indicated.

**TABLE 1**  
**PER CAPITA TAX BURDEN IN DIFFERENT**  
**STATES IN INDIA (1970-71)**

Sl. No.	States	Per capita tax burden including share of central tax	Per capita tax burden excluding share of central taxes	Rank	
				Including share of central tax	Excluding share of central tax
		Rs.	Rs.		
1	2	3	4	5	6
1.	Andhra Pradesh	43.89	30.50	9	8
2.	Assam	31.05	19.09	12	12
3.	Bihar	29.25	14.32	14	15
4.	Gujrat	51.88	37.77	4	4
5.	Haryana	55.13	42.66	3	3
6.	Kerala	45.84	31.64	7	7
7.	Madhya Pradesh	34.20	20.64	11	11
8.	Maharashtra	67.85	51.95	2	2
9.	Mysore	48.74	35.90	6	6
10.	Orissa	28.83	14.92	15	14
11.	Punjab	71.30	57.92	1	1
12.	Rajasthan	37.42	23.87	10	10
13.	Tamilnadu	49.88	36.00	5	5
14.	Uttar Pradesh	30.61	16.10	13	13
15.	West Bengal	43.00	28.97	8	9

4. It is interesting to note that though the raking of States on the basis of above two methods are not identical, neither are they much

divergent. Nevertheless, they broadly indicate on the lowest side of per-capita-tax-burden, whereas Maharashtra, Punjab, Gujrat are the States on the high side of per capita tax burden. As the strength of the tax base of a state is not proportional to its population, this method puts more populous States in a special disadvantage. It is perhaps for this limitation, this method has not been adopted by the Planning Commission. On the other hand, it envisages measurement of tax-efforts in relation to per-capita income.

5. But for determining whether a State has a high or low incidence of taxation, these results throw only partial light, as absolute tax figures per head may be high in case of a particular state, whereas that figure as a proportion of its per-capita income may be low. This will be evident, from the fact that though per capita tax burden of Punjab, Maharashtra and Gujrat higher than, say of Kerala when we compare the incidence in terms of tax-burden as a proportion of per capita income of the respective States, the following is the position.

State	Per capita tax burden	Per capita Income	Tax burden as % of of per capita income.
	Rs.	Rs.	
1	2	3	4
Punjab	57.92	995	5.50
Maharashtra	51.95	775	6.72
Gujrat	37.77	778	4.85
Kerala	31.64	526	6.00
Orissa	14.92	496	3.00
Bihar	14.32	402	3.60
Uttar Pradesh	16.10	504	3.20

This would show that Kerala is a State with higher degree of tax-burden than Punjab or Gujrat. Similarly, it is also noticed that though per-capita tax burden of Orissa, Bihar or Uttar Pradesh is less than half of that of Punjab, Maharashtra or Gujrat, they are much higher in terms of per-capita tax as a proportion of per capita income.

6. Therefore, a low or high per capita tax burden need not necessarily reflect the correct position with regard to the State's tax effort, as it is not correlated to the capacity to pay based on the State's per-capita



income. Thus the second method of measurement of tax-effort, may be by means of tax-ratio, which takes into account the level of per capita income together with tax revenue, and this method, may be considered as an improvement on the former. Measurement of tax-effort on the basis of this methodology may take into account the tax-ratio of different States, where tax ratio means  $\frac{\text{Tax Revenue}}{\text{State Income}} \times 100$ .

7. The level of tax-ratio would represent what proportion of State income is collected by way of tax mobilisation. If tax receipt represents a form of mobilisation of savings for public purposes, tax ratio indicates that portion of net domestic product which is not consumed, and, therefore, the higher the tax-ratio, the greater is the effort in capital formation. In the Table No. 2 below the inter-state position in regard to tax-effort is indicated.

TABLE 2  
TAX-RATIO OF DIFFERENT STATES

Sl. No.	States	Tax-ratio including share of central tax	Tax-ratio excluding the share of central taxes	Rank	
				Including the share of central tax	Excluding the share of central taxes
1	2	3	4	5	6
1.	Andhra Pradesh	7.95	5.66	3	3
2.	Assam	6.20	3.81	12	11
3.	Bihar	5.50	3.42	15	13
4.	Gujrat	6.65	4.84	10	9
5.	Haryana	6.71	5.22	8	8
6.	Kerala	6.72	5.35	7	6
7.	Madhya Pradesh	6.31	3.81	11	12
8.	Maharashtra	8.86	6.79	2	1
9.	Mysore	9.12	6.71	1	2
10.	Orissa	5.87	3.03	14	15
11.	Punjab	6.64	5.54	9	5
12.	Rajasthan	7.11	4.62	6	10
13.	Tamilnadu	7.76	5.60	4	4
14.	Uttar Pradesh	6.12	3.22	13	14
15.	West Bengal	7.39	5.26	5	7

8. The tax-ratio method of measurement of tax-effort, as worked out above for 1970-71 indicates that in terms of tax-efforts when tax revenue includes share of central taxes, the first three States are Mysore, Maharashtra and Andhra Pradesh and the last three States are Bihar, Orissa & Uttar Pradesh in that order. When tax-revenue excludes share of central taxes, the first three States and the last three states also are the same States as found above. This again shows very close identity between the results of the first and the second method of measurement and also that inclusion or exclusion of share of central taxes in State's tax revenue does not lead to differential results.

#### **Best-Fit Ratio**

9. The above methodology of comparing relative tax-efforts assumes that factors other than State income are assumed to be of minor importance. But the taxable capacity of a State depends on many other factors also, such as, level of economic growth, the pattern of income distribution, the degree of monetisation of the economy, the level of urbanisation, the percentage of people below the poverty line and the efficiency of the administrative machinery. The colossal figures estimated as the volume of tax evasion by the Wanchoo Committee, or the Rs. 1500 crores recently disclosed under voluntary Disclosure of Income and wealth are not only measures of the leakage in our tax efforts, but also the degree of softness or firmness in the attitude of the State in the enforcement of tax collection. These factors are highly important, no doubt, but they are not easily amenable to measurement in the context of their contribution towards tax effort. What is more important is that these factors vary from State to State significantly. In the measurement of tax effort, therefore, these are the limitations. In such a situation for purposes of inter-state comparison, a third method, which may be an improvement on the other method may be to introduce the concept of Best-fit-ratio. It has to be noted that just as low tax-ratio allows higher degree of consumption, similarly a high tax-ratio may lead to lower degree of capital formation. Neither is good for the health of the State economy. Average propensity to consume or save for a society should be regulated by means of a desirable norm in tax efforts. This desirable norm in tax efforts for a State may be presumed to be based on all-India average-tax-ratio, other than that of individual States.

10. Further, for determining a State's Tax effort, one year data may be at times misleading because the State Income, specially the income originating from the agriculture sector which accounts for 50 to 60 per cent of total State Income in different States is subject to fluctuations. Therefore, it is considered rational to assess the position over a longer period of time. A three-yearly average would smoothen the annual fluctuations and hence instead of taking tax ratio only for 1970-71, it is preferable to compute it for a three-year-average period and we have taken the three years 1968-69 to 1970-71 for which comparable data are available. Secondly, whether a State's tax effort is improving over a period of time needs to be judged and for this purpose comparison may be drawn between two periods. For this purpose, we may treat the first period taking the three-yearly average 1962-63 to 1964-65 and the second period as three-yearly average 1968-69 to 1970-71. Again, comparison in tax-effort over these two periods may be studied, in the two alternative approaches one in which case tax revenue includes the share of Central taxes and the other which excludes it, by the best-fit-ratio method. Comparison of relative tax-effort by States in this method involves measurement of tax effort through the least square estimates of tax-ratios of States as a function of their respective per capita incomes by fitting a regression line. The per capita income of States are the average of the three years 1962-63 to 1964-65 and 1968-69 to 1970-71 and the tax revenues are also for the same period.

11. The key equation for computing the 'Best-Fit' tax-ratio is :

$$Y = a + bx$$

Where  $Y$  = best fit ratio

$a$  = Average tax-ratio

$b$  = slope value

$x$  = deviations in per capita income taking A. P as standard.

The values of  $a$  and  $b$  have been derived from the following equations :

$$Y = n a + b x$$

$$xy = a x + b x^2$$

$n$  = number of States taken for consideration.

On applying the values of  $a$  and  $b$  thus obtained in the key-equation the best fit ratios are calculated.

12. Comparing the actual tax ratios of the States with Best-Fit ratios, the States whose actual tax-ratio exceeds the Best-Fit ratio should be considered as high-tax-effort states and these whose actual tax-ratio falls below the Best-Fit Ratio should be deemed as low-tax-ratio state. The percentage deviation of actual tax-ratio from the Best-Fit-ratio in the positive or negative direction indicates the measure of tax-effort or non-effort respectively. The results derived from these tables where tax revenue excludes share of central taxes show that in the first period, Punjab, Kerala, West Bengal were the first three States having highest tax-efforts. The relative ranking during the 2nd period has been partly altered in which Karnatak, Kerala and Andhra Pradesh occupy the first three places in that order. On the other hand the least-tax-effort States during the first period were Uttar Pradesh, Madhya Pradesh and Orissa in that order. Significantly enough these three States continue to remain the last three States in this respect even during the second period. Orissa and U. P. being in both the periods lowest in the ranking.

13. However, when the ranking of the States is done by assuming that the state tax revenue includes the share of central taxes, it is found that during the first period, Punjab, Kerala and West Bengal occupy the first three ranks, while U. P., M. P. and Orissa are placed in the last three ranks in that order. During the second period in the category of high tax-effort states, two out of three are new States, although Kerala continues to be consistently stable in this category, in both the period. In regard to low-tax-effort States, represented by the last three ranks Orissa & Uttar Pradesh continue to be in lowest tax-effort group during both the periods. In case of Orissa, the position is still worse, because its ranking which was third from the lowest (U. P. & M. P. being further below) during the first period has gone down further to the bottom, ranking as the lowest in the second period. It is significant to note that during the first period Orissa and U. P. were away from the desirable norm of taxation to the extent of  $-26.3\%$  and  $-18.3\%$  respectively. But during the second period the positions are further deteriorated to the extent of  $-36.3\%$  in case of Orissa and  $-27.4\%$  in case of Uttar Pradesh. Still more striking change has occurred in case of Punjab, where the percentage variation of her tax-effort was higher from the national norm by  $+70.1$  in the first period (thus the highest tax-effort state) but it became lower by  $-9.5\%$  in the second period.



TABLE 3  
TAX EFFORTS OF DIFFERENT STATES ON THE BASIS OF TAXABLE CAPACITY

Sl. No.	States	Per capita State income at current prices for the year 1970-71	Per capita Tax burden		Per capita Income	Tax effort based on taxable capacity		Rank	
			Including the share of Central tax.	Excluding the share of Central taxes.		Including S. C. T.	Excluding S. C. T.	Including S. C. T.	Excluding S. C. T.
1	2	3	4	5	6	7	8	9	10
1.	Andhra Pradesh	545	42.89	30.00	113	37.95	26.99	6	5
2.	Assam	523	31.05	19.09	91	34.12	20.98	7	8
3.	Bihar	402	29.25	14.32	30	—	—	1	1
4.	Gujarat	778	51.88	37.77	346	14.99	10.92	13	13
5.	Haryana	829	55.13	42.86	397	13.88	10.80	14	14
6.	Kerala	526	45.84	31.64	94	48.76	33.66	2	2
7.	Madhya Pradesh	550	34.20	20.64	118	28.98	17.49	8	9
8.	Maharashtra	778	67.85	51.95	343	19.78	15.15	12	11
9.	Mysore	540	48.71	35.90	108	26.61	33.24	9	3
10.	Orissa	496	28.83	14.92	64	45.04	23.31	3	6
11.	Punjab	995	71.30	57.92	563	12.66	10.29	15	15
12.	Rajasthan	600	37.42	23.87	168	22.27	14.20	11	12
13.	Tamilnadu	644	49.88	36.00	212	23.53	16.98	10	10
14.	Uttar Pradesh	504	30.61	16.10	72	42.51	22.36	4	7
15.	West Bengal	539	43.00	28.97	107	40.18	27.07	5	4

### Measurement according to taxable capacity

The tax-ratio method has certain weakness also, in that it assumes that a unit of income in any part of India has equal tax-potential. That this assumption is not correct can be realised when the concept of taxable capacity is based on the surplus income above the poverty-line. A poor State, like Orissa or Bihar, where, population below the poverty line is much higher cannot be presumed to have the same taxable capacity per unit of income as in prosperous States like Maharastra or Punjab. So for relative comparison of tax efforts between the States, we have to consider the per capita income above the poverty line, instead of the gross per capita income. For this purpose, Rs. 240 considered as minimum subsistence level of requirement at Rs. 20 per month at 1960-61 prices, when adjusted by a factor of 1.8 in the price index for 1970-71, comes to Rs. 432. Thus deducting this amount from each State's per capita income, one may put the taxable capacity of all States on a comparable footing. In the Table below, the tax efforts by States on the methodology of per capita tax-revenue as percentage of per capita taxable income as defined above, has been worked out and the relative ranking of States indicated.

The results thrown out by the above data indicate a totally different picture. Bihar, Orissa and Uttar Pradesh, which were the three lowest tax-effort-States, as per the first two methods of measurement, have ranked as the 1st, 3rd and the 4th States in regard to tax-efforts on the basis of the third method while Punjab, Haryana and Gujrat which were reckoned as high-tax-effort states in the above two methods have been found to be three lowest States when tax effort is measured in this manner. This implies that poorer States are really making brave efforts in taxation, which are disproportionately higher than their taxable capacity and that more affluent States still have much greater surplus taxable capacity for higher taxation.

14. In case of Orissa and U. P. the deterioration in tax-effort is not due to the fact that tax-ratio has declined but because of the reason that increase in per capita income has been at slower rate. In case of Punjab, however the lower ranking in tax-effort is partly due to

lowering of the tax-ratio but mainly due to very high rate of growth or per capita income, as would be seen from the following figures.

State	1st period	2nd period		
	Per capita income (Rs.)	Tax-ratio including share of central taxes	Per capita income	Tax-ratio excluding share of central taxes
1	2	3	4	5
1. Punjab	475	7.6	940	5.7
2. Orissa	306	2.9	484	2.8
3. U. P.	307	3.2	498	3.2

This indicates while there is still very great scope for mobilization of resources through internal tax-effort in case of Punjab, the scope for such efforts is limited, in case of Orissa and U. P.; while slow increase in per capita income acts as a basic constraint in augmenting tax-efforts, the steep decline in tax-efforts in case of Orissa from —26 % to —36 % can be explained by the fiscal policy of the State Government. It is interesting to note that it is during this period that Orissa abolished land revenue, and hardly collected anything from agricultural income tax. Another reason which perhaps accounts for Orissa continuing to be in lowest position may be traced to the lesser degree of monetisation of the State's economy, consequent on the low degree of urbanisation of the State. Flow from commodity taxation is low in a State, where dependence on home-grown stock is higher. With only 8 % urban population, this is a major problem for Orissa in tax-efforts.

#### 16. Conclusions :

1. The least square Estimates of the tax-ratios of the States as a function of their per capita income shown as best-fit tax-ratios provide a more accurate picture of relative tax-efforts of States, than the tax-ratio method.

2. Measurement of tax-ratio on the basis of taxable capacity above the minimum consumption level is however a more rational method.

3. In the matter of fiscal allocation of plan assistance to States, the tax-effort principle will act against the interests of weaker States, unless it is measured on the basis of taxable per capita income above the poverty line.

