CHAPTER - 5

5.1 - A CRITICAL ASSESSMENT OF INDUSTRIAL POLICY RESOLUTIONS

The 1948 Policy was formulated in an atmosphere of piecemeal ~~placement~~ economic Planning dominated by an intense urge for quick nationalisation of private industrial enterprises. Premature economic reasoning instigated the government to put up the threat of nationalisation in the spheres of basic and key industries. This threat of nationalisation after ten years unnerved the private entrepreneurs, retarded capital formation in the private sector and postponed expansion and replacement of plants and equipment in the sphere of basic and key industries. In fact, the government, within two years of the announcement of its industrial policy, had to state categorically that even after ten years it may not be possible to nationalise all the existing units of basic and key industries.

The main shortcoming of the 1948 industrial policy arose not so much from inherent defects in the policy statement as from the lack of integration between the policy and the general procedure of developmental planning. When the industrial policy was formulated the national Government was almost undecided about the nature, magnitude and the procedure of

developmental planning to be initiated in India. As a result of this, the 1948 industrial policy served as a broad indicator of government's attitude towards the industries but could not enunciate, in a concrete and effective manner, government's industrialisation programme in relation to economic development.[1]

The 1948 Industrial Policy was in force for eight years (i.e., upto 1956) and during this period private investment in industries increased considerably. The immediate apprehensions regarding the circumscribing of the private sector proved unfounded. The Government implemented the policy in a pragmatic manner and in national interest the private foreign investors were permitted to start oil refineries. The policy was taken more as a guiding principle rather than as rigid formula permitting no deviation.

There was, however, one weakness in the policy and its implementation. No priorities were laid down, and even if laid down were not followed in practice, State Governments and municipalities (in Madras, U. P. and Bombay) adopted measures to nationalise the electricity supply concerns. Road transport received a very high priority in the nationalisation programme of State Governments. Air transport, though not included in Schedule B, was nationalised. The State Government were launching a large number industrial enterprises though the supply of funds at their command was meagre. The Madras Government bought a paper mill; the U. P. Government planned the starting cement and rayon facilities; the M. P. Government supported two paper mills and an aluminium concern and took over mines; the Bombay

Government sponsored a cement concern; the Assam Government thought of starting a good number of factories. These were without any scheme of priority.

On the other hand, the Government adopted a rigid approach in some cases. It insisted that steel works in future could be undertaken only in the public sector with the harmful consequences of low expansion in steel production and capacity over the First Plan. There was some lack of co-ordination between the various departments of the Central Government of the one hand and the Centre and the State Governments on the other.[2]

The second category of 1948 Industrial policy included coal, iron and steel, aircraft manufacturing, shipbuilding, manufacturing of telephone, telegraph and wireless apparatus, and mineral oils. For these industries it was laid down that State will be exclusively responsible for the establishment of new undertakings. While in the case of existing units the matter would be re-examined at the end of ten years and they would be nationalised, if necessary. This provision discouraged private enterprise. It increased an uncertainty about the future. The period of ten years is much too short to reap the benefits of any investment for improvement and renovation. Since the responsibility of starting new units was assumed by the state, private enterprise lost interest in this category of industries. The result was a drop of industrial production, slowing down of the process of capital formation and a certain amount of industrial depression. There would probably be no harm if the State could step into the gap and start new units. The Government of India

as well as State Governments lacked money, enterprise and skilled personnel necessary for the work. The consequence was a reduction rather than an increase in the industrial activity of the country.

The Industrial Policy of 1948 was theoretically in force throughout the First Five Year Plan. In practice there were a number of noteworthy departures.[3] Air transport was nationalised in 1953, even though it fell in the second category, where there was to be regulation and control only. Similarly, life insurance business in 1953 and Imperial Bank of India 1955 were nationalised, which obviously widened the sphere of state-owned enterprises. Many other government companies like Sindhri Fertilizers and Chemicals Limited (1951), the Hindustan Antibiotics Limited (1954), The National Fertilizers and Chemical Private Limited (1956) were the other enterprises covering spheres which according to Industrial Policy Resolution of 1948 should have been under the ownership of private enterprise subject to regulation and control. But they were opened up as public sector enterprises, because they were treated to be of national importance, and it was in the social interest that they should not be opened up in the private sector. It may also be mentioned that while the State Bank, was created as public corporation in 1955, the demand for nationalisation of commercial banking was rejected on so many occasions. The Government always said : as long as there is a private sector it must be attended to by private banks. It thus follows that there was defined and area of different sectors was limited and in actual practice, on grounds of 'expediency' , 'practicability', 'social interest', and

enterprise on the one hand, could have been opened up by the government, at the other extreme, an industry was refused nationalisation as that it was not the intention of the government to unnecessarily restrict the right of the private sector.

