

**ECONOMIC ADMINISTRATION  
REFORMS COMMISSION**

**EARC II/REPORT NO. 8**

**Towards the Successful  
Implementation of the Seventh  
Plan : An Overview of Economic  
Administration**



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**PLANNING COMMISSION  
VERNMENT OF INDIA  
NEW DELHI**

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ECONOMIC ADMINISTRATION REFORMS  
COMMISSION  
10-JANPATH

New Delhi 30th July, 1984.

L. K. Jha  
Chairman

My dear Prime Minister,

I have great pleasure in presenting herewith the last report of the Economic Administration Reforms Commission. It aims at providing an overview of economic administration, particularly from the point of view of ensuring the successful implementation of the Seventh Plan.

Upto a point, it recapitulates the recommendations in our previous 37 reports. In addition, it deals with a number of new issues which will primarily need consideration by the Planning Commission, while most of the others will no doubt be considered at meetings of Secretaries which the Cabinet Secretary convenes for considering EARC Reports.

However, we have also made a number of suggestions about ways in which the powers and responsibilities of different Ministries could be reallocated to ensure the timely fulfilment of plan targets. The time for considering such possibilities is now, because such changes can best be introduced immediately after the elections. Therefore, in paragraph 59 of our Report, we have proposed the setting up of a Special Working Group to go into the matter, and I feel that both the Cabinet Secretary and the Principal Secretary to the Prime Minister should be involved in this exercise.

(ii)

May I, in conclusion, thank you for the confidence you reposed in me when asking me to head this Commission. I have been heartened by the fact that in the meetings of Secretaries convened by the Cabinet Secretary to consider our Reports, to which I have been invited, the response of the administrators has been positive. And although the pace of implementation—the issue of Government orders where necessary—has been somewhat slow, as you have yourself observed on a number of occasions, possibly because the Ministries have many other pressing pre-occupations, I am not without hope that all the time and effort spent on these reports will not have been in vain.

As usual, copies of the Report as well as a Report on the Commission's work are being sent to the Ministers dealing with the subjects covered by the Report as well as to Cabinet Secretary.

Yours sincerely,  
Sd/-  
(L. K. JHA).

Shrimati Indira Gandhi,  
Prime Minister of India,  
New Delhi.

**ECONOMIC ADMINISTRATION REFORMS  
COMMISSION**

**EARC-II/Report No. 8**

**TOWARDS THE SUCCESSFUL IMPLEMENTATION OF  
THE SEVENTH PLAN : AN OVERVIEW OF  
ECONOMIC ADMINISTRATION**

**I**

**Introductory.**—During the last three years the Commission has submitted some 37 Reports covering a wide range of subjects such as tax administration, industrial approvals, rent control, economy in public expenditure, the relationship between Government and public enterprises and so on. While the Reports covered a diversity of subjects, they were all concerned with what may be broadly described as economic administration; and running through the numerous recommendations on a large number of topics were certain common concerns and points of view.

**2.Scope of present report**—The present Report does not deal with any specific area of economic administration. Instead, it seeks to outline the basic approach which we brought to bear in dealing with a wide range of matters in our earlier Reports, in a manner which would facilitate its application to other areas. In addition, this Report:

- (a) indicates some steps which could be taken by the Planning Commission on the one hand and the administrative Ministries on the other in order that the implementation of Plan projects and programmes can be speeded up;
- (b) suggests a review of the structure and machinery of regulation and control with a view to shifting the emphasis from regulation to development, moving to the extent possible from direct physical controls to indirect controls, and facilitating a greater

promptness and clarity of response to proposals, applications and emerging developments;

- (c) proposes some structural reforms in the machinery of Government with a view to streamlining the processes of decision-making in economic administration;
- (d) recommends some reduction in Governmental activity and some changes in the style of functioning, with a view to reducing the burden on the administration and minimising harassment to citizens and inconvenience and delays to trade and industry, thus promoting both economy and efficiency; and
- (e) emphasizes the importance of some re-thinking in the sphere of personnel policies as well as the organization of Government, so as to ensure adequate and competent handling of important matters and to build up a better-trained civil service with a greater degree of specialization and a more professional outlook.

3. Constraints of time and space compel us to make a compressed presentation of these possibilities. But if the ideas put forward appeal to Government, more detailed blue-prints for their implementation can be entrusted to the Ministries concerned or to committees or working groups which could be set up for the purpose.

4. **Instrumentalities of national planning**—The objectives of national planning in this country are sought to be achieved through:

- (a) direct public investment;
- (b) canalising the flow of private investment in accordance with plan priorities and targets through licensing and through the assistance provided by term lending and underwriting by the financial institutions;

- (c) governmental control over various economic activities and over the agencies undertaking them; and
- (d) fiscal measures, including taxation as well as subsidies, and other incentives including assistance by nationalised agencies.

**5. Achievements and shortfalls in earlier plans.**—Six plans have been put through. The achievements cannot be belittled. For a country with such low per capita income, to have attained the kind of increase in industrial and agricultural production that we have, relying predominantly on our own resources and despite the difficulties and threats posed by natural calamities and external aggression, is something to be proud of. At the same time, we must recognise that there have been shortfalls in the fulfilment of plan targets, both over-all, as reflected in the growth rate, as well as in certain key sectors of the economy. The view has been frequently expressed that the major failure has been on the administrative front and that the machinery for the implementation of plans has not been equal to the tasks assigned to it. While such an assertion is undoubtedly based on an over-simplification of the issue, it is certainly necessary to think of steps which can be taken to improve the implementation of plans. In any such exercise, attention has to be given not only to the framework of policies and procedures, which the administration pursues, but also to the question whether the formulation of plans themselves needs some re-orientation in order that the gap between promise and performance can be narrowed down, if not eliminated.

**6. Direct public investment, a main instrument of planning.**—Direct public investment is one of the main instruments of planning in this country. It is not only responsible for a large volume of production in the public sector itself but it also plays a crucial role in the level of output in the private

sector, because the development of infrastructure as well as the supply of key inputs for industry and agriculture, such as steel and fertilizers, are provided by the public sector. In addition, public investment goes into the field of education and health as well as projects and programmes for the uplift of the poor. The success of each plan, therefore, depends very largely on the volume of resources available for public investment and the way they are allocated to different sectors of the economy, both of which are mainly matters for the Planning Commission, and the efficiency and speed with which the resources are invested and the returns which they give, which are largely matters for which the administration should assume responsibility.

7. Pressure to enlarge size of Plan.—When a new plan—whether Five Year or Annual—is to be formulated, there is tremendous pressure on the Planning Commission to enlarge its size by stepping up the level of public investment and also to allocate it to massive new projects which will catch the public eye. Such pressures come from Central Ministries and State Governments as well as from the Press and the public generally. In consequence, each such plan starts with an over-estimation of resource availability on existing basis and also adopts an ambitious target of additional resource mobilisation, in which reliance is placed on improved yield from public sector enterprises, higher taxation by the Centre, promises made by the State Governments to find more resources by economies or otherwise as well as larger borrowings and small savings collections. More often than not, these expectations remain unfulfilled and the shortfall in resources has to be met by increased deficit at the Centre and overdrafts by the States.

8. Development of resource constraints leading to target Shortfalls—side by side, in an attempt to squeeze the maximum number of projects and programmes into the Plan, there is a tendency to underestimate their costs. A further escalation of costs, to levels higher than those prevailing at the time of

plan formulation, takes place at the implementation stage because of inflation, slowness of execution, purchase of equipment against tied credits and other factors. Thus, the demand for resources to fulfil plan targets far exceeds the original estimates. On the other hand, as already noted, the supply of resources tends to be much lower than the estimates, partly because additional resource mobilisation falls short of promises and the availability of resources on existing basis turns out to be less than estimated and partly because unforeseen factors, such as external threats or natural calamities, make additional demands on resources. In the event, in almost every plan, resource tightness emerges as a major constraint. Often, half way through the plan, a resource crunch leads to a variety of ad-hoc adjustments. The implementation of many projects in progress has to be slowed down, while others have to be deferred and left for execution in the next plan. In the circumstances, shortfalls in the fulfilment of plan targets of production and growth become inevitable, even if in financial terms, most of the investment targets get fulfilled by more taxation, unwise economies in maintenance and other essential expenses and by enlarging the volume of deficit financing to unsafe limits.

**9. Possibilities of overcoming resource bottleneck.**—What can be done to correct this trend so that we can, like the Soviet Union, “over-fulfil” some of our targets instead of repeatedly falling short of them, is a question which needs consideration. We cannot lower our sights and cut back our growth targets for the Seventh Plan. There can be no slowing down of the pace of progress. But the key decision, which has already been taken in principle, to concentrate on employment, food and productivity in the Seventh Plan, throws open the possibility of achieving a good rate of growth with a relatively lower demand on resources. With the accent on employment generation, there should be fewer capital intensive projects. Food production can be stepped up by greater reliance on minor irrigation projects and construction of canals in the command



areas of major projects already completed. And if the productivity drive is pursued vigorously, much greater production can come out of investments already made, by fuller utilisation of installed capacity, eliminating infrastructural deficiencies and improvements in technology, with only small investments in additional equipment.