4. It is therefore suggested that either the tax-effort should be measured on the basis of taxable capacity or the principle of 10 % urban assistance allocated on the basis of tax-effort is dispensed with and merged with the share allocated on the basis of per capita income below the national average thus increasing it from existing 10 % to 20 % of the State's share of central assistance.



## RAPPORTEUR'S REPORT ON FISCAL POLICY FOR ECONOMIC DEVELOPMENT IN ORISSA

*Rapporteur D. MAHAPATRA*

Keynesian economics, under the influence of the Stagnation Thesis and the great Depression of 1930s assigned a key role to aggregate demand for full employment and economic stability. The task of fiscal policy in the Keynesian model of growth and development was to generate additional demand.

Harrod-Domar long-run growth models in turn made saving-ratio the significant variable for securing the desired rate of growth. The Harrod growth equation is expressed as :

$$Y_t = Y_0 e^{(s/v)t}$$

Where  $s$  stands for the saving-ratio and  $v$  represents the capital-output ratio. Given the technology and hence a constant capital-output ratio, growth rate can be increased by increasing the saving-ratio of the community. Thus in Harrod-Domar growth models, fiscal policy can contribute to accelerated growth of the economy by raising the saving-ratio.

More recently, the neo-classical growth model have denied any role to fiscal policy in the growth of economies. Assuming a Cobb-Douglas type production function and Hicks-neutral technology, these models posit that in the long-run, equilibrium growth occurs at the 'natural rate' given by the growth rate of labour force and technology. The neo-classical growth equation takes the following form :

$$Y_t = Y_0 e^{[n+g/(1-\alpha)]t}$$

Where  $n$  represents the growth rate of labour force,  $g$ , the growth of technology and  $1-\alpha$ , the output elasticity of labour.

The long-run growth rate in the neo-classical model is completely independent of  $s$  (= the saving ratio). Fiscal policy then has no use for economic growth in these models, neither as a demand-generating force of the Keynesian type nor as a means for increasing the saving ratio *a'la* Harrod-Domar.

Notwithstanding the neo-classical repudiation of fiscal policy for growth, the developing countries are making vigorous use of fiscal policy for planned economic development. Fiscal policy for economic development has come to imply mobilisation of investible resources of the economy and channelising them into the most profitable and productive investments so as to generate additional surplus for further investment and accelerated growth.

Four papers on the topic "Fiscal Policy for Economic Development in Orissa" were presented for discussion.

They are :

1. G. N. DAS : Fiscal Policy in the context of Development Planning ;
2. P. PANDA : Role of Property Taxes in Municipal Finance ;
3. M. CHAMPATI : Tax Structure in Orissa : A Review ;
4. P. N. DAS : Measurement of Tax Effort by the States.

G. N. Das, in his paper, contended that resource mobilisation is the most fundamental problem which fiscal policy is called upon to tackle in the context of economic development. He argued in favour of increased taxation of agriculture. He observed that the tax system as applied to agricultural sector must be progressive and must also be income and production elastic. Das also emphasised the need for a suitable price policy for public enterprises with a view to generate investible surpluses. It may, however, be pointed out that in order to make the public enterprises viable units, efforts must be made to improve managerial efficiency, avoid labour-management troubles and ensure capacity utilization of these plants by removing bottlenecks in the supply of raw-materials and other inputs in addition to a suitable pricing policy of the products of public enterprises.

Panda, in his paper, made out a case for levy of property taxes to augment municipal revenues. According to him, the present weightage accorded octroi and terminal taxes is unjustified since they produce adverse effects on the promotion of business and trade and their incidence is mostly borne by the less-privileged section of the urban society thus offending social justice. Property taxation, in contrast, is productive in so far as the revenue from this source can be increased by periodic revaluation of real assets. Besides property tax can be made progressive by integrating it with betterment levy and tax on transfer of urban property. With such integration, the municipalities can raise large revenue and attach less weightage to indirect taxes like octroi and terminal.

Champati's paper attempted an analysis of the relative importance of different taxes in the tax structure of Orissa and discussed the future prospects of each of these sources of tax revenue. As regards land revenue, it was shown that the percentage of land revenue to total tax revenue was 3.42 in 1968-69 but it declined to 2.37 in 1974-75 following the abolition of land revenue. Subsequent reimposition of land revenue is expected to bring in more revenue from this source, State excise duty constituted a high proportion of tax revenue in earlier years. The future yield from this source, however, depends upon the Government's prohibition policy. The General Sales Tax is the most important of all sources of tax revenue of Orissa. The yield from this source as percentage of total tax revenue has varied from a minimum of 22.24 in 1971-72 to a maximum of 26.67 in 1974-75. With growth in urbanisation in the State and the rise in the volume of trade and commerce and the standard of living of the people, the future of this tax is bright. Agricultural income tax is very insignificant from fiscal point of view, the percentage of rural households coming under its purview being very low. With ceilings on landholding, a better yield from this source is uncertain. Revenue from Stamps and registration yields 4 p. c. of total tax revenue. There is scope to increase the revenue from this source by raising the rates of these duties and fees. There is also ample scope for increasing yield from taxes on vehicles as the transport industries are fast developing in the State. The percentage of revenue received from sources like Entertainment Tax, Estate Duties, Taxes on-Goods and passengers and Taxes and Duties on Electricity to the total tax revenue of the State has shown steady increase over the years and the yield from these sources will certainly increase in future

with the over-all economic development of the State. Almost 50 p. c. of the tax revenue of Orissa is received in way of share of Central Taxes. The Centre may, therefore, be urged to increase Orissa's percentage share in consideration of its relative backwardness and the fact that a sizeable proportion of the population of the State live below the poverty-line.

P. N. Das's paper attempted to devise a rational and just method of measurement of the tax-effort by the States. Das's paper is characterised by an in-depth and objective evaluation of the alternative methods of measuring tax-effort by the States and his case for taxable capacity method of measurement is consistent with sound principles and norms of public finance. The Planning Commission has adopted the principle that 10 p. c. of Central assistance to plan outlay of the States will be distributed, *inter alia*, on the basis of their tax effort. The tax-ratio method adumbrated for the purpose takes into account the level of per capita income together with tax revenue. Though this method is an improvement on the per capita tax-burden method, yet it is unfair for States who have large components of population below the poverty-line. The Best-Fit tax ratio derived by the least square estimates of the tax-ratios of the States as a function of their per capita incomes provides a more accurate measure of relative tax-efforts of States than the simple tax-ratio method. Das rightly contends that the measurement of tax-ratio on the basis of taxable capacity above the minimum consumption level is a distinctly superior and rational method. In conclusion, Das observes that either the tax-effort should be measured on the basis of taxable capacity or the principle of 10 p. c. of Central assistance allocated on the basis of tax-effort is dispensed with and merged with the share allocated on the basis of per capita income below the national average thus raising it from the existing 10 % to 20 % of the States' share of Central assistance.

B. C. Parida initiating the Group Discussion on the subject questioned the relevance of the use of the term "fiscal policy" for a State of the Indian Union. According to him, we could meaningfully use the term only in the context of the Central Government and not with reference to a State Government. The Central Government, with its power to take recourse to deficit financing large-scale borrowing and wide panoply of tax-measures, can adopt fiscal policies as a tool for influencing economic activities and allocating resources for economic



development. The State Governments, on their part, have precious little to do in way of fiscal policy for economic development in so far as they mostly depend on Central aid and assistance to finance their plan outlays. This can best be comprehended by the fact that during the period 1951-52 to 1968-69, Orissa had a total plan outlay of Rs. 525.64 crores out of which Rs. 360.40 crores (68.56 %) were financed by Central assistance. In such a perspective it is more apt to discuss Centre-State financial relationship in the context of economic development of the States rather than of fiscal policy of a State for economic development. In Parida's opinion, fiscal policy for economic development of a State can at best be construed in terms of its investment policy in the field of public enterprises and avoidance of wasteful and unproductive expenditure.

Dr. Baidyanath Misra lent his support to Parida's contention. Dr. Misra's discourse was confined to a survey of the present state of fiscal policy. He observed that fiscal policy varied from country to country according to the stage of their development and the structure of the economy they had. In socialist countries, for example, fiscal policy was coterminous with the economics of public enterprises. In advanced capitalist countries fiscal policy was geared to stabilisation of the economy and maintaining steady growth. In this connection he pointed out that under the influence of the neo-classical growth models, monetary policy has come to be emphasized more than fiscal policy to generate growth. In the under-developed countries, extra-budgetary policies e. g., the system of public distribution, are resorted to in order to control inflationary pressure and stress is laid on the efficient and optimal working of public enterprises so as to generate surpluses for financing economic development.

Dr. Bidyadhar Misra participating in the discussion observed that it was not entirely correct to maintain that the States could have no fiscal policy of their own. The States have to plan their fiscal policy in the wider setting of the Central policy. The Centre decides, on principle, the quantum of assistance it would make available for State Plans; it adopts policies such as prohibition; it takes recourse to a measure of deficit financing and so on. The States have to adjust and operate their fiscal policy, given these constraints. They have to take decisions, for instance, on setting up corporations which have revenue-yielding potentials, e. g., a Kendu Leaf Corporation, a Fishery Corpora-

tion, a Mining Corporation and the like in Orissa. They may similarly decide to impose on educational cess for development of education in the State or a betterment levy at the State level. These are matters pertaining to fiscal policy of the States in the context of developmental planning. Finally, he observed that modern fiscal policy is functional irrespective of whether the State is capitalist or socialist and developed or under-developed.

According to S. Mohanty, the tax base of Orissa especially in respect of General Sales Tax is very much narrowed because of fraudulent practices on the part of traders and merchants to escape the tax burden which is deemed to be highest in Orissa. He further maintained that increased agricultural taxation with a view to mobilise the surplus from the agricultural sector has an adverse effect on private capital formation in that section and the States would be well-advised not to squeeze this source too much.

## INDUSTRIAL DEVELOPMENT OF ORISSA

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Guidelines for industrial development of Orissa were given in the two publications of the National Council of Applied Economic Research, New Delhi viz. (1) *Techno-Economic Survey of Orissa*, 1962 and (2) *the Industrial Programmes for the Fourth Plan, Orissa*, 1968 and it was envisaged that over the decade 1961-71, if an annual investment of Rs. 140 crores is made, the industrial out-put of Orissa would increase eightfold, the major contribution coming from mineral-based industries.<sup>1</sup> Of the total investments, about 39 per cent would be in factory industries, 22 per cent in agriculture-based industries, 13 per cent in power, 4 per cent in mining and the balance in other fields. Further it was also emphasised to strengthen the infrastructure of the economy and build the necessary economic overheads like power, transport, technical training institutions, etc. Similarly in *Industrial Programmes for the Fourth Plan in Orissa (1969-74)* an additional investment of Rs. 136.37 crores was suggested to be divided into different groups as follows : <sup>2</sup>

Industry group	Addl. investment	Percentage of the total	Additional net out-put (in crores)
1	2	3	4
1. Mining industries and mineral development.	40.35	29.6	10.83
2. Metallurgical and metal based industries.	21.10	15.5	10.30
3. Mineral based non-Metallurgical industries.	14.82	10.9	2.42
4. Agriculture Livestock and forest based industries.	16.96	12.6	4.33
5. Chemical and allied industries.	39.84	29.2	5.98
6. Small industries	3.25	2.2	4.13
Total	136.37	100.0	37.99

Thus it is to be seen that for Orissa the mining, metallurgical and metal based industries are considered more important, its contribution being Rs. 23.55 crores or 62.1 % of the total. Next in importance comes chemical and allied industries and lastly agricultural, livestock and forest-based industries. Further, by their very nature, the first 3 groups of industries are largely capital intensive and unless the centre or the state takes initiative in starting such industries, private efforts may not be forthcoming. Moreover since the emphasis is not on consumer type of industries and since sufficient financial and fiscal incentives by the State may not be readily available, entrepreneurial activity for industrial development is not easy to emerge. We have, therefore to think the right type of climate and environment that is necessary for an industrialisation programme for Orissa. It may be stated at the beginning that there is no set formula for creating a suitable climate for industrial growth in a particular region. Industrialisation depends upon availability of raw materials, infrastructure, entrepreneurs and the state incentives. Orissa is endowed with considerable natural resources like minerals, forests, fisheries and sources for hydroelectric power. Even though states like Gujrat and Maharastra which do not possess great mineral or forest resources, have experienced marked industrial growth in recent years, Orissa's abundant natural resources have been put only to limited use. Of course Orissa is not a large centre of consumption and there is lack of indigenous entrepreneurial ability, but this should not stand as a bar to bring about rapid industrialisation in the state for securing balanced regional development. The Five Year Plans and Industrial Policy Resolution of 1948 and 1956 have laid down balanced regional development and economic growth as the prime objectives of planning. Orissa also has been identified as an industrially backward state fit to receive all fiscal and financial incentives for starting of industries. The Government is not only carrying out surveys and feasibility studies of the prospective industries to make them available to the entrepreneurs but there has been selection of some growth points for concentrated programmes of industrial development. Besides financial and fiscal incentives like development of industrial estate with water and accommodation facilities, sale of machinery and equipment on easy terms, grant of development rebate, exemption of taxes, etc. new training facilities are also provided as recommended by Wanchoo Committee.<sup>3</sup>

But in spite of all these incentives industrialisation has made a poor impact on Orissa's economy as a whole. Orissa's share in India's



industrial production has hardly increased from 2 % in 1960-61 to 2.8 % in 1968-69 and its gross industrial output per capita is only Rs. 69/- as against All India average of Rs. 179/-, Rs. 451/- for Maharashtra, Rs. 310/- for Gujarat and Rs. 399/- for West Bengal.<sup>4</sup> The value added by manufacture per capita in Orissa is also very low being only Rs. 18/- compared with Rs. 94/- of West Bengal, Rs. 112/- of Maharashtra and even Rs. 27/- of Assam. In terms of factory employment the average daily wage of factory workers is hardly 3.4 per thousand of population for Orissa as against 9.0 at the All India level. The total contribution from Industries to Orissa state income has practically remained stagnant at about 7-8 percent.<sup>5</sup> There is no uniform increase in the indices of industrial production of all industries and the general index of pig iron, steel ingots and finished steel have actually declined in 1966 and 1967, even though it has risen in the succeeding years.<sup>6</sup>

The base of the diversification of Industry in Orissa has remained very limited. Apart from scarcity of capital, lack of managerial and technical talents, poor infrastructure and transportation facilities and limited markets, the other most important lacuna is deficiency in the private sector contribution to the industrial sector of Orissa. Textile industries, food processing units and such other industries which are technologically simple to operate and which are based on agriculture like rice mills, flour mills, oil mills, rope making or which are based on live-stock like tanneries, etc. or shoe industry or which are forest based industry like paper mill, ply wood industry, wood working industry or saw mills have marked the beginning of industrialisation in Orissa. Gradually as more favourable conditions have set in, the structure has tended to become more diversified through the development of other branches like chemicals, machine building, steel production, ferro-alloys, chemicals, paper and cements. In the organised factory, Orissa's important industries include a Steel plant at Rourkela, Cement at Rajgangapur and Bargarh, Aluminium in Hirakud, paper in Brajrajnagar, Rayagada and Chaudwar, Pig iron at Barbil, Ferro-manganese at Joda and Rayagada, Ferrochrome at Jajpur Road, Hindusthan Aeronautics at Sunabeda, refractories in Sambalpur, glass works, textile mills, Kalinga tubes around Cuttack, Caustic soda in Ganjam and Sugar industries at Rayagada, Aska and Bargarh. Mineral-based industries constitute the major sectors of the industrial development apart from forest-based and agro-based industries. The Govt. of India have since decided to establish as many as nine major projects in the central Sector at a total

outlay of Rs. 489.34 crores during the Fifth Plan period at different places of the state.<sup>7</sup> These include fertiliser plant at Paradip (Rs. 241 crores), Talcher Fertiliser plant (Rs. 47.44 crores), Sukinda Nickel Project (Rs. 38 crores), Heavy Water Plant at Talcher (31 crores), Indian Rare Earth at Gopalpur (15 Crores), Ferro-Vanadium Project (11 crores), Formed Coke Plant at Talcher (10 crores), Argon Recovery Plant at Talcher (35 lakhs) and expansion of Rourkela Steel Plant (Rs. 105 crores). In addition to the above central Projects, the state Govt. will soon have its first jute mill at Dhanmandal, Cuttack at an estimated cost of Rs. 5 crores. Similarly the Industrial Development Corporation of Orissa Ltd. will take up three new projects, a Sodium dicromate Plant, Spun Pipe Plant, Ingot Casting Plant. The Industrial Promotion and Investment Corporation Ltd. (IPICOL) is expected to provide assistance and incentive to the entrepreneurs to set up small scale and medium industries. Some of its important assignments are tyre and tube project, calcium carbide projects, caustic soda and chlorine refractory, ferro-vanadium, etc. Other important projects are tool room project and T. V projects started by Orissa Small Scale Industries Corporation and promotion of agro-based industries by Orissa Agro Industries Corporation.