The Industrial Policy was received with mixed feelings. A large section of industrialists welcomed it. It was considered by some to lay down the foundation of 'Democratic Socialism'. Prof. K. T. Shah, an outstanding economist, criticised the policy for its sins of commission and omission. The extreme rightists described the policy as "one-sided" and unduly prejudiced against the capitalists. Further, it was suggested that there was no assurance that the spirit of the Industrial Policy Resolution would be observed by the provinces specially when the industries formed a provincial subject.

Functioning of a mixed economy without friction is a difficult task. In fact, it is far more difficult to run mixed economy than to run a socialistic economy. The problems that confront a mixed economy are much intricate. The activities of the public and private sectors have to be very carefully co-ordinated. There may competition for the scare resources among both the sectors. The mixed economy has to function under a number of controls which are likely to result in fractions and bottle necks.

On the whole, the policy, barring a few cases, worked well. It is no way discouraged private investment in industries. This policy remained in operation for eight years but could make little impact on the industrial scene

of the country because the First Five year Plan was a modest one especially with regard to investment in the industrial sector.[4]

However, the main merit of the 1948 Industrial Policy lies in its sincere endeavour to prepare the ground for a mixed or controlled economy in which both private and state enterprises are assigned distinct spheres of action. This mixed economy idea forms the basis on which industrial programmes of our Five Year Plans have formulated. Between 1948 (the first Industrial Policy Resolution) and 1956 (the end of the First Plan) many import and developments took place in India. The constitution of India was enacted guaranteeing certain Fundamentals Rights and enunciating Directive Principles of State Policy. The Government accepted the socialist pattern of society, as the objective of social and economic policy. Besides, many departures, some of them mentioned above, in the spheres of nationalisation, took place during this period and the government, therefore, brought about a new policy governed by these principles, directions and experiences. In order to realise these objectives it was planned to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector and to build up a large and growing cooperative sector. The new industrial policy, therefore, aimed at making the state in a position to progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities and undertake state trading on an increasing scale. At the same time as an agency for planned national development, in

the context of the country's expanding economy, the private sector was to have the opportunity to develop and expand. The principle of co-operation was to be applied wherever possible and a steadily increasing proportion of the activities of the private sector was to develop along co-operative lines. Another important development at that time was the passing of the companies. Act in 1956, which provided another instrument to enable Government to regulate more effectively, the organisation and functioning of the private sector in social interest.[5]

The Industrial Policy Resolution of 1956 had been hailed as the "economic constitution" of India. It was the moving spirit toward industrialisation in the policy framework of the second, Third and Fourth Plans consequently, it was instrumental in expanding both the public and private sectors side by side.

However, its implementation and results left much to be desired. First, there was no mention of the role of foreign private investment in the Resolution with the result that multinational corporations continued to thrive on the liberal policy of the Government. Second, the government failed to implement the Resolution pertaining to the small scale sector. Many industrial were reserved for the small scale sector but large industries manufacturing the same products were allowed to operate side by side. Third, it failed to prevent concentration of monopoly and economic power, and reduce regional disparities. Fourth, there were frequent strikes and other labour problems which failed to bring industrial peace. Lastly, this policy led to the setting up

of high cost capital intensive and import substitution industries which resulted in under utilisation of capacity due to input and consumer demand constraints. The 1956 Resolution was criticised by the supporters of private sector. Dr. John Mathal pleaded for making free enterprise the normal practice and confining state enterprises to cases where there was proved necessity for it. Mr. C. H. Bhaba saw in it the beginning of state capitalism and the ultimate extinction of entrepreneurial activities in the country. According to him it was a result of unrealistic thinking of our leaders. Mr. Sngeno Black, the then President of the World Bank thought that the Government was exceeding its capacity. This policy, if rigidly applied, could only result in imposing heavy additional burdens on the already over-strained financial and administrative resources of the public sector and in restricting the rate of development in these important widening fields.(6)

But most of these observations were based on a misreading of the industrial policy. The policy did not aim at the cutting of the private sector. It, on the other hand, promised to create the conditions and infrastructure which would help in reducing the cost of production in the private sector industries. It also did not limit the scope of the private sector. The new industrial activities undertaken by the state have opened up vast new fields for the private sector. The increasing industrial investment by the private sector since 1956 proves that the initial fears were unfounded. The private sector has vast field to itself. It has to accept the challenge and should try to improve its efficiency, particularly now when the fear of nationalisation has

been removed. The future of private industries in India's socialistic state will depend upon its good behaviour during the years ahead.