**10. In presentation of Seventh Plan, emphasis should shift from financial to physical targets.**—Against this background, it would be desirable and prudent to make conservative, rather than optimistic, assumptions about resource availability and mobilization. At the same time, the costs of projects should be estimated realistically, leaving a cushion for increases which inevitably take place. Since, however, the press and the public have got used to reacting to each plan by looking at the step-up in investment in each sector, it might be worth considering whether the presentation of the Seventh Plan itself should be different in which the physical targets are played up much more than financial ones.

**11. Raising productivity of capital.**—Greater reliance on raising the productivity of capital than on using more capital to sustain an acceptable growth rate would necessitate:

- (a) efforts to get higher output through fuller utilisation of installed capacity by providing the financial resources as well as the other inputs—managerial and administrative—to fulfil this goal;
- (b) a measure of restraint on setting up new projects as distinct from the expansion of existing projects in the sectors where additional capacity is needed;
- (c) preference being shown for labour-intensive projects as against capital-intensive ones, which will be in keeping with the importance of promoting greater employment;
- (d) in import substitution greater attention being given to stepping up production of agricultural products

which we import on a massive scale, such as vegetable oils, and less importance being attached to making public investments in capital intensive industries;

- (e) minimising public sector investment in industries which have no strategic importance and for which private investment would be readily forthcoming, e.g., hotels; and
- (f) priority to completion of on-going projects and schemes (unless these are to be discontinued or deferred for valid economic reasons) over new projects and schemes in the same field, so that the anticipated benefits start accruing early; there should also be a conscious attempt to avoid the resources being spread out thinly.

12. Neglect of maintenance.—One reason why many public sector installations into which heavy investments have been made in the past, have such low productivity is that their maintenance is so poor. To no small extent, this is due to the inadequacy, of resources. It is generally assumed that maintenance being an item of working expense should be financed out of the current receipts of the enterprises. Often, the receipts are inadequate and poor maintenance itself leads to a further decline in receipts so that a vicious circle gets established. When worn-out equipment has to be replaced, the provision made for depreciation is rarely adequate to meet the cost of the new equipment to be installed. Some times the resources which the enterprise generates gets used up for investment. Since, for conceptual reasons, provision for maintenance is not made in the Plan and, non-Plan resources are pitifully low and can be sharply eroded by such things as an increase in dearness allowance, ways must be found, even if it means cutting across the customary line of demarcation between Plan and non-Plan, to ensure that old projects do not languish on account of poor maintenance even while funds are available for setting up new ones. This is not only true of industrial projects but also of roads, schools, hospitals

and other facilities created out of public funds. Thinking on these lines is there in the Approach Paper; it needs to be pursued with vigour.

**13. Provisions for projects to be liberal to avoid later cost over-runs.**—Plan calculations are often upset by the actual cost of projects being much higher than those assumed at the time of plan formulation. It would be prudent to provide liberally for project cost to take care of various contingencies. This may mean that somewhat fewer projects can be accommodated in the plan but on the whole it would make much better showing at the end of the plan, if all the projects included in it are completed on schedule and do not get slowed down or axed on account of inadequacy of resources.

**14. Delay in implementation results in loss**—Of Course, every attempt must be made to keep project costs down. An important point to remember in this context is that slowness in implementation itself adds to the cost of projects both on account of inflationary rise in the price of equipment as well as of interest charges during the phase of construction which have to be capitalised. The time-consuming scrutiny of public sector investment proposals even when it nominally brings out some economies, in actual fact, adds to the cost of the projects. Further, delay in the execution of a project means loss of production and consequential increase in the outlay of foreign exchange on imports, and has also other adverse effects. The economic loss on account of slow implementation of projects is over and above the financial loss that it may result in. These matters have been dealt with in our report on 'Government and Public Enterprises: Governmental Clearances and Approvals' (EARC II/Report No. 6). Procedures for the Clearance of investment proposals must be streamlined to make them speedy.

**15. Need for greater autonomy to public sector enterprises.**—We have in our earlier reports emphasized the need for greater autonomy for public sector enterprises, to speed up the execution of projects and the attainment of the objectives for which

they are set up. It goes without saying that autonomy will only pay off if the competence of the management is ensured. Further, autonomy does not mean lack of accountability, but that the accountability is in terms of fulfilment of targets and not in terms of compliance with rules, guidelines or directives. It was with a view to enable public sector enterprises to be run on business lines enjoying a great deal of freedom—as emphasised in the Industrial Policy Resolution of 1956—that such enterprises began to be given a corporate form rather than being run departmentally, like the Railways, Post and Telegraphs and Ordnance factories. In all countries where there is a vigorous public sector, the trend is to give it more autonomy. This is as true of market economy, capitalist countries like the United Kingdom, France and Italy as of centrally-planned socialist economies like the USSR and Yugoslavia. It is interesting in this context to take note of an important policy statement of the late Mr. Andropov: “We attach great significance to conducting in several Ministries an economic experiment to widen the rights of enterprises and increase their responsibility for the result of their work.” Our repeated plea for greater autonomy to the public sector does not mean that the Ministries concerned should take no interest in improving its performance, but that the best way to do so is not for the Ministries to try to run the enterprises, compelling them to seek the Ministry’s approval to all the things, big and small, which they do, but to keep an eye on their progress and performance. This would mean emphasis on evaluation and appraisal as against interference in day-to-day working. For this purpose, there should be performance budgeting and appropriate reporting systems should be established, so that the inadequacy of progress in any sector is immediately spotted and timely corrective action is taken. It would then be much easier, for the Ministries as well as for Parliament, to keep a watch on progress and ensure the timely completion of projects and programmes.

**16. Advance action on projects which will be included in the next Plan.**—One more practical step which can be taken to

improve public sector performance and the timely completion of projects in the Seventh Plan would be for the Planning Commission to try to identify, straightaway, a number of key projects which anyhow are going to be included in the Seventh Plan, regardless of its total size and content, and to authorise preparatory action on them to be taken immediately. The actual outlay on them in the current financial year would be marginal, but if six months in the completion of the projects can be saved by getting projects reports prepared and even tenders called in the last months of the Sixth Plan, they would make a tremendous contribution to the success of the Seventh Plan. In making the identification of such projects, special priority should be given to those which have forward linkages and will help higher production in other sectors of the economy, such as power plants and fertilizer plants. We would go further and suggest that in future when the mid-term appraisal of a Plan is made, simultaneously a range of projects pertaining to the next Plan should be cleared for advance action. By doing so, action to remedy shortages or other deficiencies in any plan can be initiated without waiting for the commencement of the next plan. Private sector industries are continuously engaged in planning their future investment. Similar continuity of investment planning is necessary for the public sector. The mere fact that we have Annual Budgets and Five Year Plans should not come in the way of anticipating future needs and taking timely action to meet them.

**17. Departmental projects need speedy authorisations.—** In projects implemented departmentally, much quicker execution would be possible if in anticipation of formal budgetary sanctions which become available at the beginning of each financial year, some advance preparatory action is taken. Under the procedures coming on from the past, anything between 3—6 months elapse after the budget is passed before the process of actual expenditure starts and work on the ground gets started. This is because of delays in issuing appropriate authorisations to the executives concerned. In respect of revenues, the new

rates of tax become operative without any delay, because appropriate procedures have been laid down for the purpose. Something similar needs to be done on the expenditure side. Since, in the the event, all the outlays proposed in the budget do receive parliamentary approval, there is no reason why from the moment the Finance Ministry has accepted a project or a programme for inclusion in the budget, the department concerned should not take steps to clear the deck for action, so that as soon as the grants have been voted implementation may proceed. In particular, we recommend that the following steps should be taken as soon as a project or a programme has been accepted by the Finance Ministry for inclusion in the next financial year's budget:

- (a) To the extent that a release of foreign exchange will be needed for the proposal to be implemented, the willingness of the Finance Ministry to provide the rupee resources should be followed by readiness to consider the allocation of the requisite foreign exchange.
- (b) If any indenting on DGS&D is needed for the implementation of the same, the process should be initiated without waiting for the budget to be passed because between an indent being placed and the time when payments have to be made (which is what needs budgetary sanction), there is a delay of many months.
- (c) Similarly in regard to works to be executed by CPWD, procedures should be devised to ensure that actual construction starts with the minimum delay, once the funds for it have been voted.

18. We believe that imparting speed to execution will be of great help in ensuring the timely fulfilment of the Government's own responsibility for the implementation of the Plan.

