

# Implications of Full Capacity Utilization of Manufacturing Sector in Indian Economy

L. G. Burange

This paper estimates the implications of full capacity utilization of manufacturing sector in Indian economy using the I-O framework. The study is carried out using the open Leontief model and also the semi-closed model endogenizing household demand. The working of the above models are illustrated using 1973-74 data. By fully utilizing the capacity of the manufacturing sector the output, income and employment increases by 22.86, 16.31 and 14.11 per cent respectively in open model and will increase by 38.68, 37.08 and 38.59 per cent in the semi-closed model. The output elasticity for the economy is 0.4048 and 0.6849 in open and semi-closed model respectively. The sectors 'mining and quarrying', 'banking and insurance' and 'electricity' show high output elasticities.

## 1. Introduction

The role of capacity utilization in planning, development and macro-economic policies is very vital in a capital scarce country like India. Realising this importance of capacity utilization, the approach document to Seventh Five Year Plan (Planning Commission-GOI, 1984) stresses that "the Seventh Plan has to lay emphasis on improved utilization of capacity by pinpointing the factors responsible for the existence of idle capacities. Continued, regular and intensive monitoring of all major public sector enterprises and especially of capacity utilization should be used effectively for this purpose". The manufacturing sector, which is relatively more capital intensive has large in built capacities which are persistently underutilized (Burange, L.G., 1992). Full utilization of capacity of the manufacturing sector not only increases the industrial growth of the economy but has impact on the other sectors of the economy. The objective of this study is to find the implications of full capacity utilization of manufacturing sector on output income and employment in the economy.