The public reaction to the 1956 Resolution was diversified, but in most instances favourable. Various criticisms were levied against this Resolution which may be summarised as follows.

(a) The Resolution greatly reduced the scope for private industry. The business community was asked to welcome this industrial policy as its Magna Charta, which it would perhaps have done if the statement had not at same time asserted that the inherent right of the state to acquire any industrial undertaking would always remain.

(b) Flexibility was envisaged in the Resolution but it was intended primarily to operate in favour of the public sector because the State could enter into any industry or trade it chose. The private enterprise was expected to play only a supplementary role in industries listed in 'Schedule B' and even in the category of industries where the development would be undertaken ordinarily through the initiative and enterprise of the private sector, it would be open to the state to start any industry. Hence no field was safe from Government encroachment.

(c) The policy, if rigidly applied could only result in imposing heavy additional burdens on the already over-strained financial and administrative resources of the public sector and in restricting the rate of development in the vitally important fields.

(d) Industrial policy place greater emphasis on state enterprise. Though there were conditions in which state enterprise was required for developing industries in India, but the order of emphasis could be reverted and free enterprise be made the normal practice and state enterprise being confined to cases where there as proved necessity for it.

(e) The competence of the Government to establish and run industries efficiently was questioned by the advocates of the private sector. The reason for this was that, once the State took up an industrial venture, it became an impersonal affair.

(f) The industrial policy of the Government of India as embodied in its 1956 Resolution brought to the fore the unrealistic thinking of our leaders about the contribution of State capitalism in our plans of economic regeneration. The Resolution not only expanded the list of subjects reserved for state venture, but also enlarged the powers and role of the Government in the industrial sphere. This policy statement was a beginning which would ultimately lead to the extinction of entrepreneurial activities in the country.

(g) It was contended that the future co-operative movement would, for all practical purposes, be no different from collectivism, as the guiding state would be the Government and not the elected members of the societies. That very type of co-operative societies would function in the sphere of industries earmarked for the private sector. A beginning in this direction had already been made in sugar and cotton textile industries. ~~The ultimate been~~

~~made in sugar and cotton textile industries~~. The ultimate outcome of all this would be State capitalism, with all its evils.

(h) The secondly importance attached to the private sector was absolutely unwarranted, if its excellent performance in the past (Particularly in the First Five Year Plan), existing financial difficulties, unfavourable political climate, and its proved ability for the future, were any criteria. Thus the Government's approach to industrialisation was claimed to be influenced more by ideology and less by pragmatism.

Some of the above criticisms arose due to the lack of appreciation of the role of state in the planned economy. Under the planned economy the public sector has to develop more rapidly because there nothing can be left to chance. The extension of public sector does not by itself indicate that the Government proposes to take away almost all important sectors of the economy under its fold. Moreover, the private sector has been assigned an adequate share in the programmes of industrial development. It is true that public sector has assumed a huge responsibility for developing industrial undertakings but fairness has simultaneously been shown to the private sector in the allocation of industrial projects. The Resolution provides an opportunity to the private sector to show its mettle and to contribute its mite for the rejuvenation of national economy. The future of the private enterprise depends much upon its own behaviour. If it rises to the occasion, animated more by service than by profit motive, keeps its employees happy and contended and voluntarily enforces fair trade practices in its members, good future prospects

can be assured. Profit motive might have been helpful at a particular period in the industrial history of the country but times have since changed and new outlook approach, and technique pervade the present society. It is in the fitness of things that ideas of 'socialist pattern of society' and 'welfare state' are duly recognised in our political and economic set up. The concept of socialist pattern of society should remain as far from purblind individualism as from aggressive socialism.

The 1956 Industrial Policy Resolution charts a fresh sector, but put with checks and balances to prevent a detrimental concentration of economic power and wealth. The Resolution has been described by some observers as an economic consultation based upon its political counterpart -- the Constitution of India.(7) It is linked to the Constitution by re-stating the preamble of Justice, Liberty, Equality and Fraternity, and citing from its Directive Principle of State Policy. Thus private enterprise has been given a new opportunity to justify its existence in a socialist state. It is now up to the industrialists to prove by action that the Government's reappraisal of the worthlessness of private enterprise has not been misconceived. Private industry's future position in India's socialist state will depend upon initiative, efficiency, and good behaviour during the years ahead.