**19. Weaknesses in the regulatory mechanism for guiding private investment.**—We turn next to the second instrumentality

of planning, viz., guiding private investment to flow into certain channels in accordance with plan targets and priorities through industrial licensing and other related measures. Such control was considered to be necessary in view of the shortage of capital in the economy as a whole and the consideration that whether investments are made by private parties or the State, they have to be harnessed to fulfill the national objectives embodied in the Plan. Over the years, the process of industrial licensing has become increasingly cumbersome and time-consuming. Often, suggestions have been made for procedural changes by various Committees. We too have made our recommendations on the subject in our report on Industrial Approvals: Clearance under the I(DR) Act (EARC Report No. 8). The time has come to take a second look at the apparatus from a policy rather than a procedural angle. A candid re-appraisal of actual performance of the regulatory mechanism brings to light a number of weaknesses—

- (a) The process of clearance to private investment proposals has become so time-consuming that between the time the first application for an industrial licence is made and the tying up of the necessary arrangements with the financial institutions for the construction to be taken in hand, it may take up anything from 3 to 4 years, and if allowance is made for the time needed for the erection of the plant and machinery and other ancillary measures before production actually gets started, it would seem that the odds against any major project included in a particular plan being completed and starting production within its five-year span are very heavy indeed.
- (b) Although the intention of the Industries (Development & Regulation) Act was to canalise scarce resources to flow in accordance with plan priorities over the years it has developed an ethos of its own and become an instrument for fulfilling a multitude

of objectives, some in conflict with others, which are the concern of different departments which look at investment proposals from their own sectoral point of view. Their objections often over-ride the objectives of the Act and shift its emphasis from development to regulation and from regulation to control.

- (c) To begin with, in conditions of a tremendous shortage of domestic savings, foreign exchange, rail transport and other basic needs of industries, grant of a licence under the Industries' Act served as a green signal for all the other requisite authorisations to be given to the project, thus providing a single window clearance. The subsequent trend, for a variety of reasons, has been for industrial licensing to be only one of the many clearances which are needed and for which the entrepreneurs have to go from Ministry to Ministry and then to the financial institutions in order to make a real start with their production. Among the many independent clearances needed for a new industrial project to be set up or an existing one to be expanded, a crucial one in the case of applicants coming within its purview is clearance under the MRTP Act. Often after all the other approvals have been given, the powers under MRTP Act have delayed the start of the project by a considerable period of time and at times invoked to turn it down.

20. With the multitude of controls and clearances, there has been a slowing down of the pace of investment in industries. At the same time, resources have been diverted to non-industrial activities of a lower priority which do not come within the purview of the Industries Act. Further, the attempt to limit through licensing the creation of capacity in excess of estimates of demand, in industries which are obviously of high importance, has resulted in shortages, restricted competition and created an



unhealthy sellers' market for most products, compelling consumers to pay high prices and put up with poor quality. Efforts to keep prices down by imposing price controls have, on the one hand, led to extensive black-marketing and on the other, discouraged fresh investment and the creation of new capacity which would relieve the shortage and bring prices down.

21. **Some Changes already made in economic policy to remove weaknesses.**— In recent years, Government have made a number of significant changes in economic policy and administration to remove some of the weaknesses referred to above. When the Prime Minister declared the year 1982 to be the 'Year of Productivity', the limitation imposed on industries not to produce more than their licensed capacity was relaxed though the relaxation has not been extended across the board and many important industries are even now not permitted to produce more than their licensed capacity. The abolition of the rigid price control over cement has paid a good dividend; availability has improved immensely and open market prices have sobered down.

22. **Further, and fundamental, changes necessary.**— We have in our report on Industrial Approvals (EARC Report No. 8) made a number of recommendations regarding industrial licensing. In the context of the Seventh Five-Year Plan, we would like to propose certain fundamental changes to ensure more rapid industrial growth. The rate of industrial growth in recent plans has tended to be lower than it used to be in the earlier plans. If we look a little deeper, we find that while the smaller industrial units have been growing much faster than in the past, the slowing down of growth has affected the bigger industrial units on whom, in addition to the public sector, the economy depends for key materials, like cement, fertilizers, aluminium, paper and capital goods in general. It would not perhaps be an unsound conclusion to draw that the freedom which the smaller units have from many of the controls which apply to larger units has significantly contributed to the spurt in their growth.

**23. Licensing Committee also to give MRTP clearance.—** Most of the bigger industrial houses in the country come within the purview of the MRTP Act in addition to the Industries (DR) Act. With the recent amendments in the MRTP Act, there is likely to be a manifold increase in their number and even relatively smaller companies may, by virtue of linkages, need MRTP clearance for their investment proposals. In the circumstances, some advance thinking needs to be done about how such cases are to be handled. One of the suggestions we have made in this regard in our earlier reports is to ensure that as far as possible, the Licensing Committee under the Industries Act should be in a position to clear the case from the MRTP angle as well.

**24. Advance clearance for projects under MRTP Act.—** An alternative may also be considered. MRTP companies may be permitted to seek the necessary clearance for their investment proposals when they are still in the embryonic stage. The kind of details about project costs, location, foreign exchange requirements and other similar factors which are needed for clearance under the Industries Act are not really required for the consideration of a case under the MRTP Act. If companies coming under the MRTP Act were given the option of getting the MRTP clearance for setting up a new project or expanding an existing one, even before applying for the necessary industrial licence, they could, with much less time and effort, provide the necessary information for the disposal of their application under the MRTP Act. Concurrent processing or prior processing under MRTP Act would save much time. MRTP companies could even be allowed to put forward an investment plan which they propose to implement during the next two or three years or even in the plan period as a whole. If they get the clearance to produce, they can take the other necessary steps and get the appropriate licences and approvals to implement their proposals.

**25. In regard to industrial licensing, we suggest that fresh thinking should be given to some more basic issues. The primary aim of industrial licensing is to prevent resources going**

into industries which have a low priority, such as those which cater to the luxuries of the rich and make a heavy demand on capital, foreign exchange or other scarce resources. Secondly, it is used to prevent larger industries being set up in fields reserved for the small scale sector. For both these categories, licensing control must continue to prevent the creation of capacity in the large scale sector.

26. Towards greater competition and efficiency.— The question which needs to be considered as a policy issue rather than a procedural one is whether for priority industries where large scale units must be set up, it is at all necessary to regulate the creation of additional capacity through industrial licensing. The fear has been expressed that without such regulation there will be "surplus" capacity which will waste resources. In actual fact, private investors venture only into areas where there are evident shortages or clear indications of an uptrend in demand. The financial institutions, on which almost all of them rely for support, also make their own assessment of demand. Further, with a rising population and growing income levels, demand has been rising faster than the most carefully prepared estimates indicate, while the time-lag between an application for a licence and the project going into production runs into many years. Finally, it is only when domestic production exceeds domestic demand that competitive conditions will emerge, consumers will get a better deal in terms of price, quality and service, and export possibilities will begin to be exploited. If a choice has to be made between the risks of surplus capacity and shortage of capacity, surely the former should be preferred. To have a large private sector and to protect it even from domestic competition is dangerous for the health of the economy. We, therefore, welcome the statement in the Approach Paper to the Seventh Plan that "the time has come for a new policy framework with emphasis on efficiency, competition and modernisation". If this philosophy is accepted, then quite a number of products could be placed on the Open General Licence under the Industries Act just as there are so many products on the OGL for imports.

27. **Clear decisions needed on internal protection.**—In pursuing such a policy, the question will have to be squarely faced whether and in what circumstances there should be any kind of protection within the country to one producer from another who may be in a position to produce at a cheaper price or of better quality or of higher consumer appeal. It has, in this context, to be noted that the burden of any such protection falls on the consumer who, in consequence, is compelled to buy products which he finds more expensive or less attractive. The producer on whom restrictions are placed is merely deprived of the extra profit on extra production and sales. It would be too doctrinaire a view to argue that in no circumstances, such protection from internal competition is justified. But its scope and limitations are matters of policy on which clear decisions should be taken and not left to the *ad hoc* judgement of those dealing with individual cases.

28. **Industrial licensing not to be used to protect one domestic producer from another, except in special circumstances.**—We have already pointed out that protection to small producers from larger ones should continue to be given by enforcing the reservation in favour of the small-scale sector through industrial licensing. Protection to larger producers from the industrial giants who could emerge as monopolists would continue to be provided by the MRTP Act. In regard to multinationals or cases where with foreign collaboration a well-advertised brand name could create problems for indigenous firms, the powers to regulate private foreign investment in different fields as well as restrictions which are imposed from time to time in regard to the use of foreign brand names can be used, to give, in appropriate cases, the requisite shelter to indigenous producers, without imposing restrictions on output under the Industries Act. In short, while not ruling out the possibility of exceptions being made in special circumstances, we would urge that as a rule industrial licensing should not seek to shield one producer from the competition which another domestic producer can offer to his goods.

29. **Control over capacity creation in capital goods, wage goods, basic raw materials to be discontinued.**—In particular, we

would urge that control over capacity creation in industries producing wage goods or basic raw materials or capital goods should be discontinued. If we have a vigorous employment drive in the Seventh Plan, there will be an upsurge of demand for the goods on which the workers spend their wages. Any shortage of supplies in this sector would have inflationary consequences. What is more, surpluses in this sector would open opportunities for exports to other developing countries, while giving a further stimulus to employment within the country. To take one example, if there was free licensing in bicycles, output in the small scale sector for which the production of bicycle components is reserved would go up, while the increasing demand for bicycles in rural areas as employment and income go up, would be satisfied without a rise in prices. Similarly, larger capacity in basic industrial goods like cement, aluminium and fertilizers would boost domestic production in other industries and also improve our foreign exchange position. The expansion of capital goods industries has always been given high priority. Except for items where considerations of reservation for the public sector come in, there should be no constraints on capacity creation in this field.