As a part of state Government policy for rapid industrialisation, many potential growth-centres have been identified for concentrating developmental and industrial efforts. These centres include Sambalpur-Jharsuguda Hirakud-complex, Rourkela complex, Talcher complex, Cuttack-Chaudwar complex, Paradeep complex, Rayagada-Thiruvalli complex, Berhampur-Gopalpur-Ganjam complex and Sunabeda complex. Recently two new industrial growth centres have been opened at Titlagarh and Chenkanal for identification of entrepreneurs and extending to them necessary technical help including land, finance, power, machinery etc. It has been the policy of the State to accord highest priority to young and ambitious entrepreneurs for providing them with gainful employment so as to absorb the rapidly growing labour force.

While these measures will no doubt strengthen the industrial base of Orissa it will go a long way in finding an answer to the growing problem of unemployment. Above all it will help to bring a psychological and economic improvement among the people of Orissa to take greater interest in the industrial development of the State.

In this process of industrialisation of Orissa two or three significant features are worth noticing. First, the investments in industries by the private sector are extremely low in Orissa. Larger investments are necessary by the centre as the private and the state sectors' investments have not been adequate. Central assistance is highly competitive in character and unless proper relationship between the centre and state government is maintained, it may not favour Orissa in its industrialisation prospects. Even then there has not been maximum possible industrial growth based on available primary and other resources in the state. To take an example, it is estimated that the average annual production of minerals in the state is about 13 million tonnes which constitutes about 9 percent of all India output, but only 4 to 5 millions tonnes out of it is consumed by industries located inside the state. The rest is either consumed by industries located outside the state or is exported. It has been said that one or two more steel factories can be easily accommodated with the available iron ore at present. Similarly when the subsidiary industries like plywood, chipwood, and wood alcohol industries of the forest-based industries would be developed, it is estimated that there would be substantial addition to the net output arising from forest based industries. More intensive efforts should be made to develop the state's fisheries resources in marine and inland sectors by constructing fishing harbours at Paradeep, Gopalpur, Chilika lake, Dhamra and Chandipur and by operation of mechanised boats. What is essential for industrial development of Orissa is that a scheme of priority needs should be drawn up in an industrial blue print which should be widely circulated for comments and then it should be finalised. Some amount of link and contact with outside and inside industrialists is an essential prerequisite. The entrepreneurs must know details about investment prospects in Orissa and for this Orissa must participate in all industrial fairs and exhibitions and the officials of the state Industry department should establish some link between businessmen inside and outside the state. Proper environment for industrialisation by providing the necessary financial and fiscal incentives should be created. Preference should be given in industrial licensing to viable schemes to be set up in backward areas. There has been a growing tendency for concentration of economic power in the hands of a few business houses in the country and with planned development this tendency instead of declining has been strengthening. This is the view of Mahalanobis Committee report, Dutt Committee report and Monopoly Inquiry Commission's report. Further, it has been found by Dutt Committee that 75 %

of the assistance granted by financial institutions like I. F. C., I. C. I. C., I. D. B. I., S. F. C.s, L. I. C. etc. went over to large industry and among the large industries, the maximum benefit went over to a few large business houses.<sup>8</sup> The Government should therefore evolve a new licensing policy which would favour new businesses in industrially backward areas.

It is further necessary for initiation of industrial development of Orissa that apart from important connecting railways links like Jakhpura-Banspani, Talcher-Bimlagarh, a well-planned rural roads network should immediately be constructed which would provide reliable and bulk carrier service for industrial and agricultural development of the state. In the year 1967-68, Orissa was provided with only 11 kms of railways line for 100 kms of area. This is very low compared to 17 kms of Andhra Pradesh, 17 for Maharashtra, 23 for Kerala, 30, for Gujarat and 39 for West Bengal. Similarly length of surfaced road per 100 sq. kms is 6 in Orissa against 11 for Andhra Pradesh, 17 for Mysore, 30 for Tamil Nadu and 17 for West Bengal<sup>9</sup>. Because of low construction cost and easy maintenance, the roads would have a much greater spread effect than the railways, both of which would provide the connecting link between the port and the hinterland. Infrastructure effort should be proportionate to the stage of industrial development of an area, it should not be in excess of the needs, nor there should be any bias towards special development in the backward states.

It has been stated that such capital intensive industrial projects in the public sector located in industrially backward areas have not produced the anticipated spread-effect, nor have they led to the growth and diversification of the regional economy. Rourkela Steel Plant is one such example. It has not evolved any kind of forward and backward linkage. So also the other growth centres of Orissa have not been properly linked with their surrounding hinterlands and have not formed each of them, into one integrated industrial region. They have not contributed much towards the fulfilment of the 'balanced regional development' objectives. The industrial estates in various parts of the state have not attracted successful entrepreneurs from outside for industrial location. Establishment of many big industrial projects in states like Bihar, Orissa or Madhya Pradesh have not necessarily increased the economic growth of these regions proportionately to the investments involved. On the other hand, Haryana, Punjab and Tamil Nadu with



comparatively low levels of investment in industrial projects have per-capita incomes substantially above the national average.

According to Lefebvre, the trouble is that lacuna remains in our field of regional investment choices not being in accordance with a rationally adjusted pricing mechanism<sup>10</sup>. Unless the competitive advantages in resources or in man-power in a region are properly surveyed and the choice of regional development accordingly adjusted taking into account the pricing mechanism, capital investment alone may not be very helpful in raising the level of development of a back-ward region.

The special assistance given by the state at present for two backward districts in each state by identification of backward state and backward districts becomes more or less isolated and such "little drops" of investment are hardly able to neutralize the backwash effects, as it is far below the critical minimum effort needed to bring any backward regions to the take-off stage. Unless economic and social infrastructural facilities are improved and unless the local people are motivated in the process of economic and social change, the people of the region are not likely to take advantage of the new employment and income opportunities created in the region. This motivation is not likely to come in Orissa unless some visible and viable schemes like a second steel plant, Paradeep port, a net-work of roads and railways lines are completed as the base for further industrialisation of Orissa. Besides, pursuing a bold policy for development of infrastructure and growth centres, account must be taken of special problems like flood, drought, tribal concentration, etc. in a region like Orissa and a transitional policy evolved to solve such problems before other promotional measures for industrial development are undertaken. Lastly the experience of more developed economies supports the fact that unless inputs are easily available and unless extended links exist with markets, industries will not cluster around a growth centre. Now that many growth centres have been established in Orissa other steps must be taken for a diversified industrial growth in the region.

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## INDUSTRIAL CHANGE IN ORISSA

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Orissa is in the process of change—economic, social and political. One of the main direction of the change and itself a vehicle for many related changes, is the increasing and deliberate industrial development of the State. A clamour for industrialization is notable in all States of India. When the intellectual elite say their states are under-developed, they mean in the first instance, that they have too little industry. India's Second Five Year Plan stated that "rapid industrialization and the diversification of the economy is the core of development". The enthusiasm of the elite for industrialization is a manifestation of their general acceptance of the goal of modernization and the complex of ideas associated with it. In this view, the growth of modern industry will provide employment for an under-utilized labour force now engaged in agriculture and the loosely organised sectors of non-agricultural pursuits. In such circumstances, industrialization becomes an imperative need for the development of this economy. There is Potential source of economic surplus in the form of idle man-power which can be tapped only by industrialization.

There are at present three industrial complexes in Orissa. The first is the complex around Rourkela, the second around Talcher and the third at Ganjam. The Rourkela complex is mainly for steel, fertilizers ( Calcium ammonium nitrate ) and items for coke oven by products such as Polystyrene, nylon and Phthalic anhydride. The Talcher complex contains Pig iron, urea and ammonium nitrate. The third complex at Ganjam is designed Primarily to use the salt available in the coastal region and produce chemicals from salt. The items recommended are caustic soda, soda ash, ammonium chloride and PVC.

There are also two other centres in Orissa where a number of industries have grown and are likely to develop but which cannot be

described as complexes. The first is at Hirakud where there is already the production of aluminium ingots and aluminium cables. The second centre is at Choudwar where there is a textile mill, a paper plant, a steel pipe unit and a factory for the production of refrigerators.

Till the late fifties, Orissa had no modern industrial complexes, there being only a paper mill at Brajarajnagar, a sugar factory at Rayagada, a small Glass and Pottery Factory at Barang, a Textile Mill at Choudwar and a group of middle-sized industries like oil mill, spinning mill and Hosiery factory in the ex-State of Mayurbhanj. In the last twenty years, however, there has been considerable progress; the net value of industrial production increased by 85 % in the First Plan, by 130 % in the Second Plan, and by 218 % in the Third. During 1950-57 cement, ceramic and engineering industries advanced and there was a striking increase in the number of textile Units. The bidi industry tended to decline. There were notable changes in the structure of industry during the Second Plan. The rise of the steel plant was the most significant economic event in the state in the second plan, accounting for nearly 40 % of the increase in factory output in Orissa between 1956-57 and 1960-61. It provided employment opportunities to 34,544 people.

Since the establishment of Rourkela Steel Plant, the development of small and medium industries around the steel plant has been one of the encouraging feature. The State Govt. has made efforts in building up such units in the Industrial Estate at Rourkela and at present these units meet the maintenance requirements to the tune of Rs. 1.5 to 2 crores of the Rourkela Steel Plant. The total maintenance requirements of the Rourkela Steel Plant are of the order of Rs. 10 to 12 crores per year and only requirements up to about Rs. 3 crores could be procured from the vicinity of the plant. Requirements up to an amount of Rs. 1 crore are met by Utkal Machinery Ltd. (UTMAL) located close by at Kanshbahal and the balance demand of about Rs. 2 crores is met from the nearby small scale units. The remaining requirements are met by imports. Thus Rourkela offers a large potential for the development of small and medium industries. Even then Orissa's share in the national industrial production was only 2.6 % in 1965-66 although it has increased from 2 % in 1960-61 and 0.26 % in 1950-51. This can be clearly seen from Table 1 below.



TABLE 1  
INDUSTRIAL DEVELOPMENT IN DIFFERENT STATES

State	No. of industrial workers (000's)	No. of workers per 1000 of population	Value of industrial output increases (in rupees)	Paid up capital per 1000 workers (in rupees)	Industrial output per 1000 workers (in rupees)
Madras	276	0.5	82.45	8,700	15,100
Bombay	698	21.3	226.83	67,140	69,400
West Bengal	668	27.3	216.17	79,600	88,400
United Provinces	240	3.8	97.39	2,520	15,800
East Punjab	45	3.6	7.83	12,640	6,210
Bihar	137	3.4	58.12	2,780	14,700
Orissa	11	0.8	2.72	1,920	1,890
Assam	49	5.7	4.54	3,250	5,300

Obviously an industrialization Programme has indirect effects on the entire economy and on the demand for labour extending far beyond the industrial sector proper. It is necessary to analyse these implications of industrialization in Orissa and the high hopes attached to them. Expansion of the modern industrial sector, of course, has consequences for participation ratios extending well beyond its immediate and direct impact on job opportunities in the industrial sector proper. The employment potentials of the large-scale industries before 1951 and during the First, Second, Third and Annual Plans are 22,650; 1,210; 39,464; 7,857 and 1,833 respectively. Similarly employment generated by the Small Scale industries before 1951 and during the First, Second, Third and Annual Plans are 2,526; 1,626; 3,169; 6,456 and 1,632 respectively. It seems that a big spurt in industrialization took place during the Second plan period, 1956-61. It is noticed that simultaneous increase in employment in both the small scale and large scale industries in Orissa took place. But since the development of large scale industry proceeds in accordance with an exponential dependence and small scale industry in accordance with a linear dependence, the correlation of these two groups had already changed in favour of factory production by 1960-61. The reason for it is that large scale and small scale industries developed in two different ways. Indeed, in small scale industry, the value added per employed person declined during 1950-60 and in large scale industry, however, it

increased during the same period. Primitive manufacturing methods are characteristics of the scattered small-scale industries, most of them are concentrated in the country side. The traditional village crafts greatly suffered from the competition of the more advanced forms of industry or specifically the large scale industries developed during the Second Plan. A. Mayer, an American researcher, wrote that "many traditional rural industries—spinning, weaving, pottery, leather working—continued to languish having progressively lost their markets to large scale urban producers".

Evidently, there came a decline in the employment opportunities in this sphere.

Employment and income are the obverse and reverse of the same coin of industrialization. Certainly industrialization brought about a change in the per capita income in Orissa through employment. The industrial income of Orissa has been rising steadily over the last three plan periods, as will be seen from Table 2 below :—

TABLE 2  
INDUSTRIAL INCOME OF ORISSA

Years	Industrial income (Rs. in crores)	Per cent of total state income
1951-52	18.04	5.7
1955-56	27.73	7.8
1960-61	37.29	8.9
1963-64	47.25	12.0

Though per capita income increases in Orissa still then in comparison with other States, the change in per capita income is very low. This is evident from Table 3

Industrial growth is thus seen not only as important in itself but as the vital catalyst for a larger economic transformation—creating external economies including institutional and attitudinal changes, extensions of infrastructure facilities, e. g., power, transport and communications facilities. Electricity is treated as vital engine for industrial growth. Orissa presents a Paradoxical situation in this regard.

**TABLE 3**  
**CHANGES IN THE PER CAPITA INCOME IN THE STATES**  
(1950-51—1964-65)

States	1950-51 Rs.	Ranking	1964-65 Rs.	Ranking
West Bengal	471.4	1	495	3
Punjab	404.4	2	619	1
Gujarat	381.0	3	423	7
Maharashtra	373.3	4	529	2
Assam	334.6	5	394	8
Kerala	303.9	6	391	9
Mysore	286.8	7	441	5
U. P.	270.5	8	374	11
A. P.	257.5	9	458	4
Rajasthan	257.3	10	365	13
Orissa	251.8	11	368	12
Madras	244.7	12	436	6
M. P.	243.8	13	378	10
Bihar	180.6	14	292	14

The power Potential of the State has been substantially enlarged from 9.5 MW in the beginning of the First Plan to the present level of about 635 MW. With the full commissioning of the Balimela hydro—electric Project in 1974-75, the installed capacity of power in the State is about 317 MW which would rise to 452 MW after completion of Balimela Project. The generation of electricity recorded an increase of 185 % from 509 KWH in 1960-61 to 1474 KWH in 1969-70. Though consumption of electricity during this period registered a larger increase of 205 % from 436 KWH to 1331 KWH, the problem of excess capacity, persisted. At present, against the availability of 317 MW, the peak demand is around 200 MW which indicates the extent of the surplus.

