

## **UNIT- 5**

### **INDUSTRIAL ECONOMICS**

#### **Phases of Industrial Growth and Changes in Industrial Structure in India**

**The industrial growth pattern in India can be divided into four phases as explained below:**

##### **1. First Phase (1951-65): Strong Industrial Base:**

The first phase of industrial growth consists of the first three plan periods which had build a strong industrial base in India. During this phase, huge investments were made in major industries like iron and steel, heavy engineering and machine building industries. The annual compound growth rate of industrial production during the first three plan periods moved between 5.7 per cent to 9.0 percent. The capital goods industries had registered its annual average compound growth rate between 9.8 per cent to 19.6 per cent during this period. Again the annual rate of growth of basic industries moved between 4.7 per cent to 12.1 per cent over the same period. Thus, a strong industrial base was laid during the first phase covering the first three plan periods.

##### **2. Second Phase (1965-80): Deceleration and Retrogression:**

The second phase of industrial growth covers the period of three Ad-hoc Annual Plans, Fourth Plan and Fifth Plan. The annual compound growth rate in industrial production declined from 9.0 per cent during the Third Plan to only 4.1 per cent covering the period of 1965 to 1976. In 1976-77, the annual rate of growth of industrial output was 6.1 per cent. In 1979-80, a negative annual growth rate of (—) 1.6 per cent was recorded in respect of industrial outputs as the index of industrial production in this year (Base 1970 = 100) has declined to 148.2 as compared to 150.7 in 1978-79. The industrial sector faced a structural retrogression during the second phase. The capital goods industries registered its annual average growth rate of only 2.6 per cent during the second phase Fifth Plan recorded the annual growth rate of 5.7 per cent which was far below as compared to that of first three five year plans. For, basic industries, the annual growth rate during the second phase was far below

as compared to that of Third Plan. Thus basic industries were engaged in the production of ferrous metal groups, construction materials, mechanical engineering industries etc.

### **3-Third Phase: Industrial Recovery in Eighties (1981 to 1991):**

The third phase of industrial growth covers the period of eighties consisting of both Sixth and Seventh Plan. This period of eighties experienced industrial recovery. During the period 1981-85, the average annual rate of growth of industrial production was accelerated to 7.0 per cent which further increased to 8.6 per cent during 1985-90. In 1990-91 also, the annual rate of industrial growth was registered at 9.0 per cent.

The growth rate for consumer durable goods increased to 16.9 percent in 1985-89. In 1981-90, there was a set back as the segment recorded only 1.7 per cent growth rate and then the same rate again shot up to 14.8 per cent in 1990-91.

The basic goods industries maintained the annual average growth rate of 8.8 and 8.9 per cent during 1980-85 and 1985-89 respectively. But gradually declined to 5.4 per cent and 3.8 per cent in 1989-90 and 1990-91 respectively. The capital goods industries recorded 6.3 per cent annual rate of growth during 1980-85 which experienced increase in its growth rate of 13.0 per cent in 1985-89 and then significantly 24.0 percent in 1989-90. The growth rate of capital goods was 17.4 per cent in 1990-91.

### **Fourth Phase: Industrial Retrogression followed by an Upturn and Downturn Nineties (1991-92 to 1997-98):**

The fourth phase of industrial growth covers the early part of nineties, i.e., from 1991-92 to 1997-98. This short period experienced a sharp industrial retrogression followed by an immediate upturn in the industrial growth of the country.

During 1991-92, the country had a bitter experience of negative growth rate of (—) 0.10 per cent as compared to that of 8.5 per cent in 1990-91. This is the clear evidence of sharp industrial retrogression in the country.

But after that in 1995-96 the country experienced an industrial upturn trend as annual growth rate during this year stood at 11.7 per cent, During the year 1996-97 industrial output has increased by 7.1 per cent and further 8.6 per cent in 1997-98.

The industrial growth rates by use-based industrial classification again showed downward trend from April to Feb. 1997 to 7.2 and 10.2 per cent in April to Feb. 1998. The growth rate of consumer non- durables decreased to 4.2 per cent and 2.4 per cent during April-Feb. 1996-97 and 1997-98 respectively. The growth rate of capital goods industry declined to 7.2 per cent in 1996-97 and to 1.8 per cent in 1997-98. During the same period, the general growth rate of industrial production declined from 7.7 per cent in 1996-97 to only 4.7 per cent in 1997-98.