**30. Locational angle, from a new view-point.**—Considerable use is made of industrial licensing to influence the location of industries. When the Industries Act came into force, the objective of such scrutiny was to avoid locations which would place an additional strain on the transport system as the Railways at that time had tremendous difficulties in coping with the existing traffic. In recent years, the trend has been to ask applicants to go to areas where there are few industries or no industries. This approach is not free from some serious drawbacks and dangers. The areas which are not industrialised often lack certain basic infra-structural facilities which account for the fact that industries are not naturally attracted to them. If through industrial licensing, industries are made to go to such areas, the chances are that their investment needs would go up considerably increasing the draft on resources, while their costs would be high which would mean that the consumers would be called

upon to pay more. With the kind of rethinking which is proposed here, the attempt to influence industries to go into less industrialised areas should be pursued not through the exercise of powers under the Industries Act, but rather by creating conditions to make location in the desired area economic. There are already in existence various schemes to offset the disadvantage which industries may experience in going to backward areas. These schemes should be strengthened and expanded. Further, the financial institutions could give some incentives and concessions to industries being set up in backward areas. In addition, and most important, more investment should be made in the backward areas to create the basic infrastructure, the absence of which acts as a major impediment in the way of industries going to them.

**31. Capital-intensive units to be sufficiently large for economies of scale; labour intensive industries for backward areas.**—Two additional points will have to be borne in mind in the matter of location. Capital-intensive industries as a rule have considerable economies of scale; the larger they are, the less is their requirement of capital per unit of output as also the cost of their production. The practice of splitting up the capacity to be licensed between three or four small units has often made such units uneconomic. What is even worse, such industries generate only a small volume of employment and that too, mainly of skilled personnel, who are not to be found in the area where they are located, but have to be brought from outside and housing and other facilities have to be constructed to accommodate them. Therefore, from the angle of regional development, mainly labour-intensive industries should be selected. If capital intensive industries are located in backward areas, their capacity should be large enough to make them economic.

**32. The third instrumentality-Governmental control on economic activities.**—We have so far referred to the Industries Act and the MRTP Act which are formal statutory controls and apply to the industrial sector as a whole. In addition, there are a wide variety of administrative controls which apply to the industrial sector, such as, controls over imports of capital goods

or technology, over prices and over distribution. There are, besides, many regulatory measures which apply to other sectors as well, such as movement of essential commodities, release of controlled commodities to different users, allotment of railway wagons, and many others. In a country which has opted for planned development and abandoned the *laissez faire* approach which existed in British days and resulted only in stagnation, there can be no escape from using controls where appropriate and necessary, even though controls which are counter-productive or unnecessary or unduly irksome can and must be eliminated. We have, therefore, to consider what can be done to improve the functioning of the third instrumentality of planning to which we referred in paragraph 4 above, namely, governmental control over various economic activities. This would entail an examination of the techniques and agencies through which they are exercised. Unless the structure and working methods of the regulatory mechanism are streamlined, real improvement cannot be achieved.

**33. Slowness of response and complexity of administrative machinery.**—The major weakness which our economic administration displays is an extreme slowness of response and a proneness to complexity and complication. One of the most important factors contributing to it is the large number of objectives that are sought to be achieved by each measure of control. Thus, in the matter of industrial approvals, all proposals of any magnitude are put through a process of scrutiny by diverse agencies from a number of different points of view, all of which derive from combinations of the following objectives:

- (a) Industrial growth; import substitution; export promotion.
- (b) The regulation of capacity creation with a view to allocation of resources in the light of national priorities.
- (c) The need for a given project in the light of the projections of demand and availability.

- (d) The proposed imports of capital goods and the possibility of indigenous availability.
- (e) The foreign exchange component, the feasibility of financing it and the sources.
- (f) The maintenance imports which would be necessary for the operation of the project when completed.
- (g) The viability of the proposal with reference to minimum economic size.
- (h) Reservation for the small-scale sector.
- (i) Reservation for the public sector.
- (j) The potential for employment generation.
- (k) The acceptability of the location (and competing claims from different States); regional dispersal; claims of backward areas.
- (l) Environmental considerations.
- (m) Impact on tribal communities, if any, and protective measures needed.
- (n) Requirement of raw materials and supplies and utilities.
- (o) Conservation of scarce natural resources.
- (p) The need for the import of technology and/or foreign private investment in the industry and the terms of foreign collaboration, where applicable.
- (q) Need for clearance under the MRTP Act (where applicable).

Such exhaustive scrutiny is not confined to the industrial sector alone. The consideration of most proposals entails a many-sided examination. Even assuming no inefficiency on the part of the governmental machinery, the mere scrutiny of a proposal from multifarious points of view is bound to take time.



**34. Multiplicity of objectives and agencies.**—The difficulty is compounded by the fact that there is not merely a multiplicity of objectives and concerns but of the agencies of scrutiny and clearance as well. The examination is not an integrated one which takes diverse points into account, but a number of separate examinations by different Ministries and other bodies, each taking a partial view with the conviction that its own particular pre-occupations or concerns are of the highest importance. The plethora of controls has led to a proliferation of controllers.

35. The multiplicity of objectives cannot be done away with, but it would be unreasonable to expect that each economic decision must satisfy all of them. While killing two birds with one stone is not only a possibility but also an achievement, an attempt to kill ten birds with one stone is foredoomed to failure. Very few activities in the economic field can be judged to be perfect in the sense that they have all the good points and none of the bad ones. In the final analysis, there has to be what has come to be known as a 'trade off' in which it is the balance of advantage rather than a total elimination of all disadvantages that provides the right answer. The major weakness in the existing system is that although eventually such an answer is found, it is only after a tortuous weighing of the pros and cons of each proposal at different levels by different agencies that at a high, if not the highest, levels a comprehensive view comes to be taken. For the issue to reach the decision-making level, there is a labyrinthine path with innumerable stumbling blocks and unnecessary diversions leading in different directions.

**36. Over-burdening of bureaucracy.**—The bureaucracy gets the blame for all the weaknesses that are spotted in economic administration. No doubt, there are bureaucrats who drag their feet and shirk responsibility while others tend to display a kind of cleverness which consists in writing long comments, raising numerous points for consideration and discovering 'policy issues' in any proposal. But the basic problem, it seems to us, is that the bureaucracy is over-burdened. It is not the same thing as saying that it is under-staffed. In actual fact, the

mounting expenditure on account of salaries paid to civil servants is leading to an erosion of resources mobilised for developmental purposes. This is not because they are paid extravagantly. By all standards, national and international, our civil servants are amongst the lowest paid. The prime reason why the expenditure on staff keeps on mounting is that their number cannot be kept in check because year after year government has been enlarging its regulatory role.

37. The standard technique adopted by the administration in fulfilling its regulatory role is to say that no one can do certain things—even desirable things—without prior clearance of government in the shape of a licence, permit authorisation or approval. The technique is somewhat reminiscent of the ways in which Section 144 of the Criminal Procedure Code is used for purposes of law and order. By banning processions, meetings and assemblies without prior permission, the authorities can ensure that legitimate activities are allowed to be carried on, while those which could pose a threat to law and order are prohibited. As a rule, when the situation returns to normal, the prohibitory order is withdrawn. But the same method for regulating economic activities by insisting on prior governmental clearance of every case, large or small, not as a temporary measure but as a long-term arrangement, over-strains administrative capability and often goes beyond the limits of what even an efficient civil servant can do.

38. Governmental clearance of any request entails an examination by the bureaucracy. The procedures for such examination are so complex, involving different departments and agencies, that more staff has to be sanctioned to cope with the additional work which each new regulatory measure generates. Even when the staff has been sanctioned, the very complexity of the procedures means that decision-making has to be a slow process, delaying the completion of projects and retarding the pace of progress. The timely fulfilment of plan targets in such an atmosphere becomes an impossible adventure. Against this background, we recommend some new approaches,

which are not mutually exclusive, in order to effect economies in expenditure and, at the same time, speed up the decision-making process.

39. **Possibility of reducing existing controls.**—Firstly, government should give a hard look at the existing plethora of controls to see if at least some of them cannot be weeded out. The ubiquity of government in a wide range of affairs, activities and transactions results in public dissatisfaction not only because of delays but also because the powers which, by law, vest in Government are seen to be exercised by petty officials. A reduction in the area of direct bureaucratic regulation of trivial activities will mean a tremendous relief to citizens who, even for doing perfectly legitimate things, have to run from pillar to post to get the appropriate clearance. Past experience shows that when bold decisions have been taken to dispense with irksome controls, none of the dire consequences which their champions had been fearing followed. The abolition of 'P' form clearance for travel did not make any dent on the country's foreign exchange position.