Per capita consumption of power in Orissa in 1968-69 at 60.5 KWH is much lower than the national average of 80 KWH. The surplus power should be utilised for rapid industrial growth so as to bring the per capita power consumption to the national average level.

So far as transport and communications facilities are concerned construction of Express Highways, Railways link from Cuttack to Paradeep, expansion of National Highways No. 5 and No. 6 are the landmarks in the industrial development in Orissa.

In the initial stages of development in Orissa after independence, the contribution of the Central Government is considered to be significant. The five centrally sponsored large projects have provided a base for industrialization in Orissa and some of them have a potential for further expansion. Those are Rourkela Steel Plant, Hirakud Multi-Purpose Project, Talcher Thermal Power Station, MIG Engine Factory at Sunabeda and Paradeep Port in the district of Cuttack.

In conclusion, it may be observed that the pace of industrial development in Orissa has not been quite satisfactory. The major reason for the slow pace of development of industries is to be found in the lack of entrepreneurship and technical skills—in attracting for sound and viable projects.



## SMALL SCALE INDUSTRIES IN ORISSA : THEIR PROMOTION & FINANCE

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### 1. Introduction :

In spite of the rich potential resources of the State there was practically no conscious effort for industrial growth till the end of the First Five Year Plan. The purpose of this paper is to have a brief study of the broad efforts made for establishing medium and small scale industries in Orissa since the 2nd Five Year Plan, an assessment of their working, the constraints they face and the prospects of their future growth.

### 2. Resource base :

(i) *Agricultural base* : Orissa is predominantly an agricultural State. Though the share of agriculture to the State income declined from 66.8 per cent in 1951-52 to 48.6 per cent in 1965-66 and the share of mining, manufacturing industries, trade and commerce increased to some extent, Orissa is by and large a primary producing State. Development of agriculture in Orissa has all along been lopsided. There is greater emphasis on paddy cultivation. Production of paddy is undertaken even on marginal lands, which is uneconomic. Subsistence cultivation is practised. For establishing viable agrobased industrial units, quality is as much important as quantity. Mere increase of acreage of cultivation will not help. There is great scope for increasing productivity per acre by utilising irrigation facilities and scientific methods of cultivation.

Due to over-whelming predominance of paddy cultivation, rice-milling industry occupies an important position. It is an old industry. But the capacity is more than the paddy produced. There are many idle

units. The industry needs modernisation, so that rice-bran can be utilised for manufacturing solvent extraction oil.

Jute comes next in importance. Raw jute, now being sent to Calcutta to feed the mills there, can be utilised for establishing jute industry here. There is a case for starting atleast two jute mills in Orissa.

There is scope for establishing cocoanut oil mills, copra and rope making factories. Ground-nut produced in Cuttack and Dhenkanal can be utilised for producing vegetable oil and cattel-feed. There is also scope for fruit canning and bottling plants in areas like Koraput where pine-apple cultivation is becoming very popular.

(ii) *Forest base* : About 42 % of the State's area is covered with forests rich in commercially valuable wood species, bamboos, sal seed etc. There are also other minor forest produce viz, lac, sabai grass, tassar, mahua flower, kendu leaves, myrabalam and sunari bark etc. which can be utilised in manufacturing sal seed oil, paper, tasser silk, packing cases, furniture, partition boards, sealing wax etc. One unit of sal seed oil factory at Rairangpur in Mayurbhanj has gone into production with IDBI help.

(iii) *Marine base* : With a coast line of 400 KMs. Orissa offers great scope for salt industry and industries based on fisheries. But the development of fishing industry depends on the construction of fishing harbours at Dhamra, Gopalpur, Chandipur and Paradeep. Other necessary infrastructure e. g. ice factory, refrigeration plants, oil depots etc. should also be provided.

(iv) *Mineral base* : There are a lot of mineral deposits in the interior district of Orissa eg., iron ore, manganese, chromite, lime stone, coal, nickel, vanadium, china clay, etc. Most of the industries in this sector are capital intensive. A number of large scale industrial units like the steel plant at Rourkela, fertiliser factory at Talcher, Cement factory at Rajgangpur, ferro-chrome factory at Jajpur Road, the Ferro-silicon plant at Theruvali have been established either by the Government of India, the Industrial Development Corporation of Orissa or the private capitalists.

There are great prospects of establishing medium and small scale industries in the big industrial centres, either to meet the requirements of the giant plants or to utilise their by-products. The maintenance requirements of Rourkela steel plant alone are of the order of Rs. 10/- to Rs. 12/- crores per year. Out of this, the small scale units in the vicinity of the plant provide about Rs. 3/- crores only and the rest is either imported or got from outside the State. Advantage can be taken of the ancillary possibilities of the Rourkela steel plant, Talcher fertiliser factory and the proposed nickel project at Sukinda, ferro-vanadium plant at Rairangpur and the fertiliser plant at Paradeep by proper assessment of their requirements, systematic planning and coordination.

Besides the ancillaries and the subsidiaries, there is great scope for establishing independent small scale units like china clay beneficiation plant, manufacture of crockeries, decorative products, insulators, chalk, roofing materials, aluminium products and chemicals, etc. in the mine-rich backward districts of the State.

(v) Besides the above industries, there is scope for establishing dairy industries by improving the cattle stock and establishing tanneries and bone-mill plants. Many small scale demand-based industries can also be established in the State.

### **3. Schemes undertaken by Government in recent years**

(i) *Pilot Project Scheme* : This scheme was initiated by the Government of Orissa during the Second Five Year Plan with the approval of Govt. of India. The scheme was launched in 1957-58 mainly to attract and encourage the private entrepreneurs to start small scale industrial units of various types with a token contribution of only 10 % of share capital. The balance 90 % of share capital of the units was contributed by the Government of Orissa in the form of equity shares of the private limited companies floated for the purpose. The private entrepreneur was to be the Managing Director in spite of the low capital contribution and was given necessary authority to carry on the management of the Company, subject to over-all control of the Board of Directors. The scheme envisaged that the private entrepreneur would subsequently purchase the Government shares and take over the ownership of the firm. 40 such companies were incorporated under the scheme. These units were meant for producing various types of goods

viz., concrete products, timber products, medicine and chemicals, boat building, fruit processing and canning, foundry and Engineering, etc.

Unfortunately most of these projects ended in failure due to bad management, misappropriation of funds and poor business tradition. However, a few units, started by honest entrepreneurs are still surviving and doing good business. By the end of 1967-68 only 10 units were working, out of which 6 were expected to earn profit. According to a review of the Pilot Project companies as on 31st. March, 1972, there were only 9 running companies and 22 closed companies. The annual administration report of the industry Department for 1973-74 reveals that only 8 companies were working, out of which 7 were expected to earn profit. This presents a gloomy picture.

(ii) *Panchayat Industries* : Panchayat Industries are yet another novel scheme introduced by the Govt. of Orissa to diversify the occupational pattern in rural areas by the spread of small scale industries utilising the raw materials available locally. Panchayat Industries programme was launched during the 3rd. Five Year in the year 1962-63, as a programme of giving incentive to the Panchayats who did good work. Government decided to award cash prizes every year to the best gram panchayats in each district. This prize money was utilised as the nucleus share capital of the Panchayat for floating an industrial cooperative society with contribution of shares by the concerned Panchayat Samity, Government of Orissa and individual artisan members. Government also advanced working capital loans. As a promotional measure Government provided managerial personnel to the units. Necessary infrastructure by way of all weather roads and electric transmission lines was also provided by the State Government to the sites. The purpose behind the scheme was to ensure better cash returns for agricultural producers, to exploit the local raw materials in producing consumer goods and building materials, to provide a growing source of income to the rural population and an expanding source of non-tax revenue to supplement the meagre revenue base of the village Panchayats.

By the end of 1967-68, 142 effective units of Panchayat Industries were sanctioned by Government out of which 116 had gone into production. These industries are of various types viz., agricultural processing industries like sugar units, rice and oil milling, industries producing building materials like saw mills carpentry, brick kiln, stone crushing and light engineering, foundry and fabrications.



Unfortunately many of the units suffered loss and some were closed down under orders of Government and some others were leased out to private parties. By the end of 1973-74 only 67 industrial co-operatives were working under the scheme and 33 units were under different stages of liquidation.

Enquiries about certain Panchayat industries reveal that many of the units could not succeed due to bad location. Sites were selected disregarding economic and commercial considerations. It was unwise to establish certain types of industries in rural areas, specially the Engineering and Foundry units. Transporting the raw materials to the sites and the finished products to the urban markets involved additional cost, since both market and raw materials were not locally available. One such unit in Mayurbhanj district was going to be liquidated. Thanks to the decision of the organisers, it is reported to have started earning profit after the unit was physically shifted to the Industrial Estate at Baripada.

Most of the tile units failed because marketing was a problem in rural areas. Sugar units could not do well as they could not be properly sustained due to poor raw material base. One of the causes of the failure of the carpentry and Engineering units was the lack of speedy clearance of their bills by the Government departments, specially the P. W. D. . Most important cause of their failure appears to be lack of able entrepreneurship and managerial skill.

(iii) *Rural Industries Projects* : Rural Industries programme is a Central sector scheme executed by the State Government with a view to achieving intensive and integrated development of different kinds of small scale industries in certain selected rural areas as a means of solving the problem of rural un-employment. The programme was launched in November 1962. Initially two projects were started in Orissa, one at Barpali and the other at Jajpur, with cent per cent financial assistance from the Central Government. The units have been established in the Panchayat Industries pattern as industrial co-operatives. Rice hullers, oil expellers, carpentry, saw mill, smithy and sugar units have been established under this scheme. The area of operation of the projects at Barpali and Jajpur have been extended to cover the entire rural areas of the respective districts of Sambalpur and Cuttack. Two more projects have been started in Bolangir and Kalahandi districts since 1973.

Promotional and developmental activities are taken up after techno-economic survey by the project authorities.

The objects of these projects are to offer technical guidance to the entrepreneurs and impart them technical training at different institutes. Technical officers of the project prepare model schemes and project reports, which are distributed to the prospective small scale entrepreneurs. Loans are granted by Government. Banks and other financing institutions also offer credit to the companies. Other promotional measures include payment of subsidy on interest and distribution of improved tools to artisans. The success of these projects are yet to be assessed.

(iv) *Industrial Estate* : The objects of setting up Industrial Estates are to provide built-up factory building equipped with water and power to small scale industrialists. This scheme was launched during the 2nd. Five Year Plan. Five Industrial Estates were proposed to be established during the 2nd. Plan, out of which only the one at Cuttack was completed. At present there are 19 such Estates with 436 sheds. Sheds are let out to entrepreneurs at concessional rates. The Orissa Small Industries Corporation has been entrusted with the construction and management of Industrial Estates. 20 % of the funds are being provided by Government and the rest secured from the financing institutions.

The greatest advantage of the Industrial Estates is that the entrepreneur has not to bother about factory buildings and water supply. Besides the over-heads like power and transport facilities, certain common services are also being provided by Government. A large number of units have been established in the Estates. This is a very welcome scheme most suitable for an industrially backward State like Orissa.

(v) *Developed area Project* : Prospective industrial growth centres viz. Rourkela, Kansbahal-Rajgangpur, Jajpur Road, Bhubaneswar, Paradeep, Talcher and Sunabeda have been selected for establishment of Developed Area Projects. Vast areas of land are being acquired and the same is proposed to be developed by providing roads, etc. to be subsequently allotted to the entrepreneurs. The project at Rourkela

will be implemented through the IDC and the proposed one at Bhubaneswar through the OSIC.

The State Government has also identified 30 places as important growth centres of the State for reserving suitable Government land for future allotment to industries.

#### **4. Backward areas in a backward State**

Orissa has been declared by the Government of India as an industrially backward State. In Orissa itself, the 8 districts of Bolangir, Dhenkanal, Keonjhar, Koraput, Kalahandi, Mayurbhanj, Balasore and Phulbani are backward districts, out of which the first 6 have been declared as specially backward.

The study team of the IDBI, ICICI, IFC of India and the ARC, who have jointly conducted the Industrial potential survey of Orissa in 1973, have identified/suggested the establishment of a number of large and medium scale industries in Orissa in course of the next 5 to 10 years. They have also indicated the establishment of certain small scale industries based on available resources. The Small Industries Service Institute (SISI) at Cuttack has also conducted industrial potential survey of some of the backward districts of Orissa and has identified different projects.

The all India term financing institutions, viz., the IDBI, IFCI, ICICI, and the Orissa State Financial Corporation have announced schemes of financial assistance on concessional terms for industrial development in the backward districts. Industries set up in backward districts are eligible to get a subsidy of 15 % on the total fixed capital, subject to a maximum of Rs. 15 lakhs.

As per the Industrial policy resolution of Government of Orissa for 1971-76, a number of concessions are offered to attract small industries. These concessions include providing Government land at 1/3 of market rate in the 8 backward districts and at 50 % in other districts, supply of power at concessional rates till five years after commissioning of the plant, exemption of sales tax and octroi duties for 5 years on raw materials and machineries purchased, 50 % subsidy on the cost of feasibility study and project reports, price

preference up to 15 % in Government purchases of the products of small industries, providing industrial intelligence, technical and marketing assistance.

The Orissa Small Industries Corporation Ltd., established in 1971-72, is responsible for promotion of small industries in Orissa. It procures scarce raw materials and machineries for them, provides seed money to the educated unemployed entrepreneurs, provides consultancy service and entrepreneurial training.

The Small Industries Service Institute, Cuttack, a Government of India undertaking, also offers technical guidance and consultancy service.

## 5. An assessment

(i) *Failures have been many* : From the preceding discussion it would appear that the Government have probably done what it should do regarding the development of industries in the State since the beginning of the 2nd Five Year Plan. But what has been the net outcome ? Statistics regarding the failure of small industrial units in Orissa are quite revealing. Quite a large number of Units were started under different schemes. But a large percentage of them have ended in failure. Of course the policy of the Government is to revive some of the units.

(ii) *Possibilities are immense* : The Industrial Potential Survey of Orissa and of different districts by different agencies have identified a large number of projects based on the vast resources available in the State, as well as the ancillaries and subsidiaries in the big growth centres. Possibilities are enormous whereas achievements are not up to expectations.

(iii) *Hurdles are big* : Promotion of industries in a backward area is not an easy job. Providing physical facilities and supplying finance in easy terms no doubt go a long way. But setting up industries involves complicated process. There is a great role for the entrepreneur to play. He has to go through different processes beginning from planning and ending in the marketing of the product. Unfortunately Orissa lacks such entrepreneurial talents, which account for the large number of



failures. There is also a lack of technical know-how in different fields of specialisation.

(iv) *Managerial and Technical base should be strengthened* : Orissa needs the creation of an infrastructure of managerial and technical expertise, to promote new industries. Since they are not coming forward voluntarily due to poor entrepreneurial tradition, the Government should play a positive role in creating the same. The steps taken appear inadequate.

The SICO may be strengthened or a new apex organisation may be created to do the job. The organisation should be manned by technical/managerial experts. Services of talents from the private sector may be enlisted to strengthen the organisation. Besides offering and coordinating different promotional services like finance, technical consultancy and marketing services, this organisation should create a pool of managerial and technical personnel. Similar services should also be provided in a package form at the district level.