The new policy, though it extended the scope of the public sector did not contemplate the taking over of the existing units, listed even in schedule A. The division of industries did not imply that the industries were divided into water-tight compartments. Overlapping and also a great deal of dovetailing

would invariably remain between the industries and the private sectors.

The new industrial policy is also open to criticism. The Industries (Development and Regulation) Act. as amended in 1953 which empowered the Government to take over any concern with-out giving the concern an opportunity to explain, created grave uncertainty and misapprehension in the minds of the business community. It had been hanging like the Damocles's sword on the private sector. Nothing was done to remove those misapprehensions. The extension of the public sector and the statement that it would be open to the state to start any industry even in the category, left to the private sector, would fail to evoke a favourable response from the private sector.

Moreover, the ever-expanding role of the public sector requires a highly efficient administrative machine, which the State certainly does not possess. Hence, the administrative machine is likely to be loaded with tasks, more numerous and more delicate than it can handle.[8] The result will be that qualitative management will not be possible and there is bound to be inefficiency.

Mr. R. L. Powell in his presidential speech at the annual meeting of the Upper India Chamber of Commerce, Kanpur, criticised the Government of India's Industrial Policy in a humorous vein : In his view the phrase 'democratic planning' had ceased to be so in the true sense of the term; it had been twisted to mean a growing concentration of economic power in the

hands of the ruling few. In criticising the concentration of economic power in the hands of the State, Mr. Powell said, "The left hand may grow stronger if the right is paralysed, but two strong hands are better than one. If industry is weakened - indeed if it is not strengthened by a wise revision of current policies - not only will be success of the Second Five Year Plan be prejudiced, but also one of the strongest bulwarks of democratic thought will have been undermined. The present and the prospective financial problems are both a warning of past errors and an opportunity to pause and think again. Let us make good use of them at all levels, endeavour to reassess ends and means. If saving and investment are rewarded, if initiative and enterprise are encouraged, the economic development of India is assured."

But in spite of the criticisms, it must be admitted that if a socialist pattern of society is to be established - if economic and social Justice is to be ensured - then the Government must have to play the dominant role in the industrial development of the country.

The supporters of the Resolution maintain that these kind of criticism stem from the vested interests and also from and improper appreciation of the urgent need of the hour, where poverty is growing and the social advantage is at stake, the government should wield an apprehend, suggest the tune to be Played, as one who pays should suggest the tune. The present situation calls for the regulation and control of the private industrial establishment by the government to promote larger interests. The Resolution does not mean that the public sector would grow at the cost of the private sector or as a

rival to the latter, but on the contrary, the public sector would, in the planned economy, create and promote congenial conditions and climate which will facilitate the growth of private sector along with economic development. This is obvious from its effect as private sector since 1956. In short, the Resolution laid down a firm but broad-based as well as a flexible foundation for the future industrial transformation in the country.

The expansion of industry in the Third Plan is envisaged to be governed by the Industrial Policy Resolution of April 1956. As in the Second Plan, the roles of the public and private sectors have been conceived of as supplementary and complementary to one another. For example, in the case of nitrogenous fertilisers, where the public sector has already assumed a dominant role, it is proposed that during the Third Plan the private sector will enter this field in a bigger way than in the past and supplement the efforts of the public sector. Programmes for the manufacture of dyestuffs, plastic and drugs in the private sector will be largely complementary to the programme in the public sector.

Replying to a member of Lok Sabha, the Minister of Industry categorically declared that there was going to be no departure whatever from the Industrial Policy Resolution of 1956. He described the Government's industrial policy as a six-pillared one 'the haxagon of industrial policy,' (i) dominating role of the public sector; (ii) preventing growth of monopolies by keeping a constant watch that no single group or groups really enjoyed any sizeable segment of the national production; (iii) avoiding the industrial

bigness in well-developed industries; (iv) giving preference to new entrants; (v) developing intensively small scale, ancillary and medium scale industries; and (vi) channelising higher skills and experienced talents to more difficult enterprises.

In September 1964, the Finance Minister announced in Lok Sabha that industrial policy in the Fourth Plan will continue to be on the lines set out in the Industrial Policy Resolution of 1956. While Members of Opposition had from time to time criticised that Resolution from differing, and mutually inconsistent, view-points we had yet to recognise that it was within the ambit of that Resolution that the satisfactory progress in the field of industry as a whole had been achieved over the past years. The Industrial Policy of 1970 is not an entirely new policy but a more reiteration of the Industrial Policy Resolution of 1956. What has been done is to stress further the need for expanding the role of the public sector in the economy.