40. The over-burdening of the administration with trivial tasks means that major issues receive less than adequate attention and the decisions on them take more time than they should. A reduction in the number of controls—and of controllers—will make the control mechanism as a whole more effective. In respect of such controls which have to be retained, consideration should be given to the possibility of giving general exemptions which can be related to the magnitude of the operation—like exemption of industries with investment below Rs. 5 crores from industrial licensing—or to the nature of the operation, such as putting particular products on an OGL even while the licensing system is retained. The task of bringing about a reduction in government work can best be carried out by the Ministries concerned provided there is a high level direction for them to do so. The Planning Commission could also point its fingers at those concepts and controls which frustrate the attainment of plan objectives and the fulfilment of plan targets.

**41. Desirability of converting direct controls into indirect controls.**—Secondly, in cases where it is considered necessary to prevent certain undesirable activities or to promote certain desirable ones—such guidance to the main actors on the economic scene is inevitable in a planned economy—consideration should be given to the possibility of using other devices which give the right signals to those concerned and minimise the need for the consideration of individual cases by administrators. Through taxation and fiscal incentives, a wide range of activities can be encouraged or discouraged impersonally and in a manner which does not require Ministries to exercise a choice between proposal and proposal as well as between one applicant and another. Apart from fiscal measures, the financial institutions with appropriate policy guidance from government can also, through their operations, steer economic activities in the right direction. The possibility of transferring a significant proportion of the control functions of individual Ministries to the financial institutions was mooted by the Economic Advisory Council and has since been remitted for examination to a Committee headed by Shri M. Narasimhan. We believe that this is a promising approach and if followed up would be most helpful in speedy and economical implementation of the Seventh Plan.

**42. Changes in working methods of Government to cut out delays.**—Thirdly, in so far as certain activities are subject to administrative controls, changes should be made in working methods to cut out the kind of delays which bring a bad name to the administration as a whole and to the bureaucracy in particular. Some of the possible changes of this nature have been referred to in our earlier reports within the existing framework of the machinery of government. In this, our concluding report, we put forth some suggestions which would entail some basic changes in the structuring and functioning of the administration.

**43. Present need for inter-ministerial consultations on a multitude of matters, a major weakness in economic administration.**—One of the major weaknesses in economic administration, which is of relatively recent origin, is that there are few

decisions which can be taken by a Ministry, Department or agency without consulting and getting the agreement of a number of others. The process of consultation and the requirement to obtain the concurrence of all concerned Departments lead to tremendous delays in decision-making. In the past apart from the need to consult the Finance Ministry in regard to matters involving expenditures, each administrative Ministry operated more or less independently with a distinct but wide range of functions, such as Commerce and Industry, Food and Agriculture, Irrigation and Power, etc. Even so, soon after the process of planned development began to gather momentum it was felt that each Ministry should have greater autonomy and the need to consult the Ministry of Finance on a case by case basis should be reduced to the minimum in the interests of speedy decision-making. The basic control over expenditure, it was felt, should be exercised by the budgetary process, and within the voted grants, each Ministry should, as far as possible, be able to take decisions which did result in expenditure. At the same time, to assist Ministries to take sound decisions and to guard against waste, Financial Advisers were posted in different Ministries. Their advice was not binding on the Ministry and could at a sufficiently high level, be over-ruled. The Financial Adviser for his part by functioning within the Ministry to which he was attached began to have a better appreciation of its needs, objectives and compulsions than officers located in the Finance Ministry could. Of course, for proposals which had wider repercussions such as a revision of pay scales, the F.A. could refer the matter to the Finance Ministry.

44. This pattern, in fact, was a further evolution of the practice obtaining in the Railways which had even before World War II its own Financial Commissioner with direct access to the Finance Member of the Viceroy's Executive Council as well as Posts and Telegraphs which had its own Financial Adviser. During World War II, the need was felt to create the posts of Financial Advisers in the Departments of Defence and Supply, again in the interests of speedy decisions in pursuit of the war

efforts. After independence, when the Atomic Energy Commission was set up in Bombay, a Secretary from the Finance Ministry was made its member so that on all matters not requiring clearance at the level of the Finance Minister, the Atomic Energy Commission could take its decisions, without sending files to the Finance Ministry. And it is these trends which were later institutionalised by having Financial Advisers in most Ministries. However, this healthy trend towards making each department or agency capable of taking its own decisions, without the need to refer individual cases to the nodal Ministry, which Finance used to be in the past, got subsequently reversed because of various changes.

**45. Increase in Govt. Departments and Ministries and 'nodal' roles of some.**—With the increase in the range and complexity of Governmental activities, a number of new Departments and Ministries began to be created from time to time to deal with different industries or activities; and these were no longer as self-contained as each Department used to be in the past. For instance, in place of one Industry Ministry, there are a number of new ones dealing with different industries such as Steel, Mines, Heavy Industry, Chemicals and Fertilisers etc. Each of them has to go to the Department of Industrial Development for such things as industrial licensing, and clearances for the import of capital goods. In effect, the Industry Ministry has become the 'nodal' Ministry for these purposes. Since then, the Department of Company Affairs which independently administers the MRTP Act has emerged as another nodal agency to which a large number of industrial proposals have to be separately referred for clearance. The Finance Ministry too, although it had earlier reduced its nodal role through delegation and de-centralisation, has since acquired nodal role in some new fields. It is the custodian of FERA and it also issues, through the Bureau of Public Enterprises, guidelines which are virtually binding on the public enterprises under other Ministries. Thus, today the number of nodal Ministries is on the increase.

**46. Structural changes to streamline decision-making processes—the lead role of administrative Ministry to be recognised.**—Against this background we would recommend two-

main structural changes with a view to streamlining the processes of decision-making in economic administration:

- (i) The first is that it is necessary to recognise the lead role of the administrative Ministries in their respective areas; while they should consult the other Ministries concerned on various aspects, they should be in a position—at an appropriately high level, if the advice is not accepted—to take the final decision without being obliged to obtain the concurrence of every single Ministry, Department or agency concerned with any aspect of the matter under consideration. This would ensure that the Ministry responsible for a given task has also the necessary power to fulfil it; and it will not be possible for any Ministry substantively concerned with the given task to pass on the blame for non-achievement to other Departments or Ministries.
- (ii) **Others to lay down guidelines only.**—Secondly, while over the years the new concerns of Government such as the environmental aspects, afforestation, non-conventional sources of energy, etc., have added to the number of specialised agencies which need to be consulted in respect of any proposal or project, such specialised departments or agencies should mainly lay down broad guidelines for implementation by other Ministries and not themselves get involved in case-by-case clearance, except, perhaps, in respect of proposals which have very wide implications, like the Silent Valley Project in Kerala. But on the whole, Departments and agencies such as the Department of the Environment, the Department of Science and Technology, etc., should remain specialised agencies which provide advice and guidelines, but whose concurrence in every case should not be insisted upon.

**47. Collective decision-making.**—Apart from such structural changes, it is also necessary that the existing arrangements for

joint inter-ministerial decision-making through committees such as the Licensing Committee or the Licensing-cum-MRTP Committee should be effectively enforced. These Committees should function collectively and individual members should not be allowed to reserve the position of their respective Ministries/Agencies. Also, such Committees should be chaired by the Secretary whose Department is recognised as having the lead role in the particular function or area. The Special Committee of Secretaries for the Fertilizer Industry which is chaired by Secretary, Chemicals and Fertilizers is an instance of the successful functioning of this approach. It is necessary to extend the application of this approach to other areas and industries.

48. At present, most inter-departmental committees function at the level of Secretaries. This approach suffers from serious limitations. Secretaries these days are greatly over-worked. There are frequent sudden demands on their time. They are heavily preoccupied with parliamentary work when Parliament is in session. Secretary level meetings are, therefore, difficult to fix at too frequent intervals, and even when dates have been fixed, they frequently have to be adjourned. Often, some Secretaries are absent and those who come on their behalf are reluctant to depart from their briefs and accept any compromises. Finally, except in the case of the Licensing Committee set up under the Industries Act, most Secretary level committees only deal with major projects and proposals, while more modest and even trivial schemes may take more time for a final decision to be taken on them because they are handled by passing the files from Ministry to Ministry. The concept of collective thinking needs to be developed and strengthened at all levels and not just at the level of Secretaries. Committees can be set up, as we had suggested in an earlier report, at the level of Joint Secretaries and ad hoc meetings even at Deputy Secretary levels can help to speed up decisions and resolve differences.

49. **Strengthening Lead Ministries.**—Side by side, consideration should be given to extending the lead Ministry concept by



strengthening some of the lead Ministries with internal arrangements for expert advice as exist in the Atomic Energy Commission and the Railway Board. Considering that the responsibility for the regulation and development of various industries which was once concentrated in the Ministry of Industrial Development has now been vested in a number of different Ministries each dealing with different industries, the question should be considered whether some of these Ministries should have the necessary technical advice available internally without having to go to the DGTD in the Ministry of Industrial Development. Some Ministries have already built up their internal organisations for technical/industrial advice. At present, such organisations in the different Ministries are supplementary to the DGTD and the latter still needs to be consulted. The present ad hoc arrangements in this respect need to be streamlined by reorganising the DGTD and defining the DGTD's links, if any, with the Internal Technical Advisers of different Ministries. If the move is to be in the direction of making each lead Ministry as self-contained as possible, steps should be taken by transferring officers from the D. G. T. D., if necessary and appropriate, to have a technical organisation within each Ministry so as to make it self-sufficient in this regard.