(v) *Periodical evaluation is essential* : Evaluation is another important aspect. Extent of success and causes of failure can be ascertained by critical evaluation of the schemes and projects. Schemes can be modified on the basis of the findings. From Government reports it appears that there have been departmental evaluations from time to time. Departmental assessment has its own limitations. Part time or whole time services of Economists and technical experts may be utilised for proper critical evaluation.

## 6. Conclusion

Intensive efforts for industrialisation have succeeded elsewhere in India. Vidarbha region in the north eastern Maharashtra, comprising eight districts, was being considered unsuitable for industrial development. Active support and guidance by the Small Industries Corporation of Maharashtra have changed the face of the region in course of a few years. About 160 industrial units have been established in the region with the assistance of SICOM. If they have been able to do it, there is no reason why we cannot do it.

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## **THE STRATEGY OF INDUSTRIAL DEVELOPMENT IN ORISSA AND THE PROBLEMS OF PUBLIC SECTOR ENTERPRISES**

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The strategy of industrialisation in Orissa should take into consideration the resource base and the constraints on industrialisation. A proper study of the resource base is as important as the study of the factors which inhibit the growth and the process of industrialisation in the state.

### **RESOURCES**

A careful examination of the resource base reveals that Orissa has got vast mineral, forest and marine resources. The Industrial Potential Survey conducted by I. D. B. I. indicates that there is ample scope for agro-based, forest-based and mineral-based industries<sup>1</sup>. Dr. H. P. Misra has pointed out that the planning of the Industries may be confined to three well-defined groups.<sup>2</sup>

a) Mineral based industries which are to be identified on the basis of national requirements to be set up in the public sector or in the joint sector.

b) Industries which are to be identified based on the raw material of the State in the medium or small sector and within the reach of the entrepreneur either from the State or outside.

c) Industries which can be planned on the basis of consumer's need of the area or of the region for which minimum infrastructure facilities are available.

The survey of Industries by I.D.B.I. has discussed the possibilities of agro-based industries like Jute and Vegetable Oil Mills at Cuttack, Pine apple in Koraput and Coconut Industries at Puri. So far as forest-based industries are concerned the possibilities of sal seeds, Mahua flowers, myrobalam Extract, dairy schemes, paper and pulp industries have been proposed. They have also proposed large number of mineral chemical and engineering industries for the State.

### CONSTRAINTS

Industrial development depends on development of infrastructure facilities like transport, communication, power and marketing facilities. The Industrial survey of the State has high-lighted the following constraints on industrialisation of the State.

a) The existing infrastructure facilities in the State have been found to be inadequate. So far as the export of mineral ores is concerned they have recommended the establishment of rail links between Bimalagarh and Talcher and the ore bearing areas with Bansapani and Jathapura in the first instance and Daitary with Bansapani and Jathapura in the subsequent stages. These two railway links are essentially necessary for the development of mineral based industries in the State.

So far as the road communication is concerned Orissa has only 11 Kms of road per 100 sq. Kms area as compared to 28 kms per 100 sq. kms in India. Districts like Keonjhar, Kalahandi and Phulbani have little transport facilities which inhibit the growth of industries. Without development of net work of roads, industrial development will be hampered.

b) The second important constraint that the agro-based industries face in the State is the lack of adequate supply of materials such as sugarcane and Jute. This requires modernisation of agriculture and the production of quality raw materials.

c) It has been observed that the lack of proper entrepreneurship capable of implementing and managing these projects based on



local materials is one of the obstacle for rapid industrialisation of the State. Lack of technical and managerial skills has also been an added factor for inhibiting the pace of industrialisation in the State. A suggestion has been made that the State Government should set up a promotional organisation to prepare the feasibility report and attract the competent entrepreneurs by offering various fiscal and physical incentives to start industries.

d) So far as the small and medium sector industries are concerned the problem of technical assistance and marketing of the products pose serious difficulty.

In order to identify the prospective Industries and to promote industrialisation Government has established the I. P. I. Co. LTD which assists the Government in implementing some of the projects undertaken by the Government.

### ROLE OF PUBLIC SECTOR

The preceding analysis of resources and constraints reveal that the State has to play an important role in accelerating the industrial programmes. Barring the centrally sponsored projects all the other big industries have to be established in the public sector. Keeping this in view we can analyse some of the proposals to make public sector undertakings operationally viable and economically profitable. It is heartening to note that public sector industries have shown signs of improvement in their productivity and profits after the declaration of emergency. But the analysis of the past events indicate the following factors which should be taken into consideration for improving the profitability and the efficiency of public sector undertaking in Orissa.

a) *Low rate of Returns* : In the first place Lokanathan Committee on evaluation of public sector undertakings in the State made a pointed reference to the low rate of returns on these public sector projects. The Committee viewed that some of the corporations were operating at 2 % profit only. These public sector undertakings contributed much to strengthen the economy of the State by linking the mineral zones by infrastructure facilities and offering employment opportunities to a large number of people. These corporations produce annually goods worth

of Rs. 10 crores i.e. 8 % of the State's real income. But to exploit their potentiality a suggestion has been made that they should earn annually atleast 12 % profit which is equivalent to the shadow rate of interest of the capital invested therein.

(b) *Over Capitalisation* : An undertaking is said to be over capitalised when the book value of its capital exceeds its real value. This is a clear case of inefficient utilisation of valuable capital resources. Lokanathan Committee pointed out that the capital outlay of Rs. 9 crores for Kaling Iron Works to manufacture one lakh ton of pig-Iron ore was far in excess of actual requirements. Such over-capitalisation should be avoided in order to ensure efficient utilisation of the scarce capital resources.

(c) *Debt-Equity Ratio* : The resources for starting these undertakings are either procured through loans or through selling of shares. This loan-share ratio which is otherwise known as loan-equity ratio should be equal or even. The government of India have decided that the loan-equity ratio should be 1: 1. The rate of interest on loan is treated as a part of the cost whereas the dividend on equity is not treated as a part of the cost. So higher equity-debt ratio indicates lower cost and higher debt equity ratio indicates higher cost. The ratio between debt and equity should be made equal. Lokanathan committee found that this was uneven in case of public sector enterprises in Orissa. Hence proper scrutiny of the capital structure should be made so as to ensure fair utilisation of capital.

(d) *Under Utilisation of Capacity* : The utilisation of the excess capacity is another way of improving the efficiency of public sector enterprises. The capacities created in an industry should be utilised and also the linkage effects of these industries both forward and backward should be calculated such that the Industrial unit should be a centre of growth and development for the adjoining areas.

(e) *Organisational form* : Each public Sector undertaking has its own peculiarities and the organisation of one must necessarily be different from another. Still then there are certain common defects which should be avoided for the proper functioning of the public sector undertakings. Firstly, the managing directors should be

appointed for a longer period and they should not be changed frequently. The technique of modern management is complex and it requires time for the managing director to come to grips with the problem. They should stay for a longer period to understand the techniques of management. Secondly, the officials of the public sector undertakings should have bold and imaginative approach to business. It is true that they work under certain handicaps, They should have to develop an aggressive and imaginative handling of the business like their private counterparts.

It has been said that there are generally three-types of managers available to handle business. There are generalists who have some background of business management and programming. There are functional managers who are specialists in accounts, purchase, store or labour relations and lastly there are technical managers who are production engineers and have similar technical qualifications. The top management of a public sector undertaking should give due weightage to these three types of managers and appoint one according to the nature of the industry.

*Financial Management :* Financial management has got two aspects. The first aspect is the cost-reduction and the second is profit maximisation. Cost-reduction aspect is of vital importance to a public sector undertakings. Here every one dealing with financial matters should develop cost-consciousness. Here cost Accountancy as a method of commercial appraisal should be adopted.

The second aspect of the financial management relates to the fixation of prices of the product. Some people are of the opinion that in case of electricity the aim of the price-policy cannot be only revenue earning but also benefitting the people. Here concessional rates or tariff should be provided to the industries. Others are of the opinion that profit should be treated as the test of efficiency of public sector undertakings. What is needed is a flexible price policy which may vary from one undertaking to another keeping the broad principle in view that the capital invested should be able to procure adequate return. With vast mineral and forest resources if sincere efforts are made on the lines indicated above, there is no doubt that the industrial map of Orissa will change in the near future.

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## INDUSTRIAL ESTATES IN ORISSA

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Orissa offers unique scope for the development of a varieties of industries due to its rich natural resources endowment. Of late, this State is endeavouring for a dynamic industrial society with a firm base in small industries in which prospective entrepreneurs seek to join in creating a responsible industrial network with their small enterprises. The State plays its role of inspiration and innovation by providing incentives in the form of financial assistance as concessional rates, tax-holidays, concessional rate of power, built-up industrial sheds and price-preference on products, etc.

It is generally recognised that the development of small scale and medium industries plays a dynamic role in promoting the rate of growth and employment growth. Only a few years ago, our planners used to think of attaching priority to heavy industries alone for quick growth. But heavy industries alone cannot provide enough work for the population as a whole and therefore, greater emphasis on small scale units was a natural and logical course. In Orissa also realisation of immense economic benefits accruing from small scale units has aroused considerable interest of the Government resulting in formulation of several policy instruments aimed at promotion, development and sustained operation of such units in the State.

The Government of India adopted the programme of industrial estates on the recommendation of the small scale Industries Board in November 1954 and introduced it in the year 1955. The principal aims of the programme for setting up industrial estates by the Government of India are to encourage the growth of small scale industries by shifting them to estate premises with a view to increasing their

productivity, to achieve decentralised industrial development in small towns and large villages, to encourage the growth of ancillary industries in public and private sectors by providing well-planned accommodation at suitable sites with the required facilities so as to make them complementary and interdependent.

Steps in this direction were taken by the Government of Orissa during the 2nd Five Year Plan at the instance of Planning Commission by establishing six industrial estates during the 2nd Five Year Plan and four estates during the 3rd Five Year Plan at a total cost of Rs. 236.88 lakhs financed by the Government of India. During the 4th Five Year Plan, seven industrial estates one each at (1) Bhubaneswar, (2) Balasore, (3) Kesinga, (4) Bolangir, (5) Barbil, (6) Choudwar, (7) Talcher were under construction out of which two estates viz., Bolangir and Kesinga have been completed but not started functioning by the year 1972-73.

An attempt has been made in this paper to analyse the various factors which impede the all-round development of Industrial estates and to suggest remedial measures for their efficient functioning.

#### **Utilisation of Sheds**

Out of the total of 238 sheds in the ten industrial estates, industrial units were functioning only in 122 sheds (51 %), 8 sheds (3 %) were vacant, 28 sheds (11 %) were occupied by different Government Officers, Corporations and other institutions, and 82 sheds (35 %) were occupied by defunct industrial units which were no longer functioning on the date of survey. More than 50 % of the sheds in all estates except the sheds in Cuttack and Rourkela were not being productively utilised.

The reasons for unproductive use of the sheds in different industrial estates can be attributed to lack of demands for the shed for setting up the industries, non-availability of local market for the products manufactured, non-availability of scarce rawmaterials and shortage of skilled labourers as reported by some of the entrepreneurs.

#### **Utilisation of Land Area of the Estates**

The utilisation pattern of the total area of the estate is equally important as it determines the economic efficiency of an estate. Though,

there is no uniform pattern of utilisation of the area which would vary depending on the local circumstances, the pattern of utilisation of the estates was compared with the recommendations of the committee on Plan Projects in this regard. It was found that the percentage of utilisation of the area for factory sheds under the surveyed estates varied between 23.2 and 1.7 as against 60-65 recommended by the C. O. P.P. While analysing the "area under administrative Block and other buildings" the utilisation percentage comes almost within the norm of 5 to 10 % except in respect of the industrial estate at Sambalpur, where such utilisation percentage being 3.5 comes slightly below the norm. The area under roads and open space comes within the norm of 30 % in respect of all the estates except at Cuttack, Kendrapara and Rourkela where the utilisation percentages are 44.8, 31.7 and 52.9 respectively. High percentages of the area of the industrial estates varying between 93.7 in Paralakhemundi estate and 23.0 in Rourkela estates are kept as vacant space earmarked for future expansion. The position brings out the fact that the land utilisation in the estates were not fully based on the norms prescribed for the purpose. Therefore, in the absence of specification on pattern of utilisation by the State Government, the norm specified by the C. O. P. P. should be followed to ensure optimum utilisation of the estate areas. Details are given in appendix-1

### Functioning of the Estates

Timely functioning of the estates is one of the important factors determining the utility of the estates. Delay in various phases of establishing an estate, such as the time lag between,

- (a) the proposal and the sanction of the estates;
- (b) sanction and commencement of works;
- (c) commencement and completion of works;
- (d) completion of sheds and their allotment;
- (e) allotment of sheds and their actual occupation by the tenant industrialist.
- (f) actual occupation of the sheds and starting production;
- (g) allotment of sheds and supply of power to the sheds; and
- (h) occupation of the sheds and power connection to the sheds largely influence the efficient functioning of an estate.

The time lag between the proposal for construction of the estate and completion of the construction varied from a minimum of one year

two months in Parlakhemundi estate to a maximum of four years, seven months and fifteen days in Berhampur estate. In 50 % of the estates, the time lag varied from three to four years and in rest 50 %, the time lag varied from one to three years. Reasons for such delay have been attributed to land acquisition, short supply of construction materials, lack of availability of funds and administrative bottlenecks. It would therefore, be suggested that in addition to enforcing the provisions of the recent circular issued by Revenue Department in the matters of land acquisition, proposals for acquisition of land should also be initiated immediately after receipt of sanction of the proposal for establishing the industrial estate for timely completion of these projects. The industries Department may also ensure timely availability of the construction materials to the executing authorities. Further, the coordination between the Industries Department, Directorate of Industries and works Department and proper monitoring of the progress of work in light of target dates of completion of works may be ensured through a committee consisting of the representatives of these three Offices. Such a step would ensure greater administrative efficiency which would resultantly help in timely completion of the projects. The details are presented below.

Name of the Industrial estate	Time-lage between the proposal for construction of the estate and completion of construction		
	Year	Month	Days
Cuttack	1	7	27
Jagatpur	2	4	—
Kendrapara	3	—	20
Takatpur	2	—	8
Jharasuguda	3	6	3
Rourkela	3	4	11
Sambalpur	2	4	—
Berhampur	4	7	15
Dhenkanal	3	4	—
Parlakhemundi	1	2	—

#### Adequacy of Space in the Sheds

About 55 % of the entrepreneurs complained of lack of adequate space in the sheds, 80 % of the entrepreneurs wanted separate store



rooms, 59 % complained of lack of office rooms, 52 % wanted more open space, 50 % complained of bad maintenance of sheds, 11 % complained of unsuitability of the sheds to their trade and 16 % of the entrepreneurs had other miscellaneous difficulties with the sheds occupied by them. The Directorate of Industries may consider these difficulties to determine the remedial measures and to adopt such modifications as far as practicable for the estates now under construction and to be constructed in future. Details are given in Appendix-2.

### **Frequency of Vacancy of the Sheds**

The extent of utilisation of the sheds in terms of the frequency of vacancy of the sheds is presented below.

This reveals that 25 % of the sheds were allotted twice within an average time interval of 11 months. 4 % of the sheds were allotted thrice within an average time span of 6 months and about 3 % of the sheds were allotted for the 4th time within average time span of 3 months. The estate-wise position revealed that the frequency of vacancy of sheds was low in case of Cuttack, Sambalpur, Rourkela and Berhampur industrial estates, which happen to be industrial and commercial towns and the frequency of vacancy of sheds was very high in the estates at Jagatpur, Takatpur, Kendrapara Jharsuguda, Dhenkanal and Parlakhemundi.