The new licensing policy of 1970 and the Industrial Policy Statement of 1973 will not mark any improvement in the working of the original policies. The Government has not made any improvement over the system already working. The Industrial Policy has not made any improvement in the direction of :

(i) there should be a satisfactory criterion in the form of production targets for granting industrial licence; (ii) the import substitution policy should work in co-ordination with the licensing policy; (iii) foreign collaboration and

domestic technology should be fully co-ordinated and the licensing policy should take their respective interests into consideration; (iv) regional balanced development and dispersal of industries along with checking the growth of concentration of economic power should be some of the few important objectives of the licensing policy, and above all, there should be a design prepared by the Planning Commission in respect of the future industrial pattern of the country. Our planning machinery remains the same, our licensing system is the same. There is no extra responsibility on any of them.

The 1973 Policy Resolution has kept the concept of joint sector as hazy as ever. Though it is intended to largely associate the middle and small firms in the joint sector, the participation of large industrial houses in the joint sector has not been entirely ruled out. They would be allowed to do so at the discretion of the Government. The main idea behind the joint sector is to use it as a promotional instrument. It appears that this promotional concept is the logical consequence of transitional socialism which has become the basic foundation of our type of mixed economy.

The Industrial Policy of February, 1973 should be viewed as a supplement to the Industrial Licensing Policy of 1970. Therefore it paid greater attention in defining the role of the private sector with particular reference to the larger industrial houses. But it virtually failed to identify the joint sector with a view to making use of private expertise and resources in line with the Government's socio-economic objectives.

The Industrial Policy Statement outlined above was intended to give a further fillip to the pace of industrialisation. Restrictions were placed on big houses to start new industries and the role of cooperative, small, medium and joint sectors was widened. Foreign collaboration in Indian Industry was more clearly defined. Though the 1973 Statement was in conformity with the MRTP Act of 1969, yet it failed to curb the entry of big houses into other industries, thereby enhancing monopoly. This was the outcome of the policy of liberalising industrial licensing, delicensing 21 industries, and permitting monopoly houses and foreign enterprises in 30 other industries to expand beyond the licensed capacity in Industrial Licensing Statements of 1974 and 1975. This Statement did not specify anything about the removal of regional disparities and the setting up of industries in backward areas by industrial houses.

In the light of the above discussion I shall focus my attention on the critical part of 1977 Industrial Policy. The 1977 Industrial Policy was framed with the idea that it would help in the creation of a just and equitable society in which the benefits of industrial development will be shared by all the people. The objective undoubtedly was laudable but was difficult to fulfil.

Another welcome feature of the policy is the expanding of role assigned to the public sector and the Government determination to run public sector enterprises on profitable basis in order to ensure that investment in these industries pays an adequate return to society.

The 1977 Industrial Policy emphasises dispersal of industries. A scheme of such gigantic proportions calls for the building up of heavy infrastructure facilities. This means massive social investment. The 1977 Industrial Policy is silent on this point. There is no indication how this social investment will be undertaken and whether the resources for this purpose will be forthcoming.

The 1977 Industrial Policy could not be implemented for long because the Janata rule lasted a short while. This, however, does not mean that this policy went to the drain and did not make any impact. District Industries Centres and tiny units have come to stay and so have been the dilution of foreign equality to 40 percent under the FERA and the policy toward sick units.

The 1977 Industrial Policy was somewhat harsh to the large units in the private sector when it stipulated that they would have to rely on internally generated resources for financing new projects or expanding existing projects. The financing of large-scale sector does not have to be at the cost of other sectors, but at the same time it would certainly hurt the economy of the large scale sector is not able to function effectively due to shortage of funds. Most of large industries are not doing well. To enable these units to increase profitability, the Government should not close the door of outside financial resources to the large units. It is heartening to note that the congress Government, under the leadership of Mrs. Indira Gandhi, which came in power in January, 1980, is specially looking into this problem and are sure to

assign a significant role to large-scale sector for the balanced industrial development of the country.

The new Industrial Policy Statement of 1980 is a very comprehensive document which tries to cover almost every aspect of the Indian economy relating to industry. It lays emphasis on the social objectives and outlines a set of pragmatic policy in their light for faster growth in the coming decade. It spells out a number of positive steps to encourage and improve the performance of the private sector such as automatic growth of capacity, regularisation of excess capacity, liberalisation of licensing and simplifying licensing procedures, provision of modern packages, import of advanced technology, and provision for R and D. It emphasises merger of sick units with healthy ones and does not favour their nationalisation. Keeping in view the dismal performance of the public sector, it is sought to be revamped through better management. Raising the investment limits in the case of tiny, small and ancillary units is a recognition of cost realities. Creation of a buffer stock of critical inputs for small industries is a step in the right direction. Recognising global energy crisis, the policy stresses the importance of energy utilisation, pollution control and ecological balance.