50. The reasoning can be carried further. Can the different Ministries not do their own industrial licensing for the industries with which they are concerned? To some extent the Special Committee of Secretaries for the Fertilizer Industry does discharge the licensing function also, though even here the formal issue of the industrial licence has to be done by the Department of Industrial Development. What we are suggesting is that it should be possible to leave the actual issue of an industrial licence in each case to the Ministries concerned, under the broad policies and guidelines laid down by the Department of Industrial Development.

51. **Coordinating role of Department of Industrial Development.**—Of course, there are certain issues in regard to which a

common policy has to be followed by all Ministries, the co-ordinating role of the Department of Industrial Development cannot be denied. But if that Department is relieved of the responsibility of looking particular industries, it can become the central point for dealing with and evolving policy guidelines for a wide range of subjects. It can look after not only the Industries (Development and Regulation) Act but also the MRTP Act. It can evolve policies for helping the small-scale sector or for industrial location. It should try to apply these policies not by an ad hoc examination of each proposal from these different angles, but by evolving policies which have the approval of Government and have therefore to be followed by each Ministry or Department which administers particular industries. These suggestions merely illustrate the kind of restructuring which would be desirable and if the direction of reform is accepted, a more detailed exercise would be needed to evolve a pattern for the allocation of responsibilities among different economic Ministries.

52. **A new reporting system.**—Making each Ministry more autonomous and more self-contained in order to take speedy decisions in areas of its own responsibility will entail some measure to ensure that collectively all economic Ministries work in harmony to fulfil plan targets and achieve their objectives with due regard to the policy parameters laid down by the nodal Ministries or by Government as a whole. Towards this end, a system of reporting will need to be evolved. It should serve a two-fold purpose: firstly, it should report progress in the areas within the responsibility of the Ministry towards achievement of the accepted targets. This would mean keeping not a mechanical watch over the disposal of pending applications but even more, watching whether the clearance given and the follow-up action by the parties concerned are in keeping with the time-frame of the plan. If there is a shortfall, the Ministry should go into its reasons and propose remedial measures. A quarterly progress report on plan implementation from each Ministry could well be introduced for the purpose.

53. Secondly, the administrative Ministry should circulate a statement of each case cleared by it setting out those features which would be of interest to the nodal Ministries. This should, as a rule, suffice to ensure that the requirements of clearly-defined policies are observed by the administrative Ministries. If the administrative Ministry feels that in any case a departure from them is necessary, it should have prior consultation with the nodal Ministry concerned. As a further measure of safeguard, it could be provided that particularly large projects, whose size can be appropriately defined, should be placed before an inter-Ministerial committee:

54. **Multiplicity of inspections to be reduced.**—In addition to the developmental and regulatory role which economic Ministries have to perform to fulfil plan targets, there are a large number of other activities which are basically administrative in character and which entail frequent contacts between officials and the public. In respect of them too, the possibility of reducing the number and frequency of such contacts should be given consideration. This can be achieved by greater co-ordination between different agencies of government and a drastic change in the departmental approach to problems which seems to have become so common. The point can be best explained by citing a few concrete instances.

55. Productive units—even small scale industries—are subject to inspection by a number of different officials, each deriving his powers from a different Act, to check compliance with its provisions. Most of the inspections call for no technical expertise. The mere fact that the laws in question come within the purview of different departments does not make it necessary for different inspectors to be engaged on this task. With better coordination, it should be possible for the same Inspector to make the necessary checks under the provisions of many different pieces of legislation. This would lead to economy and minimise harassment.

56. To take another example, the same property may have to be valued for different purposes by different authorities, local

State and Central. There is no reason why such valuation should not be undertaken by one single agency and accepted by all concerned. As things are, even when the valuation is required under laws promulgated by the same Ministry, different yardsticks are used and, therefore, separate valuation has to be undertaken, e.g., the valuation of a residential building under the provisions of the Income Tax Act, the Wealth Tax Act and the Estate Duty Act.

57. **Co-operation between executive agencies.**—The agencies of different Ministries and Departments who carry out field operations of one kind or another could function much better—more economically and efficiently—if there was a better co-ordination between them. With growing departmentalism, they tend to act independently of each other and such consultations between them as do take place on major matters are conducted by reference to the respective Heads of their offices who may get in touch with each other or make a reference to their respective Ministries. The need for greater co-operation and consultation at the operational level needs to be emphasised. It is a common experience that digging operations on the same terrain may be undertaken separately by different agencies for different purposes, such as laying pipes for the supply of water or laying under-ground cables for electricity or telegraph. Many of the anti-poverty programmes under different schemes could, with proper dovetailing, strengthen each other, while through compartmentalisation, there may be duplication in some areas and neglect of others. Traditionally, District Officers used to play a co-ordinating role in respect of all governmental activities in the area under their jurisdiction. Without proposing any rigid formula for this purpose, we would suggest that appropriate mechanisms for co-operation at the ground level should be evolved, taking into account local conditions, the availability of manpower and other relevant factors.

58. **Changes recommended would facilitate 'Single Window' clearance.**—The main thrust of the structural and organizational changes proposed above is in the direction of reducing

the number of governmental agencies, whether they are departments in the secretariat or field staff, to whom people have to turn in order to get the clearance or assistance they need to get on with various activities. The Prime Minister, in a recent address to Secretaries, made a reference to the desirability of introducing a system of 'single-window' clearance. This objective would, we feel be greatly facilitated if the changes we have recommended are brought about.

59. Of course more work would be needed to finalise the details of the re-allocation of government business if, in principle, government accept our approach. An appropriate time to bring about such changes may well be when, after the elections, a new Council of Ministers is formed. Towards that end, a small Working Group could well be entrusted to formulate specific proposals, at least in regard to the re-allocation of business among Ministries, while the suggestions to bring about an integrated approach in respect of the field staff may well be taken up separately.

60. Having discussed certain changes in the structure and organization of the machinery of Government, we should like to make a few comments on working methods.

61. **Multi-level examination of files causes delay.**—Decisions get delayed not only because files move horizontally between department and department but also because within each department, they move vertically from level to level. The general practice is for noting to start at the lowest possible level and then to move upwards from level to level until eventually it reaches the level where final view on any issue is taken. In the process, a good deal of time elapses not so much because some positive contribution to the decision making process is made at each level, but because there is a trend at each level to add some comments or even to recapitulate what is already on the file.

62. This tradition has a historical origin. In the years before independence and for some years thereafter, the Government of India was a small, compact and a reasonably efficient organization. The quality of assistants and Section Officers was quite high; many of them were in fact persons who had missed the Class I service by a few positions. As their salary scales were much lower, it was felt that by entrusting to them the task of preliminary examination of a case, the time of senior, higher paid officers would be saved. The arrangement thus appeared to be more economical. Further, at a time when the bulk of government business was conducted by taking decisions in keeping with past precedents, the presence in department, on a continuing basis, of assistants and senior clerks who could recall from their personal knowledge the kind of view, and the reasons therefor, taken in respect of similar problems in the past, was of great help to officers coming to the department on deputation.

63. Things are different today. The kind of problems—particularly in the economic field—which government have to tackle do not necessitate reliance on past precedents or study of old files. With greater employment opportunities in business and industry on much better scales of pay than are available in Government, government service has ceased to attract the best talent, particularly, for filling posts which do not have much prestige on account of the authority that goes with them. This tells on the quality of the supporting staff in government offices. Further, even on considerations of economy, if account is taken of various overheads like housing, medical facilities and travel concessions as well as the impact of dearness allowance, no strong case exists for entrusting to clerical staff a preliminary examination of issues which will call for consideration at higher levels. Yet such is the weight of tradition that whenever extra staff is sanctioned for any new activity, the pyramidal structure is reproduced with a very large base of clerical and junior staff and the minimum of senior staff. A radical overhaul of this approach is called for.

**64. More posts at higher levels and less at lower levels, to improve efficiency.**—The solution often put forward has been of “level jumping”, which means that instead of the file moving from one tier to the next higher, it should skip one level and land on the table of an officer who is two steps above. There is hardly any point in retaining multiple levels and then ‘jumping’ some of them. The question that needs to be considered is whether so many levels in fact are necessary. Fewer posts at lower levels and more posts at higher levels would lead to economy in expenditure and at the same time improve efficiency. The need for more posts at senior levels is under-scored by the fact that at present all Secretaries are so overloaded with day-to-day chores, answering parliament questions, disposing of pending applications and attending to routine work, that they have no time to devote to the tasks which should be really theirs: assisting government in formulation of long-term policy and maintaining a watch over the performance of the economy and supervising the functioning of the Ministry as a whole. We had made similar recommendations in our report on ‘Economy in Public Expenditure’ (EARC Report No. 28, paragraphs 22—25 and 32—38). There the focus was on economy. In the present report, we are coming to a similar conclusion from the point of view of improving the effectiveness of economic administration.