### **Demand and Collection of Rent**

It is desirable to ensure prompt and timely collection of rent from the tenant entrepreneurs who have been allotted sheds in the industrial estates. Monthly rent bills are sent to the occupants during the last week of each month for the current as well as arrear dues. In case of non-payments, reminders and registered notices are also issued for payment of the same. In spite of this, if the defaulting parties fail to pay the rent, requisitions are being sent to the certificate Officers to start certificate cases against them for realisation of the dues. In spite of this the rent due is showing an increasing trend. It is, therefore, suggested that the estate authorities may pursue these cases vigorously and if possible a special drive may be made once in every two years. The balance of rent outstanding in

Name of the estate	No. of sheds allotted once	No. of sheds twice allotted	No. of sheds thrice allotted	No. of sheds 4th time allotted	Total sheds.
1	2	3	4	5	6
Cuttack	82(92.1)	6( 6.8)	1( 1.1)	—	89(100.0)
Jagatpur	3(27.3)	3(27.3)	1( 9.0)	4(36.4)	11(100.0)
Kendrapara	2(16.7)	4(33.3)	4(33.3)	2(16.7)	12(100.0)
Takatpur	5(41.7)	7(58.3)	—	—	12(100.0)
Jharsuguda	4(26.7)	7(46.7)	3(20.0)	1( 6.6)	15(100.0)
Rourkela	39(68.4)	18(31.6)	—	—	57(100.0)
Sambalpur	11(73.3)	4(26.7)	—	—	15(100.0)
Berhampur	12(63.2)	6(31.6)	1( 5.2)	—	19(100.0)
Dhenkanal	2(50.0)	2(50.0)	—	—	4(100.0)
Parlakhemundi	2(50.0)	2(50.0)	—	—	4(100.0)
Total	162(68.1)	52(24.8)	10( 4.2)	7( 2.9)	238(100.0)

respect of each of the estates including the arrear rent, from the year 1968-69 to the end of 1972-73 are presented in Appendix-3.

### **Utilisation of Installed Capacity**

The utilisation of installed capacity per unit under each of the estates during the year 1968-69 to 1972-73 revealed that there was full utilisation of the installed capacity by the units in all the estates except Cuttack, Jagatpur and Berhampur. The average annual under-utilisation of per unit capacity was about 22 % in Cuttack Industrial Estate, 88 % in Berhampur Industrial Estate and 7 % in Jagatpur Industrial Estate.

The closure of the units between 1968-69 to 1972-73 in all the estates amounted to total number of 3383 days. The reasons for such closure were mainly attributed to the non-availability of raw materials (2435 days), breakdown of power (406 days), breakdown of machinery (235 days) and for other reasons (306 days). There was practically no strike or lock-outs.

In view of this it is suggested that the Directorate of Industries may be allowed to build up heavy stock of raw-materials in each estate after techno-economic survey of each unit operating in the estate. The estate authority should also devise a suitable system of inspection of each unit to ensure proper utilisation of scarce raw materials power breakdown is also important problem which may be looked into seriously by the O. S. E. B. The servicing centres located in industrial estates may be strengthened to attend to the repairing of machines with promptness and efficiency. The details of the number of shifts per day, working hours per shifts per unit, the installed capacity and the actual utilisation per unit for the years 1968-69 to 1972-73 under each of the estates are given in Appendix-4.

### **Marketing**

On an average 35 % of the products of Industrial estates were sold in local market, 17 % inside the district, 36 % outside the district, and 12 % outside the state. In otherwords, 88 % of the products were disposed of within the State.

The entrepreneurs of the industrial estate may be encouraged through a suitable marketing agency with branches at Calcutta, Bombay, Delhi and Madras to sell more of their products outside the State.

About 40 % of the entrepreneurs had marketing problems. They need assistance of a central Marketing Agency to locate prospective buyers outside the State. The details of the surveyed units are presented in Appendix-5.

### **B/C Ratio**

Although all entrepreneurs of the industrial estate are not deriving all the benefits, yet considerable investment have been made in establishing and running these estates to provide an atmosphere of industrial enterprise for the area and to encourage small entrepreneurs to take up manufacturing. It is, therefore, worthwhile to study the economics of investment made in the estates by the Government through benefit-cost ratio.

The costs and benefits of nine industrial estates (Paralakhemundi has no functional unit) have been analysed for this purpose for the year 1972-73. The date on depreciation, interest on capital and the operation and maintenance charges have been taken into consideration for calculating cost. The depreciation has been calculated by adopting the straight line depreciation method which results in taking 1.5 % depreciation on the cost of rentable buildings of the estates. The rate of depreciation is prescribed by the State Government in Works Department.

At 5 % rate of interest, the industrial estates at Jagatpur and Kendrapara have a B/C ratio of less than 1. At 10 % interest rate, only five estates viz., Jharsuguda, Rourkela, Sambalpur, Cuttack and Dhenkanal have a B/C ratio above 1. Hence there is need for estate administration to reduce the administrative and management cost of the 4 estates viz., Jagatpur, Kendrapara, Takatpur and Berhampur and increase their benefit by enhancing rent of the sheds and encouraging more industries to be set up in the estates so as to bring their ratios 1 and above. The details are presented in Appendix-6.



# APPENDIX I

## UTILISATION OF LAND AREA IN INDUSTRIAL ESTATE (Contd.) (in acres)

Name of the Estate	Factory sheds	Administrative Blocks & Other buildings	Roads & open space	Vacant space earmarked for future expansion	Total
1	2	3	4	5	6
Cuttack	9.35(23.2)	1.00( 4.7)	18.09 (44. 8)	11.02 (27. 3)	40.36 (100. 0)
Jagatpur	1.73( 6.5)	1.24( 4.6)	3.17 (11. 9)	20.51 (77. 0)	26.65 (100. 0)
Kendrapara	0.54( 7.1)	0.85(11.1)	2.43 (31. 7)	3.84 (50. 1)	7.66 (100. 0)
Takatpur	0.72( 2.9)	1.11( 4.4)	1.01 ( 4. 0)	22.16 (88. 7)	25.00 (100. 0)
Jharsuguda	1.72( 6.4)	1.40( 5.2)	6.24 (23. 1)	17.64 (65. 3)	27.00 (100. 0)
Rourkela	6.84(19.1)	1.80( 5.0)	18.92 (52. 9)	8.22 (23. 0)	35.78 (100. 0)
Sambalpur	1.27( 5.6)	0.80( 3.5)	3.88 (17. 0)	16.85 (73. 9)	22.80 (100. 0)

## APPENDIX I

## UTILISATION OF LAND AREA IN INDUSTRIAL ESTATE (in acres)

Name of the Estate	1	2	3	4	5	6
Factory sheds						
Administrative Blocks & Other buildings						
Roads & open space						
Vacant space earmarked for future expansion						
Total						
Berhampur		2.08(16.3)	0.93( 7.3)	2.32 (18. 2)	7.40 (58. 2)	12.73 (100. 0)
Dhenkanal		0.44( 5.5)	0.50( 6.2)	1.18 (14. 8)	5.88 (73. 5)	8.00 (100. 0)
Parlakhemundi		0.36( 1.7)	—	0.94 ( 4. 6)	19.24 (93. 7)	20.54 (100. 0)
Total		25.05(11.1)	10.53( 4.6)	58.18 (25. 7)	132.76 (58. 6)	226.52 (100. 0)

(Figures in bracket indicate percentages)

# APPENDIX 2

## DISTRIBUTION OF THE ENTREPRENEURS ACCORDING TO THE DIFFICULTIES FACED WITH THE SHEDS OCCUPIED BY THEM

Name of the Estate	No. of entrepreneurs contacted	No. of the entrepreneurs facing the difficulties of							
		Non-availability of officer room	Non-availability of store room	Inadequate built-up area	Inadequate open space	Unsuitability of the sheds to the trade	Bad condition of shed	Other	
1	2	3	4	5	6	7	8	9	
Cuttack	14	10	13	8	6	1	7	3	
Jagatpur	3	2	2	2	2	—	3	—	
Kendrapara	2	2	2	2	2	—	1	—	
Takatpur	1	1	1	1	—	—	—	—	
Jharsuguda	4	3	3	2	2	2	3	2	
Rourkela	10	4	4	5	6	—	4	1	
Sambalpur	2	1	1	2	1	1	—	—	
Berhampur	6	2	2	1	3	—	1	—	
Dhenkanal	2	1	1	1	1	1	1	1	
Parlakhemundi	—	—	—	—	—	—	—	—	
Total	44 (100.0)	26 (59.1)	35 (79.5)	24 (54.5)	23 (52.3)	5 (11.4)	20 (45.5)	7 (15.9)	

### APPENDIX 3

#### DEMAND AND COLLECTION OF RENT OF INDUSTRIAL ESTATE

Name of the Estate	* Demand (in '000 Rs.)	Collection (in '000 Rs.)	Col. 3 as % of Col. 2
1	2	3	4
Cuttack	605.11	185.73	30.7
Jagatpur	248.43	12.71	5.1
Kendrapara	105.02	13.22	12.6
Takatpur	49.86	0.32	0.6
Jharsuguda	49.75	23.39	47.0
Rourkela	238.44	47.59	20.0
Sambalpur	15.64	8.50	54.3
Berhampur	98.15	22.60	23.0
Dhenkanal	26.07	4.66	17.9
Parlakhemundi	14.25	1.68	11.8
<b>Total</b>	<b>1450.70</b>	<b>320.40</b>	<b>22.1</b>

\* Includes the demand for the current year plus the arrears of the previous years.



# APPENDIX 4

## OPERATIONAL DETAILS OF THE SURVEYED INDUSTRIAL UNITS

Name of the Industrial Estate	No. of shifts per day per unit	Working hours per shift per unit	Installed capacity per unit (in H. P)	Actual capacity used per unit (in H. P)	No. of shifts per day per unit	Working hours per shift per unit	Installed capacity per unit (in H. P)	Actual capacity used per unit (in H. P)
1	2	3	4	5	6	7	8	9
Cuttack	1	8	36	29	1	8	52	37
Jagatpur	1	8	10	10	1	8	10	10
Kendrapara	1	8	40	40	1	8	40	40
Takatpur	1	8	20	20	1	8	20	20
Jharsuguda	1	8	40	40	1	8	30	30
Rourkela	1	8	34	34	1	8	34	34
Sambalpur	1	8	8	8	1	8	8	8
Berhampur	1	10	34	28	1	10	34	28
Dhenkanal	1	8	20	20	1	8	20	20
Parlakhemundi	—	—	—	—	—	—	—	—

## APPENDIX 4

## OPERATIONAL DETAILS OF THE SURVEYED INDUSTRIAL UNITS

1969-70									
Name of the Industrial Estate	No. of shifts per day per unit	Working hours per shift per unit	Installed capacity per unit (in H. P.)	Actual capacity used per unit (in H. P.)	No. of shifts per day per unit	Working hours per shift per unit	Installed capacity per unit (in H. P.)	Actual capacity used per unit (in H. P.)	
1	10	11	12	13	14	15	16	17	
Cuttack	1	8	39	34	1	8	44	36	
Jagatpur	1	8	25	25	1	8	14	13	
Kendrapara	1	8	40	40	1	8	40	40	
Takatpur	1	8	20	20	1	8	20	20	
Jharsuguda	1	8	32	32	1	12	32	32	
Rourkela	1	10	28	28	1	9	25	25	
Sambalpur	1	8	8	8	1	8	11	11	
Berhampur	1	10	28	28	1	12	33	17	
Dhenkanal	1	8	20	20	1	8	20	20	
Parlakhemundi	—	—	—	—	—	—	—	—	

# APPENDIX 4

## OPERATIONAL DETAILS OF THE SURVEYED INDUSTRIAL UNITS

Name of the Industrial Estate	No. of shifts per day per unit	Working hours per shift per unit	1969-70					Actual capacity used per unit (in H. P)	No. of shifts per day per unit	Working hours per shift per unit	Installed capacity per unit (in H. P)	Actual capacity used per unit (in H. P)	Installed capacity per unit (in H. P)	Actual capacity used per unit (in H. P)
			18	19	20	21	22							
1														
Cuttack	1	8		8	44	31	—							
Jagatpur	1	8		8	14	13	—							
Kendrapara	1	8		8	40	40	—							
Takatpur	1	8		8	20	20	—							
Jharsuguda	1	12		12	32	32	—							
Rourkela	1	10		10	39	39	—							
Sambalpur	1	8		8	11	11	—							
Berhampur	1	12		12	33	28	—							
Dhenkanal	1	8		8	20	20	—							
Parlakhemundi	—	—		—	—	—	—							

## APPENDIX 5

### DETAILS OF DISPOSAL OF THE PRODUCTS OF THE INDUSTRIAL UNITS

Name of the Estate	Average percentage of disposal				
	In the local market	Inside the district	Outside the district	Outside the state	In the foreign market
1	2	3	4	5	6
Cuttack	19	27	38	13	3
Jagatpur	33	15	45	7	—
Kendrapara	70	—	30	—	—
Takatpur	20	60	20	—	—
Jharsuguda	9	20	34	37	—
Rourkela	79	4	4	13	—
Sambalpur	33	13	44	10	—
Berhampur	44	7	27	22	—
Dhenkanal	8	6	85	2	—
Parlakhemundi	—	—	—	—	—
All Estates' average	35	17	36	12	—



# APPENDIX 6

## BENEFIT-COST RATIO OF INDUSTRIAL ESTATE

Name of the Industrial Estates	Cost							
	Capital cost of the Estate	Cost of Rentable buildings	Depreciation @ 15 % of the cost of the rentable buildings	Interest on capital cost		Average annual operation & maintenance charges	5% Interest on capital Col. 4+5+7	Total cost at
				at 5 %	at 10 %			
1	2	3	4	5	6	7	8	
Cuttack	15158.00	4160.00	62.40	507.30	1015.30	73.53	643.83	
Jagatpur	1557.00	1166.00	17.49	77.85	155.70	27.20	122.54	
Kendrapara	582.00	300.00	4.50	29.10	58.20	14.46	48.06	
Takatpur	569.00	307.00	4.60	28.45	56.90	17.06	50.11	
Jharsuguda	966.00	766.00	11.49	48.30	96.60	22.36	82.15	
Rourkela	7007.00	3513.00	52.69	350.35	700.70	45.40	448.44	
Sambalpur	980.00	792.00	11.88	49.80	98.00	18.21	79.09	
Berhampur	1203.00	994.00	14.91	60.15	120.30	31.34	106.40	
Dhenkanal	45.00	251.00	3.76	22.50	45.00	18.24	44.50	
All Estates' Average	2608.00	1361.00	20.41	130.40	260.80	29.76	180.57	

## APPENDIX 6

## BENEFIT-COST RATIO OF INDUSTRIAL ESTATE

Name of the Industrial Estate	Total cost at			Benefits				B/C Ratio	
	10 % interest on capital Col. 4+6+7	Annual cost of the sheds by the surveyed Industrial units	Addl. value added by the unsurveyed industrial units	Estimated addl. value added by the defunct industrial units	Total benefits (Col. 10+11+12+13)	at 5 % interest on capital Col. 14÷8	at 10 % interest on capital Col. 14÷9)		
1	9	10	11	12	13	14	15	16	
Cuttack	1151.73	216.48	982.98	1755.25	1333.99	4288.70	6.66	3.72	
Jagatpur	200.39	60.92	4.14	1.38	9.66	76.10	0.62	0.38	
Kendrapara	77.16	17.23	1.34	—	—	18.57	0.39	0.24	
Takatpur	78.56	15.74	13.65	—	40.95	70.34	1.40	0.90	
Jharsuguda	130.45	4175	40.94	20.46	51.15	154.30	1.88	1.18	
Rourkela	798.79	163.42	192.67	423.94	404.67	1184.70	2.64	1.48	
Sambalpur	128.09	28.02	32.00	48.00	32.00	140.02	1.77	1.09	
Berhampur	166.55	49.78	50.83	16.94	25.41	142.96	1.34	0.86	
Dhenkanal	67.00	9.70	92.12	—	—	101.82	2.29	1.52	
All Estates' Average	310.97	67.00	156.74	377.66	271.12	872.52	4.83	2.81	

## PROBLEMS AND PROSPECTS OF DEVELOPMENT OF ANCILLARY INDUSTRIES IN ORISSA

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Industrialisation is a complex process and it occupies a pivotal position in the economic development of the under-developed countries. The pace of industrialisation can be accelerated, provided there is a high degree of dependence between the bigger "Parent" units and the smaller ancillary units. Recent developments in Japan and the U. S. A. amply illustrate this fact. For example, the most popular electronics manufacturers in Japan produce only 10 % of the parts themselves and collect the rest 90 % of the parts and components from the ancillary small industrial units. Generally, the large unit concentrate only on assembling, testing, marketing, designing, and research. Manufacturing of every item under one roof, whatever may be the quantum of production is often beyond the techno-economic feasibility of most production concerns. Hence, the Government of India advised the State Governments for planned development of ancillary industries, clustering around large units, to produce parts, components and sub-assemblies required by the parent units. Recognising the large potentiality of the ancillary industries, the Small Scale Industries Board took special interest to examine the ways and means for development of ancillary industries. The Government of Orissa took up this programme during 1965 and as a first step, it started the work in planning ancillary industries for the biggest large scale Industry in the State, i.e., the Hindustan Steel Limited (H. S. L.) and the Fertiliser Plant at Rourkela. An Ancillary Advisory Committee with the General Manager, H. S. L. as the Chairman was constituted by the Orissa Government for this project and the preliminary work in this direction started from the month of September, 1965.

