

**Sharad S. Marathe.** *Regulation and Development: India's Policy Experience of Controls over Industry.* New Delhi: Sage Publications India Pvt. Ltd., 1989. 338 pp. Price Rs 95.00 (Softbound Edition).

This book deals with an important but relatively little discussed aspect of industrial development in the context of a developing economy. The subject-matter chosen for analysis is that of the efficacy of controls over industry in India. The author provides a detailed and insightful analysis of the issue in its historical context, particularly since India's independence in 1947. Based on an insider's experience, the book makes an important contribution to the often neglected field of industrial policy.

The central thesis advanced by the author is that the State has played a dominant role in industrial development by way of ownership and/or management of some of the key industries, the granting of industrial incentives, and an elaborate and complicated regulatory system. There have been shifts in emphasis between these three main instruments of state intervention in industrial development over time. Nonetheless, it is argued that currently Indian industry is overregulated, public sector industries are mismanaged, and the economic environment for the working of both private and public sector industries is inimical to their efficient working and growth. The broad approach adopted provides for a discussion of objectives, policy instruments, and the intended and unintended impact of different instruments of state intervention in industrial development. The wide discrepancy between the objectives and the results is shown to be a major failing of the past industrial policies in the context of the Indian development experience.

The dominant and important role of the Government in industrial development is traced to the Fabian view of the role of the state in economic activity. Mahatama Gandhi's emphasis on decentralized industrialization without much help from the state was never accepted by the economic policy-makers, academic scholars, and representatives of industrial groups. The relative emphasis on broad instruments of state intervention, i.e., the direct participation of the public sector in ownership and/or management of industries, provision of industrial incentives such as taxation or subsidization, and administrative controls, varies over time. The changes in the emphasis placed on different policies are traced to the emergence of new economic realities as, say, foreign exchange shortage.

Direct participation by the government in industrial activity was originally limited only to industries of national importance, in fields like defence. The scope of the industries in the public sector was gradually expanded. The rationale for the expansion of public sector industries was partly ideological in the sense of moving towards a socialistic pattern, and partly was due to a lack of investible resources. The emergence of sick industries as a result of sharp changes in the economic en-

vironment, mainly from external factors, resulted in the takeover of such industries by the state. The expanding role of the government was accompanied by the increased role of the central government in the field of industry – an area reserved in the constitution for the provincial governments.

Concomitant with this increased role for the public sector in industrial development was a tendency of the Government to interfere in the functioning of public sector industries. The top management of the state industries, appointed as it was by the Central Government, was subjected to political interference. The gradual erosion of the economic performance of the public sector industries is reflected in the huge deficits which had to be financed from the government treasury. The bloated work force and the operational inefficiency of most of the public sector units are traced to political interference and the absence of an effective management system for these industries.

The rise of a complex and elaborate regulatory system for the private sector industries is traced to a desire by the government to mould the pattern of industrial development in socially desirable directions, to prevent unhealthy competition, to encourage new entrepreneurs in preference to large industrialists, and to encourage investment in backward regions. The trade-off between the cost effectiveness of investment decisions and each of these objectives was rarely a consideration at the time of the investment decisions. The regulatory momentum gathered steam gradually. The politicians, bureaucrats, and industrialists who benefit from the system have come to be a strong lobby in favour of maintaining the system. In the meantime, an understanding of the adverse impact of these policies has gradually grown. The author traces the economic thought behind the need to simplify the regulatory system, but points out that not much progress has been made in the deregulation of industries.

The story of India's policy experience of controls over industry as discussed in the volume is a welcome addition to the meagre but growing literature in this important area. The information provided, in five appendices with respect to different measures of direct controls over India's industry, is especially useful as this information is not readily available to readers outside India. A cost-effectiveness analysis of the various policies in quantitative terms, an essential requirement for policy-makers, is missing. The lapse probably reflects the existing research gap which needs to be plugged. Thus, future research may be carried out in this important area.

**Sarfraz K. Qureshi**

Pakistan Institute of  
Development Economics,  
Islamabad.