**65. Personnel policy.**—Structural changes in the governmental organization and procedural reforms in working methods will go a long way to improve the quality of economic administration. But, in the ultimate analysis, the quality of economic administration will depend on the quality of economic administrators. To get the right man for the right job is crucial to the success and efficiency of all administration, not the least of economic administration. This inevitably leads us to make a few observations on matters of personnel policy.

**66. Need to pick the right man for the job in economic administration.**—A crucial question which has to be faced

in deciding what kind of a person should fill the top administrative assignments in different spheres of governmental activity is whether the accent should be on the administrative ability of the person or his specialised knowledge of the subject which would fall within his sphere of responsibility. Recent practice of the Government of India shows some ambivalence in this regard. A number of specialist services have been created. In the Ministries dealing with scientific subjects, often scientists have been appointed as Secretaries. In the Ministry of Law, there has been a tradition coming from the past to rely on people with legal background for the top posts. In the field of economic administration, although the Department of Economic Affairs has had time and again eminent economists as Secretaries, the general practice has been to rely on general administrations drawn mainly from the IAS with a sprinkling the IA&AS.

**67. General administrative ability and experience not enough.**— Reliance on all India Service like the IAS, whose members have experience of administration at the grass-roots level in the States, for filling important posts in economic administration has much to commend itself. The knowledge of the ways in which policies, however well-conceived, actually work in agriculture and industry, in villages and cities, is a most valuable asset in evolving workable policies. The question which needs more consideration than seems to have been given to it is whether apart from administrative experience something else is needed for officials involved in the evolution and implementation of economic policies. Considering how complex are the various instruments that are used for the implementation of plan targets and objectives such as bank credit, administered pricing, licensing and subsidisation, we cannot help feeling that for the key posts in economic administration, something more than general administrative ability is needed.

**68.** In this context, it is necessary to dispel a myth. The view that any IAS officer can fill any post in an economic ministry is based on the assumption that the members of the ICS



used to do so in the past and there is no reason, it is argued, why the IAS as the successor service to the ICS cannot do so as well. The truth of the matter is that while the ICS, taken as a whole, did provide the necessary personnel for a wide range of diverse activities, when it came to selecting individuals for particular assignments, a careful assessment was made of the candidate's experience and aptitude to equip him for the duties of the post for which he was being considered. In other words, while officers of the ICS were considered capable of filling all administrative posts, it was never the view that each officer of the ICS was capable of filling every post.

69. **Specialisation in the Indian Civil Service.**—In fact, there was a good deal of specialisation in the ICS. After the first 8 or 10 years of service, during which each officer was tried out in different assignments to test his aptitude for different kinds of work, a good proportion of the ICS officers were earmarked for judicial work, while others were retained in the executive field; even among the latter, some were made to concentrate on field administration, as District Officers or Commissioners, while others were picked up for work in the Secretariat with periodical field assignments to keep them in touch with the realities on the ground. While such specialisation was informal in character, some ICS officers were seconded to other cadres, like the Indian Political Service, which provided the personnel for staffing the Residencies in the princely States as well as the administration of the North West Frontier Province.

70. When in the days of the Great Depression, Britain went off the gold standard and the system of Imperial Preference was introduced, the Government of India felt the need for officers who could give their continuous attention to issues pertaining to Finance and Commerce. Accordingly, a Finance—Commerce Pool was set up which drew upon the ICS as well as some Central Services dealing with revenues and accounts. They remained permanently with the Government of India but not necessarily in Delhi. Officers of the pool had to fill a number of

posts as Collectors of Customs, Commissioners of Income Tax and Accountant Generals and also be deputed to the Reserve Bank of India with a view to having a feel of problems at the cutting edge of administration and getting trained in the process for working in the Secretariat.

71. **The discontinuance of the Finance—Commerce Pool** some years after Independence was not on the consideration that specialisation was bad but because it was felt that members of an all-India Service like the IAS should not, in federal set-up, become identified with the Central Government and sever their links with the cadre to which they belonged. The view was also taken that for a few officers from different services selected at a young age to monopolise all the posts in the economic field was not fair to other members of those services. Therefore, it was decided that economic posts like others should be filled by officers who came on deputation, had a definite tenure and then reverted back to their parent cadre.

72. **Specialised knowledge and experience essential.**— Even if on these considerations, the revival of the Pool or something akin to it is ruled out, other ways should be found to ensure that those who fill senior posts in economic Ministries bring to them not just general administrative ability but also some specialised knowledge and experience which would make them understand the complexities of the economy and the tools available for its management, which is something more than and somewhat different from plain and simple administrative ability. To secure the co-operation of the various agencies, some in the Central Government and others in the State Governments, some in the public sector and others in the private sector, some having a corporate shape and others functioning individually, reliance has to be placed on managerial techniques, greater use being made of the powers to persuade than of powers to pressurise or compel compliance with various laws and regulations. The law and order approach in the economic field often turns out to be counter-productive.

73. There are various ways in which such specialisation can be promoted even in a service which is, and must remain, that of general administrators. In the ICS, the main reliance for this purpose was placed on experience. Those who did specialised jobs at a relatively young age and did them well were groomed and used for higher assignments in those very spheres. Secondly, there was provision for study leave and as a rule, ICS officers assigned to the judiciary used it for qualifying themselves to be barristers and thus acquiring a knowledge of law which enabled them to function successfully as judges on the High Court and even to rise to the Supreme Court.

74. Since independence, in the posting of IAS officers, the practice of making them specialise in particular areas of administration seems to have fallen into disuse. Depending on where the next promotion opportunity appears, an officer may move from one department to another, the experience gained in one being of little value in the other. On the other hand, the number of IAS officers going for specialised courses of study, both in India and abroad, seem to be on the increase. But because in the matter of postings not enough consideration seems to be given to the specialised knowledge which an officer may have or lack, all too often it happens that someone who has undergone a course in a particular subject never in fact deals with the subject in his service career. The time, effort and money spent on the training thus virtually becomes a waste.

75. **Senior posts to be manned preferably by those with previous experience or specialised knowledge**—We would, therefore, strongly urge that in filling senior posts in economic Ministries, preference should be given to those who have held similar posts at lower levels, whether at the Centre or in the States, and/or have studied the subject whether on their own or by being sent to a course of training by government. Such a policy could extend to senior appointments in other spheres also, such as administration or social services, or law, order,

and security, while at lower levels, the emphasis could and should be on general ability, the posts being treated as a training ground for acquiring specialised knowledge by working under the supervision and guidance of senior officials. If this approach is accepted, then its translation into practice can be worked out in detail by the Department of Personnel with such outside assistance as may be considered to be necessary.

76. **Proliferation of specialist services.**—Having emphasized the desirability of promoting specialisation within services which *ab initio* consist of what might be called generalists, we should like to comment on the tendency to create new services to fill relatively few specialist posts. The number of such services has grown. As their pay structures are similar and often they are recruited by the same examination, a lot of jealousy and heart-burning takes place in the matter of promotions because of inter-service rivalries. Apart from considerations of specialisation, one factor which seems to have led to the proliferation of services is the desire of various Ministries to have cadres which are under their control rather than of another Ministry. Once a service has been created, there is an annual intake of recruits, and as they are permanent government servants, posts and promotion opportunities have to be found for them. Without going into the rationale behind any of the existing services, we should like to put forward some considerations on which a choice can be made between (a) forming a service; (b) making *ad hoc* recruitments to specialists' posts; and (c) making arrangements for the existing services to provide the right type of candidates.

77. The creation of a new service constitutes a continuing commitment to recruit a certain number of candidates each year and to retain them in government employ, until they reach the age of retirement. Unless there is absolute surety about the need for the particular type of specialist to be sustained over decades, the creation of a service may in the event

become a costly way of satisfying a limited need. Before taking a decision to set up a new service, two alternatives should be considered. Firstly, there is the possibility of recruiting people with the appropriate expertise from the open market—teaching staff of universities and other academic institutions as well as business and industry both in the private sector and the public sector. They can be given a contractual appointment on appropriate terms. No doubt they would have to be paid a higher salary than people who are already in service and have gained their training and experience at government expenses rather than on their own. Still the arrangement may be more economical for the reasons explained above. Another advantage of such recruitment would be that for many kinds of jobs, the brightest and most qualified candidates may well be relatively young. In many fields people make their best contribution in their 30s and 40s rather than in their 50s. If encadred into a service, considerations of seniority would preclude someone who is exceptionally brilliant being given the top assignment. It is for jobs where both the training and experience can best be found within government that specialist services become worthwhile, e.g., in the Railways. Also, there are services where it is desirable that candidates should have gained their experience and acquired their orientation in the atmosphere and traditions of public service rather than private employ. For this purpose, reliance on a government service would be clearly justified. However, here again consideration should be given to the possibility of forming a sub-cadre of people who specialise in certain types of work from the existing services rather than creating a wholly new service. Such a possibility would of course not exist for posts which need more of specialised knowledge than of expertise based on experience.