The Committee laid stress on the systematic analysis of the regular requirement of store items of the H. S. L., Rourkela. In order to arrive at the steady figures for different items, the actual purchases made over a period of 3 years, were analysed. While analysing these items, due care was taken to identify regular purchases from indigenous sources or overseas and regarding certain other items which were not likely to recur regularly or otherwise required for specific construction or expansion of the plant. The above study provided the technical viability and economic feasibility of the ancillary units. The entire store purchase items of the Rourkela Steel Plant were classified earlier into 50 categories which included 2,000 to 3,000 items. In the initial stage 30 schemes were envisaged which had immediate potentiality to be developed as ancillary to Rourkela Steel Plant and Fertiliser Plant. Besides, the Committee prepared an Area Development Plan to provide the infrastructure for the establishment of proposed ancillary industries. A few existing small units took lead as the first group of ancillary industries and participated effectively in the Store Purchase Programme of the H. S. L., Rourkela. An important achievement in this field was the co-operation of the Steel Plant authority to local manufacturers to negotiate rates where the tenders were not lowest. This has opened a very bright prospect for the local ancillary industries to rectify their errors in estimation of price quotation and utilise the opportunity to improve the quality of their products. Over a period of 3 years, from August 1965 to August 1968, 24 such industries were able to supply goods worth about Rs. 98 lakhs to the H. S. L., Rourkela. Sometimes, the Steel Plant goes a step further to negotiate directly with the local ancillary machine shops for their urgent requirement of spares at pre-estimated rates. However, during the year 1968-69 the value of ancillary stores supplied to the large scale enterprises was Rs. 11.8 million which was more than seven times the value of supplies made in 1965. As regards the Area Development Programme, the Government have gone ahead with the expansion of Industrial Estate at Rourkela with a token expenditure of Rs. 3.5 lakhs for construction of 6 new factory buildings and 35 acres of developed area was acquired for the establishment of ancillary development. The State Government have further taken steps to acquire a bigger area of 843 acres beyond Panposh, which is still in the developing stage to provide space for the new ancillary industries.

In the 4th Five Year Plan a provision of Rs. 5.7 lakhs was made to procure land, develop the same and provide roads,



overhead electric lines, water connections, etc. at Rourkela. An outlay of Rs. 22.60 lakhs had been made for the construction of factory buildings at the Rourkela Industrial Estate. For the construction of 6 new factory buildings Rs. 3.5 lakhs had already been spent in 1967. A provision of Rs. 120 lakhs was there for the development of 843 acres of land to be utilised for industrial development. As regards the fixed capital requirements, about Rs. 90 lakhs were spent which included about Rs. 17 lakhs worth of machines from National Small Industries Corporation on Hire-Purchase Scheme. The State Governments' contribution in this regard was to the tune of Rs. 25 lakhs during the 4th Plan period. The requirements of working capital for 30 schemes were about Rs. 77.9 lakhs out of which Government of Orissa Aid to Industries Loan was to the tune of Rs. 40 lakhs and the rest was being financed by the State Bank and other financial institutions. Apart from the financial assistance the State Government sanctioned a special staff headed by a technical officer for the 'on spot work' in the ancillary areas with a provision of Rs. 8.50 lakhs in the 4th Plan. A provision of Rs. 23.57 lakhs was made in the same period as a result of which the Testing Laboratory Buildings with tool rooms and other common facilities were set up in the Rourkela Industrial Estate.

But the actual development of ancillary industries started by the year 1967-68 under the Joint Director of Industries, of the Government of Orissa who is in charge of ancillary development of Rourkela. A new Industrial Estate at Kalunga, near Rourkela had been set up to meet the requirements of ancillary industries under the Educated Unemployed Scheme with the provision of 39 industrial sheds. The Orissa Small Industries Corporation had also constructed 30 sheds of different types at Kalunga. More sheds were also constructed at Rourkela where the total number of sheds now stand at 65. A Commercial Estate with 20 flats of shop-cum-residence has been constructed and is being allotted to entrepreneurs at Rourkela. Besides, facilities like, Testing Laboratory, other common service facilities have been provided during the 4th Plan period to the Industrial Estate at Rourkela. As a result of this effort, as on today around 100 ancillary units have been set up at Rourkela region and are supplying goods with about Rs. 4.5 crores annually to H. S. L., Fertiliser Plant at Rourkela, Orissa State



Electricity Board, Industrial Development Corporation of Orissa, Railways, Defence and other large industries both in the Public and the private sector. Table 1, below shows the increasing number of orders received by the ancillary units at Rourkela from 1970-71 to the first 6 months of the year 1975-76 for supply of their products to different large scale Industries.

Table-1 shows that the H. S. L., Rourkela generally takes more than half of the produce every year and also shows an increasing trend in getting orders from the other large scale units in the public sector. But the orders received from the large scale industries in the private sector decreases considerably year after year. The Table also shows the demand of the Railways and Defence department which is regular and recurrent in nature that which does not show an encouraging trend in respect of placement of orders with the ancillary units.

In respect of the industrial complex at Talcher, steps have been taken for the development of ancillary sector in the area. A Survey in this connection was conducted under the joint auspices of the Director of Industries, Orissa and the Directorate of Small Industries Service Institute, Cuttack, who have identified a number of items which may come up in the area in due course of industrialisation. An Ancillary Advisory Committee has been formed with the Regional Manager, F.C.I., as the Chairman. An Industrial Estate at Talcher with 18 sheds has been completed. A Deputy Director of Industries of the Government of Orissa is in charge of implementing the ancillary development programme. Steps have been taken to identify more ancillary units with the help of SIET Institute, Hyderabad based on the demands of various Government Departments, like Health, Education, and Corporate Agencies like O. S. E. B., O. S. C. T. C., O. S. T. C. etc., At Talcher 5 to 7 ancillary units have already started production and are getting orders for supply.

Further, a few ancillary items have been identified for H. A. L. Sunabeda, where the O. S. I. C. had constructed 3 sheds, two of which have been allotted for manufacturing of Single Point Carbide Tipped Tools and the other for Fettling Unit with the provision for cast iron foundry with blade polishing. Besides, the S. I. S. I. had already identified several other items which are regularly required by the H. A. L. Sunabeda taken on priority by the Government of Orissa for the development of ancillary sector.

TABLE 1

ORDERS RECEIVED BY THE ANCILLARY INDUSTRIES AT ROURKELA  
FOR THE YEARS FROM 1971-72 TO 1975-76 (UP TO 31st SEPT. 1975) (in Rs.)

Year	H. S. L., Rourkela	Other large Scale Public Sector Industries	Large Scale Private Sector Industries	Defence Deptt.	Railways	Total
1	2	3	4	5	6	7
1970-71	—	—	11788255.87	1469307.20	7037900.00	41828047.54
1971-72	—	—	10180515.77	166624.00	8944047.93	53249318.48
1972-73	32417123.14	5035246.25	6153134.82	253356.56	98923.60	43847754.37
1973-74	22186775.74	6153423.89	6923430.59	178450.00	3110.00	35445190.22
1974-75	29906459.64	6679642.97	6539345.77	608590.00	25730.00	43759768.33
1975-76 up to 31st Sept. 1975.	11114480.89	5189671.37	5375819.38	29030.00	368352.00	22017154.44

Source :—Director of Industries, Orissa.

\* Item No. 2 and 3 for the year 1970-71 and 1971-72 were not available separately. The combined figures for these items are Rs. 2, 15, 32, 584.47 and Rs. 3,39,58,130.78 for the years 1970-71 and 1971-72 respectively.

Apart from these, there are other large and medium industries in the State where there is immense scope for the development of ancillary units. From different Surveys conducted by S. I. S. I., Cuttack and Directorate of Industries, Orissa, the paper mills of Orissa, namely J. K. Paper Mills, Titagurh Paper Mill and Orient Paper Mill are in need of a few ancillary units. Besides, Hirakud Aluminium, Kalinga Tubes, etc. are also either producing some parts and components by themselves or importing them from outside. In this regard, the State Government is likely to take a few more schemes for products required by other large scale industries in Rourkela region, i.e., Cement Plant at Rajgangpur. Paper Mill at Brajrajnagar, Refractory Factory at Belpahar and Lathikia and the Mining areas of Biramitrapur, Langiberna, Barsuan and Barbil. There is also a proposal for the development of new ancillaries to meet the requirements of Paradeep port. All this indicate that there is immense scope for the development of an ancillary sector in Orissa.

Ancillary industries not only suffer from the same disabilities as the small scale industries but also some other special difficulties which the other small units do not generally face. In Orissa the problems that the ancillary units face, are much more acute than the units of other States. Some of the major problems are highlighted in the following paragraphs, the solutions to which will have a great bearing on the expansion and development of these industries.

The pricing system sometimes are worked out to the disadvantage of small units, because of the fact that a big concern or a group of major industries are the main source of getting orders. The small units sometimes are bound to supply at a lower price which may not yield a margin of profit. The acute shortage of raw materials is another important problem faced generally by small scale units. In case of imported raw materials the problem is much more serious. The lack of adequate working capital and other requirement of funds to carry out the ancillary production order is another bottleneck. Inadequate testing and laboratory facilities is a serious drawback which causes the low developmental pace of the ancillary units. Although the Government of Orissa established the Ancillary Testing Laboratory at Rourkela, it is difficult in case of some small units to avail the testing facilities, for all the units in the estate may not be allied type. Besides testing, equipment for ensuring quality becomes

too capital-intensive which is beyond the capacity of the small units to install. Uncertainty of getting orders on account of absence of agreements is one of the most important factors which sometimes results in the collapse of some ancillary units. Small units which take up the orders for supply of its products, soon find that there is no continuity in getting the orders for the next year. The small ancillary units in Orissa get irregular orders from the large concerns because of the predominance of the Calcutta market and sometimes for the corrupt practices of the authorities of the large industrial enterprises. Inadequate entrepreneurial talents, in addition to lack of technical personnel is another factor hindering the growth of ancillary development.

From the point of view of rapid industrialisation throughout the State, ancillary production has promising field for growth. A number of resolutions were passed at the All India Seminar on Development of Small Scale Ancillary Industries and a number of suggestions by the Development Commissioner, Small Scale Industries for overall growth of the ancillary units throughout the State. Every public sector undertaking where ancillary development is possible should set up an ancillary division and should be primarily responsible for the development of ancillaries and for framing out parts, components and sub-assemblies. In addition, the ancillary division with the co-operation of State Directorate of Industries should look after the basic infrastructure facilities. In case of non-availability and shortages of scarce raw-materials both imported and indigenous, major public sector industries should be assisted by the Government for setting up Raw-material Banks. Besides, there should be reasonable understanding between the public enterprises and ancillary units in the matter of fixing prices and period of contract. It should be advantageous for both the undertakings that the orders or sub-contracts are settled for a reasonably long duration. There should be a Standing Committee which should include the authority of public undertaking in selecting best talent for entrepreneurship. The Committee should recommend the financial requirement of the ancillary unit in case of such large public undertakings like railways and defence. Special term contracts should be executed in order to avoid discontinued demand for ancillary products. These suggestions, if properly implemented, will go a long way in the development of ancillary industries in the State.

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## THE INDUSTRIAL DEVELOPMENT OF ORISSA

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The State of Orissa abounds in vast mineral and forest resources. Complexes and growth centres for industrial development have developed at Chowdwar, Paradip, Rourkela, Talcher and Sunabeda. Orissa was the first State in India to launch a scheme of Panchayat Industries programme by starting a medium or small type of industry in each and every block headquarters so that decentralisation of industries can take place and balanced industrial development is achieved. The Industrial Programme for the Fourth and Fifth Plan envisaged an investment of the order of Rs. 140 crores per annum so that Orissa can catch up with the average rate of industrial growth in India. But the achievements in the field of industrial sector have been less than what was expected. Orissa's share in the industrial production of India has hardly increased from 2 % to 2.8 %. Its gross industrial output per capita is only worth Rs. 69 as against the all India average of Rs. 179. The contribution of industry to Orissa's State Income stands at 8-10 p. c. only.

To analyse the causes of slow development of industries in the state in spite of the natural endowments and physical and fiscal incentives provided by the Government the theme of Industrial Development in Orissa was selected. Altogether six papers were received. These papers can be conveniently divided into two broad categories. The papers "Industrial Development of Orissa" by Prof. R. C. Patnaik of Khallikote College and "Industrial Change in Orissa" by U. C. Naik, Lecturer in Economics of Pattamundai College survey the broad pattern of Industrialisation in the state. In the second category we have four papers dealing with four

specific problems of Industrial development, (a) Small scale industries in Orissa—Their promotion and finance, (b) The problems of public sector Industries, (c) Industrial estate in Orissa and (d) Problems and prospects of Ancillary Industries in Orissa.

Prof. R. C. Patnaik in his paper has shown that while newer and newer complexes like Rayagada—Thiruveli, Ganjam-Gopalpur, Titlagarh and Dhenkanal have come to stay the investment in the private sector has been extremely low, the investment by the centre has been selective and competitive and the investment by the State is inadequate. He favours more mineral and forest-based industries, developed infrastructure in form of new railway lines, higher linkage effects of the already developed complexes, favourable institutional finances and integration of regional employment in regionally located industries for rapid industrialisation of the State. Sri Naik has analysed the growth rate of the industrial development of the State in terms of its employment generating potential and has come to the conclusion that alongwith large scale complexes small scale industrial development is essential for employment creation.

Sri Sanatan Mohanty, Reader in Economics, M. P. C. College, Baripada in his paper "Small Scale Industries In Orissa"—Their Promotion and Finance" pleaded for more of agro-based, forest-based, mineral and marine-based industries. Ancillary and subsidiary industries have great scope for development in the industrial centres. While reviewing the performance of pilot projects and Panchayat Industries he observed that bad management, misappropriation of funds and poor business traditions were responsible for the failure of these industries. A few units started by honest entrepreneurs are doing good business. Panchayat industries failed due to faulty location and inefficient management. To develop the small Industries in the state the managerial and technical base of the industries should be strengthened and periodic evaluation should be made of the progress and failure of the industries.