But critics are not lacking in describing the new industrial policy as negative and evading the critical issues[9]

First, the regulation of excess capacity favours the Indian monopoly houses and multinational corporations. In the majority of cases, the installed

excess capacity or actual production had been more than double the licensed capacity.

Second, the new industrial policy is contradictory. On the one hand, it raises the limit on the utilisation of industrial capacity of the private sector and of the other hand, it insists that monopoly houses would not be allowed grow.

Third, the redefinition of small-scale units is a recognition of cost realities but will in no way contribute to curbing benami ownership as claimed by the statement since it has been cased by other factors. However, the benami issue goes strictly beyond the scope of industrial policy. Its incorporation in the paper merely diffuses its focus.

Fourth, the issue of economic pricing of various goods produced in the public and private sectors has been neatly skirted by reference to the need of price stability. An element of differentiation by sub-sectors is required to work out an average level of relatively stable prices. This would require a clear appreciation of social priorities. This is singularly absent in the statement.

Fifth, the policy proposed the abolition of District Industries Centres without establishing and assigning the reasons of their failure. Instead it advocated the setting up of nucleus plants. Perhaps the Government realised the utility of the DICs and has wisely thought of not abolishing them. Rather, they have been strengthened and modified. But there is no trace of the nucleus plants so far.

Last but not the least the new policy is unrelated to the socio-economic objectives it professes to follow. The industrial investment and production have been moving from meeting the basic needs of the people. The economy has been faced with shortages in the essential and basic consumer goods needed by the masses. But there has been no dearth of goods consumed by the elite. In fact, the increase in their production has been more than proportionate to the increase in the overall industrial production. The criterion for industrial production should be the increased availability of goods for mass consumption. The new industrial policy ignores this vital aspect.

Earlier I have mentioned that the raising of investment ceiling on plants and machinery for small-scale industries, delicensing of new units upto an investment of Rs. 25 crores in fixed asserts in non-backward areas, liberalised norms for foreign collaboration and clearance of 40 percent of equity are among the salient features of the new industrial policy of 1990. For an official pronouncement, the new industrial policy statement in reasonably candid and clear. Yet, not everybody is equally happy. Some feel the policy changes shout have been extended to companies under the Foreign Exchange Regulation Act (FERA) and MRTP Act.

There is a view that import liberalisation may increase in outflow of foreign exchange. Industry Minister officials, however, disgrace. They contend that in any case half the projects being set up do not need to import equipment and components. Further, since the new scheme does not affect units

accounting for 70 percent of the value of imports of capital goods. It won't seriously affect the balance of payments. On the other hand, it may encourage investors to be more prudent in importing capital goods lest they exceed the ceilings, officials argue.

Though the policy changes are ostensibly aimed at helping the small sector, some small entrepreneurs fear the hike in the investment limits may encourage big business houses to through ancillary and front firms.

Mr. Viren J. Shah, the Assocham, president, however, regretted that the liberalising and deregulation policy has not covered MRTP and Fera companies, which have the financial, managerial and technological resources, and which are in a better position to generate surpluses, thereby triggering further growth.

The Bengal National Chamber of Commerce & Industry president, Mr. A. K. Chandra, said the government's approach to promote export by the SSI sector was not realistic. He criticised the stipulations for stepping up the investment limit in plant the machinery upto Rs. 75 lakh for SSI units, which would export at least 30 percent of their annual production by the Third Year.

Mr. Sanjib Goenka, President of Indian Chamber of Commerce criticised the policy as "nothing" has been done for MRTP and FERA companies deserved a better treatment, he added.

The New Industrial policy scrupulously silent on the damage done by the Textile Policy announced by the Rajiv Government in 1985 by replacing the traditional vertical productive sectors such as handlooms, powerloom and composite mills with the new horizontal sectors -- spinning, weaving and processing and placing organised and unorganised sectors in the same category of the mill sector. The relatively weak powerloom units unable to compete with the strong mill sector suffered in terms of unemployment .Since textiles is a major area of production of the small-sector, the government should have reversed this policy in a bid to boost the powerloom sector.