**78. Efficiency of clerical personnel.**—It is worth adding that steps have also to be taken to improve the efficiency of the clerical personnel to make it possible for a smaller number

of better qualified, better paid staff, to do the job more economically and efficiently. One step in this direction would be to avoid the sharp vertical division of functions at subordinate levels, such as diarising, despatch, typing and record keeping. A small number of individuals capable of combining secretarial assistance to the executive officers—somewhat similar to the role played by Secretaries in foreign bureaucracies and international organisations and even in large commercial houses in India—will make the staff formation more compact, more efficient, more economical and more contented.

79. Most of the ideas and recommendations embodied in this report have been spelt out in somewhat greater detail in our earlier reports to some of which we have made reference at appropriate places. We felt that by bringing together the diverse, suggestions in one report, their mutual compatibility and consistency will become clearer, and facilitate a more integrated approach towards the reform of economic administration in order that the implementation of the Seventh Plan should proceed smoothly and speedily.

80. **Conclusion.**—Before we conclude, we should like to make one general point. Having been set up to propose reforms in economic administration, the Commission has necessarily dwelt on the weaknesses and shortcomings that undoubtedly are there. At the same time, we do not want to leave the impression that the administrative system as a whole is lacking in talent or dedication. Time and again, Indian administrators in the economic field have gained recognition in international bodies and conferences and have, on their own individual merit, been elected as chairmen or appointed to a high position in their secretariats. At home, while every lapse receives a great deal of publicity in the Press, in Audit Reports and in Parliamentary proceedings, there is no dearth of success stories. Projects have been completed without cost and time over-runs, particularly, when a task force with adequate delegation of authority has been made responsible for their timely

execution. In many a crisis, financial, economic or pertaining to national security, civil servants have dealt with problems with impressive speed and skill.

81. Yet there is always room for improvement and need to re-assess and re-adjust policies and procedures evolved in different conditions, in order to meet new challenges. It is in this task that we have been engaged. For three years and more, we have applied ourselves to an examination of the issues referred to us, as well as to some others which we ourselves considered to be worth studying. Our reports and recommendations are in the hands of Government. We hope and trust that the decisions taken on them—and even more the ultimate results achieved—will justify the decision to set up the Commission.

82. Finally, we set out below a summary of the main conclusions and recommendations of this report.

## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. This Report outlines the basic approach of the Commission to the reform of economic administration and also suggests steps that could be taken to ensure successful implementation of the Seventh Plan.

(Paragraphs 2-3)

2. Direct public investment is one of the main instruments of planning. Many plans run into a resource problem which necessitates the abandonment or postponement of some important projects. This is because at the planning stage, there are pressures to enlarge the size of the plan and to squeeze in as many large projects as possible. In the process, there is over-estimation of resource availability and under-estimation of costs. With the decision already taken to concentrate on employment, food and productivity in the Seventh Plan, it should be possible to achieve a good rate of growth with relatively low financial investment. Towards this end, a number of suggestions have been put forward which are primarily for the Planning Commission to take into account. It is further proposed that the presentation of the Seventh Plan should place greater emphasis on physical targets rather than on financial targets, on output rather than outlay.

(Paragraphs 6—12)

3. To avoid cost and time over-runs, procedures for clearance of investment proposals should be streamlined and greater autonomy should be given to public sector enterprises, as emphasised in our earlier reports. In addition to financial budgeting, there should be performance budgeting.

(Paragraphs 13—15)



4. The Planning Commission should try to identify right now a number of key projects which would anyhow be included in the Seventh Plan so that preparatory action on them could be started, even before the close of the Sixth Plan. This would help in their timely implementation. The possibility of giving similar clearance to a select range of projects pertaining to the next plan should in future be considered, whenever the mid-term appraisal is being made.

5. In projects implemented departmentally, time is often lost because it is only after Parliament has passed the budget that various necessary preparatory steps such as clearance for foreign exchange, placing of indents on D.G.S.&D. etc., are initiated. Completion of projects can be speeded up by taking preliminary action, as soon as the Finance Ministry has accepted the project for inclusion in the budget.

(Paragraphs 16 and 17)

6. In regard to private investment, we have, in this Report, recapitulated many of the recommendations made in our earlier reports on the subject. Additionally, the following recommendations have been made:—

- (a) The permission to industries to produce more than their licensed capacity, which was granted when the Prime Minister declared 1982 to be the Year of Productivity, has not been extended to all industries. The question of their further extension should be considered.
- (b) Since MRTP clearances often delay the implementation of investment proposals even after the Licensing Committee has approved them and since the number of cases requiring MRTP clearance is likely to increase in view of the recent amendments to the MRTP Act, the question should be considered whether companies coming within the purview of the Act should not be allowed to apply

for MRTP clearance even before applying for a licence under the Industries Act, since the latter entails a lot of detailed work which is not needed for the purpose of MRTP clearance.

- (c) The use of industrial licensing for controlling capacity creation so as to prevent "surplus" capacity should, as far as possible, be discontinued so that there can be, as suggested in the Approach Paper, "a new policy framework with emphasis on efficiency, competition and modernisation." Towards this end, a number of projects can be placed on OGL under the Industries Act and in particular, there should be no restrictions on capacity creation in industries producing wage goods, basic raw materials or capital goods.
- (d) In regard to location of industries in backward areas, less reliance should be placed on industrial licensing and more on other measures such as development of infrastructure in the areas concerned as well as fiscal and financial incentives.

(Paragraphs 20—31)

7. A major weakness in economic administration is the slowness of response. This is largely due to a steady enlargement of the regulatory role of Government. The bureaucracy is overburdened with relatively petty matters which cause a lot of harassment to members of the public. Side by side, to cope with the mounting volume of work, the bureaucracy has been expanding from year to year resulting in a steady increase in non-plan expenditure and the erosion of resources for development. The increase in the staff has led to greater complexity of procedures which has become an additional factor contributing to the slowing down of decision-making and

the expansion of staff. Against this background, we recommend that—

- (a) Government should review existing controls to see if some, at least, cannot be dispensed with. In respect of such controls as have to be retained, the possibility of general exemptions relating to the scale or nature of operations should be considered.
- (b) The Government should consider if the directly administered controls cannot be replaced by a system of indirect impersonal controls through taxation and financial incentives as well as by transferring a substantial part of the control functions of individual Ministries to the financial institutions. Changes in working methods can also help reduce delays

(Paragraphs 32—42)

8. Another weakness in economic administration is that few decisions can be taken by a Ministry without obtaining the concurrence of many others. This leads to tremendous delays in decision making. As a corrective, we recommend some structural changes to streamline and expedite decisions. We suggest that the lead-role of the administrative ministries in their respective areas should be recognised, and they should be enabled to take final decisions, as far as possible without having to obtain the concurrence of every Ministry/Department or agency which may be concerned with one aspect or another of the matter under consideration. Departments or agencies with special responsibilities in particular fields should mainly lay down guidelines to be followed by other Ministries and not get involved in case-by-case clearances.

(Paragraphs 43—46)

9. The machinery for collective thinking and joint inter-ministerial decision making should be strengthened and expanded.

(Paragraphs 47-48)

10. The acceptance of the concept of lead Ministries with enlarged powers and responsibilities would entail consideration of various possibilities to make the system effective as well as to ensure that coordination does not suffer as a result. A number of suggestions have been made with these objects in view, which should minimize the contacts between officials and the public, which are often somewhat irksome to the latter and also pave the way for single-window clearance which the Prime Minister recently emphasized.

(Paragraphs 49—58)

11. Some of the changes referred to above may, if accepted, entail a reallocation of business among different Ministries as also changes in their staffing. An opportune time for embarking on such an exercise would be immediately after the elections, when a new Council of Ministers will be sworn in and responsibilities allocated among them. It may, therefore, be advantageous to set up a small working group which, after considering the recommendations, can make more concrete proposals for the Prime Minister's consideration.

(Paragraph 59)

12. The present system of movement of files vertically from one level to another originated at a time when it was more economical and just as effective to have the preliminary examination of each case done at lower levels. The position now being different, a radical overhaul of the pyramidal structure is called for. Instead of "level-jumping" which is often suggested as an answer to the delays inherent in a hierarchy, we question whether so many levels are really necessary and conclude that fewer posts at lower levels and more posts at higher levels would result in economy and improve efficiency.

(Paragraphs 61—64)

3. A question on which there seems to be some ambivalence in the thinking and practice followed in different Ministries is the extent to which specialisation is desirable among administrators. In some ministries top posts are, as a rule, filled by

specialists in the field, whether or not they belong to any government service. For certain types of posts, special cadres have been created. For the vast majority of posts, including those in the economic field, the tendency is to rely on general administrators. We believe that for filling senior posts in economic Ministries, general administrative ability and experience are not enough; some measure of specialisation, derived from experience as well as exposure to specialised courses of training, would greatly enhance the quality of economic administration—even without creating anything in the nature of a formal pool, as existed in the past. The issue of specialisation need to be considered in a somewhat wider context, as it arises not only in economic administration but in other fields of administration as well. A measure of restraint is needed in the creation of new specialist services, and the possibilities of recruiting experts from the open market need to be examined more fully.

(Paragraphs 66—77)

14. In clerical cadres, economy and efficiency can be better achieved by having a smaller number of better qualified staff discharging a wider range of responsibilities than is the case at present.

(Paragraph 78)