Sri B. C. Parida in his paper "The Strategy of Industrial Development and the Problems of Public Sector Enterprises" has observed that to improve the efficiency of the public Sector enterprises the rate of returns on Investments in those industries should increase. Over capitalisation should be avoided, debt equity ratio should

be made even, the existing capacities should be fully utilised and organisation and forms of management should be restructured as per the needs of the economy.

Mr. J. N. Rout, Research Officer of Planning Department has analysed the problems of Industrial Estate in the State. He has pointed out that out of 238 sheds erected in ten Industrial estates of Orissa only 51 % of the total sheds are utilised. What is more shocking is that 35 % of the sheds are occupied by defunct industrial units. It has been frequently complained that the sheds are inadequate housing, no provision for office and stock rooms and sometimes badly maintained. There is delay in the payment of rents and arrears are increasing. Cuttack, Berhampur and Jagatpur industrial estates have excess capacity. Sometimes the units were closed for lack of raw materials, breakdown of power and machines. The most important problem faced by the units is the problem of marketing. 35 % of the products are sold locally and 65 % of the output inside the State. The units want a central marketing agency to locate prospective buyers outside the State. The paper of Mr. Rout contains a lot of statistical information and reveals the unsatisfactory state of the Industrial Estates.

Mr. Sharat Chandra Sahoo, research scholar in the Analytical and Applied Economics Department has analysed "Problems and Prospects of Development of Ancillary Industries in Orissa". He has mainly surveyed the problems of those Industries at Rourkela and Talcher. He comes to the conclusion that 50 % of the ancillary products of Rourkela Steel Plant are supplied locally. These industries have bright future in the industrial complexes of the State provided they are able to get regular supply of raw materials, power, etc.

## II

In the discussion that followed the following salient points were made.

Mr. F. A. Moses, the Director of Industries of the State pointed out that contrary to the belief that bureaucracy and technocracy sometimes create hurdle for Industrial Progress the Directorate of Industries is actively co-operating in the spread and establishment of Industries in the State. The Government of Orissa has planned to establish 1000

small industrial units per annum and as such 5000 small industrial units over the Fifth Five Year Plan. The real problems that the Directorate is facing while carrying out the programme are (a) Identification of the enterprise (b) lack of viable economic schemes (c) under developed infrastructure (d) Marketing difficulties (e) constraint of resources because only Rs. 7.20 crores have been provided for the purpose and (f) power scarcity.

The most important hurdle is created when the goods produced are not sold. Marketing problems are created because of the distance of Orissa from metropolitan cities, lack of immediate decisions by the Government and prevalence of the rate-contract scheme. He hoped that the establishment of a central purchasing organisation and activation of the Export Promotion Corporation and small Industries Corporation will go a long way to improve the marketing problem. The problem of delay in providing infrastructure has been partially solved by provision of a package scheme which provides to the entrepreneur registration of land or shed, finance, power and other ancillary benefits to start an industry. He suggested that learned bodies like Orissa Economic Association can help in the identification of new projects. He explained the schemes for young entrepreneurs launched by the Directorate.

Dr. Haraprasanna Mishra, the Chairman, of Industrial Promotion and Investment Corporation, made the following observations. According to him three types of Industries can be conveniently started in the State such as mineral based industries, industries based on raw materials of the State and industries based on the needs of the consumer.

For rapid industrialisation of the State the plan and machines of the industries should be handled by the specialists, the infrastructure facilities have to be provided notably by connecting the mining link of Jakhapura, Banspani and later Banspani and Daitari mines. The net of rural roads should be improved. Secondly, there should be co-ordination among various departments of the Government to help people desirous of establishing industries. Thirdly, an industrial map projecting the future industrial landscape should be drawn up. Fourthly, the attitude gap for an Industrialised society from a feudalistic and white collar one should be bridged. While establishing an Industry and making



it viable there should not be any uneconomic expenditure. He recalled how Mr. Dalmia, the owner of Rajgangpur Cement Plant used to stay at a thatched house near the site of the industry while the factory was under consideration. Lastly, he did not recommend the idea of making every young man an entrepreneur. Entrepreneurship is not trading. It is a sort of innovating out of nothing. The policy of the Government to give facility of young entrepreneurship to anybody who is educated unemployed is a sort of misplaced one, he observed.

The chairman of the session and the president of the Association Dr. D. C. Mishra emphasised that the review of the industrial Programme of a State has two aspects, such as (a) Evaluation of present policies and (b) proposed action for future programmes. For evaluation of present policies we should analyse the changes in policy and structural changes like institutional and procedural which will augment higher industrial production. For future expansion the criteria of investment, skill formation, the attitude changes and most important the education and training for industrial production should be formulated afresh.

Dr. Bidyadhar Misra scored a point by emphasising that the agencies and departments responsible for industrial development should have greater co-ordination with each other. The coordinating agency should also take the private entrepreneurs into confidence. A prospective and long-term plan of Industrial development of the State should be drawn up immediately.

Dr. B. N. Mishra, Dean of Orissa University of Agriculture and Technology suggested that the employment generating potential of the traditional village Industries are more than the small scale Industries. In view of the marginal unemployment in the country the rural Industries should be revitalised on the Chinese model of rural development.

Though the discussions were meaningful, problems regarding Institutional finance, entrepreneurship for educated unemployed, ancillary Industries, the interdependence of agro-industries and industrial development and marketing did not receive adequate attention.



## RELEVANCE OF THE 20-POINT PROGRAMME TO ORISSA

DR. BAIDYANATH MISRA

Orissa is proverbially poor. Of the total population of the State which is about 22 million according to 1971 census, about 38 per cent constitute scheduled castes and scheduled tribes who are virtually cut off from the main stream of the economic life of the State. Again, Orissa is a land of villages. Of the total population, about 92 per cent live in villages of which 64.4 per cent live in small villages of less than 1000 people. And these villages do not have the minimum facilities for habitation. If we view the occupational structure, we notice that the cultivators constitute 49.16 per cent and agricultural labourers 28.28 per cent. Manufacturing, processing, repairs and household industries provide employment only to the extent of about 6 per cent of the working force. In other words, Orissa depends mainly on agriculture which provides about 60 per cent to the total State income. The share of mining, manufacturing etc. in the State income comes to only about 15 per cent and that of commerce, transport and communications comes to about 8 per cent.

But agriculture which is so important for the economy of the State is not sufficiently progressive both due to structural and technological handicaps. The distribution of operational holdings shows that small farmers with holdings of less than 2 hectares comprise 2.6 million households or 43 per cent of all operational holdings but are controlling less than 12 per cent of the total cultivable area. Farms of over 5 hectares representing less than 7 per cent of the holdings account for about 33 per cent of the land. Further, the level of share cropping at 66 per cent of tenanted farms is a serious disincentive to increasing production. Orissa is often hit by droughts, flood and cyclones and the small farmers become vulnerable to the natural calamities due to their economic status.

The technological change is exceedingly slow. Of the total net area shown, only 15 per cent are currently irrigated. About 63 per cent of the total cropped area is under kharif paddy. Yield levels are among the lowest in India and quoted to be 1.2 tons/ha for rainfed paddy and 1.5 tons/ha for irrigated kharif. Crop yields under irrigated rabi cropping are recorded at 2.0 tons/ha. Consumption of modern inputs, use of high yielding varieties and availability of other facilities like marketing, processing and storage, credit and banking, water management etc; are not sufficiently developed to bring about a breakthrough in agricultural production. Orissa's basic dilemma is that its economy, income and the nutrition of its people are heavily dependent on rice production and rice production has been almost stagnant over the last ten years. Total population has grown 24 per cent from 1965 to 1975 using three year averages centred on 1966 and 1974; total food grain production has increased only 11 per cent, using the same three year averages and per capita gross production has declined by 7 per cent. This decline means families have suffered a decline in real income.

Although the State's net domestic product per capita increased at 1.7 per cent per year between 1960-61 and 1972-73, the gap between average per capita income in Orissa and the rest of India has been growing. In 1971-72, the Orissa figure of Rs. 469 at current prices was 75 per cent of the All India level. In 1975 it was estimated that more than 70 per cent of Orissa's population was living below the poverty line (Rs. 20 per month at 1960-61 prices) compared with 40 per cent for All India.

The above analysis shows that Orissa requires special efforts both in eradication of poverty and acceleration of economic growth. Concentrated effort on economic growth alone will perpetuate the present economic and social structure, and may even militate against the poor. Further, in case of Orissa, poverty lies in rural areas since Orissa does not have an industrial base. However, the poor in the rural areas migrate to some of the so-called urban centres (many of which are expanded villages even without having the benefits of rural life and with all the vices and ugliness of urban life) in search of employment and living. But since the urban centres cannot integrate them, they develop slums in urban areas. This means that an intensive effort has to be made to bring about an integrated rural development so as to initiate a process of change in the economy and improve the economic status of the poor

people. In other words, Orissa does not need only economic growth, it needs economic development. The concept of growth is related to the increase in total output of goods and services which a country achieves over a period of time. But the concept of development is defined as a movement upward of a whole system of interdependent conditions of which economic growth is one of the several categories of causally interrelated conditions. Without such an economic development, the vicious inter-locking circle of economic stagnation cannot be broken.

Gunnar Myrdal in analysing the problem of economic development has emphasized the necessity of institutional and attitudinal changes in under-developed states since the traditional economic tools like increased investment in technology, price incentives, liberal tax concessions, etc; are inadequate either to create necessary economic impulses for growth or to eradicate poverty. When the vast majority of the people in the State remain beyond the frontiers of market economy due to limitations of physical and human capital, both structural and economic changes are necessary to transform the economy and help the poor to participate in and derive benefit from the economy. In the context of this, the 20-point programme has considerable relevance to Orissa.

One of the major planks of 20-point programme is rural development comprising implementation of agricultural land ceiling and speedier distribution of surplus land, abolition of bonded labour, liquidation of rural indebtedness and provision of institutional credit, fixation and enhancement of minimum wage for agricultural labour, improvement of irrigation facility and so on. The emphasis on institutional change will create the necessary socio-economic milieu for the spread effects of growth to permeate all elements of the society.

Take for example, the emphasis on land reform. Since the beginning of planning, land reform, fixation of ceiling and distribution of surplus land have been initiated to create a healthy relationship between man and land that does not discourage incentives to work and invest on one's own labour. The present managerial system of agriculture has neither increased the productivity of land nor helped the poor farmers to derive gain from farming. The existing legal system has frustrated the implementation of land reform laws due to protracted litigation. Similarly, the proposal for abolition of bonded labour and

enhancement of minimum wage for agricultural labour will compel the land owners to work in the fields thus changing the existing economic environment which helps to create two economic classes in the rural classes, the workers and supervisors and perpetuating inequality and exploitation in rural areas. The abolition of bonded labour will free a large segment of poor and helpless people and help them to actively participate in economic life. The liquidation of rural indebtedness will provide great relief to the cultivators and save them from the harassment from money lenders. Distribution of land for the landless and settlement of ownership records will instil confidence among the agricultural labour class and pave the way for their effective participation in agricultural production programme.

These changes in social and economic structure will remove exploitation from the rural areas and contribute to increased agricultural productivity along with technological changes like improved irrigation facility and provision of adequate funds to implement power projects which are envisaged in the 20-point programme. In addition, a public distribution system which is primarily aimed at protecting the interests of the rural and urban poor, will improve the economic status of the poor. This will also help in bringing down prices of essential commodities.

The 20-point programme is not a package of proposals for eradication of poverty, it is a package of practices for initiating change in different lines. It has therefore, rightly been said that the 20-point programme is an action oriented programme designed to remove the barriers and uplift the poor within a stipulated period of time. It has already inculcated a sense of urgency in the country both in the field of economic development and attainment of social justice. Action has been initiated in many fields and it is hoped that if the same sense of commitment and urgency continues, Orissa will be able to attain a social and economic order which is not only just, but is helpful to economic progress.



## **SIGNIFICANCE OF THE TWENTY POINT PROGRAMME FOR ORISSA**

**DR. BIDYADHAR MISRA**

The twenty point economic programme of the Prime Minister is commonly being regarded as an integrated and action oriented programme for quick improvement of the living standard of the weaker sections of our population and reduction of acute mass poverty in the country. Poverty is widespread in the country but there are certain backward pockets like Orissa where its intensity is much higher. In Orissa where about 92 per cent of the people live in rural areas and about 40 per cent of the population belong to the scheduled castes and tribes, nearly 65 per cent of the people remain below the poverty line. The upliftment of such poor regions is an important objective of the programme.

The intense mass poverty in this state is attributed mainly to the unemployment and under-employment of the working population and the pressure of dependants on it. A very small percentage of the population is engaged in large scale industries whose number is very small, cottage and small scale industries are not adequately developed and the tertiary industries offer limited employment opportunities. The main source of income and employment of the people is a poorly developed traditional agriculture. As only about 15 per cent of the land is irrigated, agriculture depends on the vagaries of nature. Agricultural operations continue to be seasonal in character and droughts and floods cause frequent failure of crops. Structure of the agricultural sector is feudal in character. Indebtedness and tenancy are widely prevalent. Poor farmers have very little capital to invest, land of the cultivators in many cases belongs to others, farms are small and fragmented. In this structure of agriculture introduction of new technology becomes difficult. Poverty thus caused forms a vicious circle and aggravates itself.



In this economic context of the state, the significance of the twenty point programme has to be considered. The twenty point programme emphasizes the distribution aspects and focuses attention on the rural poverty. Reformation of the agrarian structure and improvement of the facilities of irrigation and supply of power in the agricultural sector will increase agricultural production and improve distribution of income and opportunities of employment in the rural areas. Rural progress will lead to economic prosperity of the other sectors of the economy.

The emphasis in the 20 point programme on stabilization of prices, elimination of smuggling and hoarding, liberalisation of investment procedures, workers' participation in industries and rationalisation of road transport schemes is meant to strengthen and stabilize the economic base of the country. These measures are equally important for all regions and are to be adopted generally on a countrywide basis. But implementation of agricultural land ceilings and distribution of surplus land, provision of house sites for the landless, liquidation of rural indebtedness and provision of institutional credit to landless labourers, rural artisans and small and marginal farmers, abolition of bonded labour and review of minimum wages, development of the handloom sector, extension of irrigation and generation of more electricity and rural electrification are all agrarian measures. The requirements and environments for implementation of these measures vary from state to state. Success of these programmes depends mainly on the effectiveness with which the state governments implement them. Different states also may assign priorities to individual programmes in the package according to their economic conditions and needs. For Orissa irrigation, rural electrification, land reforms, development of institutional credit mainly through the co-operatives and development of handloom and other cottage industries need top priority. Irrigation, land reforms and easier credit will facilitate introduction of new technology in agriculture, improve income and employment opportunities of the rural people and initiate economic development. These important needs of the state have been recognised by the people and the government since independence and measures to meet the needs are being adopted but progress in all these fronts has been slow. Still, in the state, only about 15 per cent of the land is irrigated, share tenancy is widely prevalent and cultivated land is not consolidated at

all, co-operative credit institutions are weak and commercial banks have not made much headway in the interior rural areas. Emphasis on these programmes given in the twenty point economic programme of the Prime Minister gives a direction to the people and government of the state for more effective action for their speedy implementation. Causes for the poor performance in the past may be analysed and avoided, new measures may be adopted but the urgency of the programmes should be realised.

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