The 100 percent export oriented units (EOUs) and units to be set up in the export processing zones (EPZs) are also being delicensed under the scheme upto an investment of Rs. 75 crores. This again will open the import widow further in the name of export promotion.

The upshot of the entire criticism is that whereas the New Industrial Policy aims to promote the small-scale and agro-based industries, it must safeguard against the encroachments by the large sector, failing which promotion of the small sector will remain an empty slogan. The onslaught by Big Business and the multi-nationals in grabbing the market-share of the small sector in mass consumption goods is too serious. Unless the arm of the state defends the reservation of the small sector in an effective manner, the employment generation of the small sector will be seriously jeopardised by the rapacious activities of Big Business.

Despite such criticism, it cannot be denied that the Government is earnest about reducing bureaucratic controls on business. In recent times, it has liberalised licensing of steel units and eased locational norms for sugar mills. It is also planning to allow more private companies to set up power plants and let them actively participate in oil and gas distribution. In other words, the recent changes are an assertion of the Government's perception that the Indian economy needs to be further opened up.

The following are some of the Suggestions for better industrial policy Resolutions:

(i) All industries of basic and strategic importance, or, in the nature of public utility services should be in the public sector.

(ii) The state has to assume direct responsibilities for the future development of industries over a wide area.

(iii) Rapid industrialisation with particular emphasis on the development of basic and heavy industries.

(iv) Reduction of inequalities in income and wealth and a more even distribution of economic power.

(v) Emphasis should be given on small scale and cottage industries in the development of national economy.

(vi) Emphasis should be given on reducing the regional differences.

(vii) To expand the scope of private sector.

(viii) Emphasis should be given on technical efficiency.

(ix) To prevent emergence of private monopolies.

(x) Co-operative sectors should be encouraged.

(xi) Large-scale industries should also be given due importance and attention.

(xii) A large expansion of employment opportunities.

(xiii) Foreign capital and enterprise, particularly as regards industrial technique would be necessary for the rapid industrialisation of the country.

Or

More foreign capitals would be invited to participate in the Indian economy.

(xiv) There should be no concentration of wealth in the hands of a few.

(xv) Emphasis should be given on the maintenance of industrial peace as one of the prime requisites of industrial progress.

(xvi) Revival of economic infrastructure.

(xvii) Strengthening of the agricultural base by according a preferential treatment to agro-based industries and promoting optimum inter-sectoral relationship.

(xviii) Faster promotion of export-oriented and import substitution industries.

(xix) Promoting economic federalism.

(xx) Emphasis should be given on Research and Development.

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9. Jhingan, M. L. - op.cit., p. 605.

5.2 Industrial Policy and Socio-Political Development in India.

In August 1947, the national Government was engaged in the immediate problems arising out of the partition of the country. Industrial crisis was developing in the country owing to the unsatisfactory relations between the management and labour, the shortage of raw materials, the difficulty in obtaining the capital goods and the paucity of technical personnel. In December 1947, the Industries Conference was called which noted an all-round decline in the productive capacity. The investing public at that time had no clear-cut idea about the industrial policy of the new Government. The conflicting statements of various Ministers and leaders had created a confusion in the minds of investors and industrialists. Virtually, there was a stagnation in the investment market. The Industries Conference emphasised that Government should have a definite plan for the demarcation of the role of the private and the public enterprise. The main idea of holding this Conference was to chalk out a definite industrial policy and to put an end to the existing suspense and industrial unrest.

Just after Independence, the Government of India announced its industrial policy in April, 1948. The aim was to have a mixed economy where the public sector and the private sector were expected to operate side by side. As a matter of fact the term is not a happy one since every economy

is a mixed economy. In India, there was a large sector of industrial activity already under the control and management of the State, e. g. the entire railway system, the postal, telegraphic and communication services and many public utilities were being owned by Central or State Governments. Some of the State Governments were also running industrial enterprises prior to the announcement of this Industrial Policy.[1]

The Industrial Policy was received with mixed feelings. A large section of industrialists welcomed it. It was considered by some to lay down the foundation of 'Democratic Socialism'. The mixed economy idea forms the basis on which industrial programmes of our Five Year Plans have been formulated.

As we have already seen the First Plan accorded the highest priority to agriculture and irrigation. But that does not mean that industries were altogether neglected. For implementing the industrial Policy to regulate industry and to promote industrial development, a Bill was introduced in Parliament in March 1949 which was finally approved in October 1951 as the Industries (Development and Regulation) Act. The Act came into force on May 6, 1952. The principal object of this Act is to enable the Government to implement its policy for the planned development and regulation of industries. It is the chief instrument in the hands of the Government to guide development of industries in the private sector in the directions indicated in the five-year plans.

The Government of India set out in their Resolution dated 6th April 1948 the policy which they proposed to pursue in the industrial field. The Resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the state must play a progressively active role in the development of industries.

Eight years have passed since this declaration on industrial policy. These eight years have witnessed may important changes and development in India. The Constitution of India has been enacted guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy.(2) Planning has proceeded on a organized basis, and The First Five Year Plan has recently been completed.

Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the Second Five Year Plan will soon be placed before the country. This policy must be placed before the country. This policy must be governed by the principles laid down in the constitution, the objective of socialism, and the experience gained during these years.

The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens, -

"JUSTICE, social, economic and political; LIBERTY of thought, expression; belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all;

FRATERNITY assuring the dignity of the individual and the unity of the Nation."

In its Directive Principles of State Policy, it is stated that

"The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may, a social order in which justice, social, economic and political, shall in form all the institutions of the national life".

Further that ------

"The State shall, in particular, direct its policy towards securing -

(a) that the citizens, men and women equally, have the right to an adequate means of livelihood;

(b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

(c) that the operation of the economic system does not result in the

concentration of wealth and means of production to the common detriment;

(d) that there is equal pay for equal work for both men and women;

(e) that the health and strength of workers, men and women, and the tender age of children ate not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age of strength;

(f) that childhood and youth are protected against exploitation and against moral and material abandonment."[3]

These basic and general principles were given a more precise direction when parliament accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy as other policies must, therefore, be governed by these principles and direction.

In order to realise this objective it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy Industries and machine making Industries, to expand the public sector, and to build up a large and growing cooperative sector. These provide the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. Equally, it is urgent, to reduce disparities in income and wealth which exist today, to prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly, the state will progressively assume a predominant and direct

responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake state trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy the private sector will have the opportunity to develop and expand. The principle of cooperation should be applied wherever possible and a steadily increasing portion of the activities of the private sector developed along cooperative lines.

The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wider area.

Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the state and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Govt. of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the state to give fair and non-discriminatory treatment to both of them.

The state will endeavour to reduce the disparities in industrial development in the different regions of the country and for this purpose provide power, water and transport facilities to the industrially backward regions. Industrial facilities will be extended gradually to those regions where there large-scale unemployment. This aspect of the 1956 Industrial Policy Resolution is a direct concomitant of balanced industrial development envisaged is our Five Year Plans.

The Industrial Policy of 1956 is an important constituent of the general developmental planning programme adopted by the Indian planners and as such it can only be fully appreciated in relation to the process of economic development initiated in India by the Five Year Plans. The Industrial Policy Resolution of 1956, therefore, naturally contemplates a mixed or controlled economy in which public and private enterprises work and in hand so as to make the development plan a success. The redeeming feature of the 1956 policy is that it brings about an excellent synchronization between government's industrial policy and the industrial programmes included in the plan. It should be noted that the Industrial Policy of 1956 is governed on the one hand by the objective of the Socialistic Pattern of Society, which aims at full employment and greater production, and on the other, by the Directive Principles of our Constitution which aim at social, economic and political justice.

The Fourth Plan document discussed the new approach to industrial planning. The industrial policy for the Fourth Plan has been conceived as

usual with the objectives of correcting imbalances in the industrial structure, and bringing about the maximum utilization of capacity already built up. It was proposed in the Fourth Plan document that the industrial policy would be directed towards canalisation of capital and personnel resources so as to achieve widespread industrialization and encouraged emergence of new entrepreneurship and greater dispersal in the ownership and control of industrial development continued to be guided by the broad principles enunciated under the Industrial Policy was to provide for a flexible approach in the development of industries with the public, private and co-operative sector.

During the early 1970's the government had expanded the public sector by nationalising several industries. This nationalisation programme unnerved the private sector which resulted in scarcities of all kinds of manufactured goods which led to speculative activities and black marketing. In order to steer clear of this critical problem the government resorted to a new industrial policy in February 1973.

The following is the text of the press note on Government's decisions on industrial policy :

The Government has carefully reviewed its policies relating to industrial development in the light of the experience gained in the implementation of the Industrial Licensing Policy of 18th February 1970, and in the context of the Approach to the Fifth Five Year Plan. The Industrial

Policy Resolution of 1956 has laid down the basic principles that govern the Government's approach towards industrial development.

These principles have been derived from the Directive Principles of State Policy contained in the Constitution and from the adoption by parliament in December 1954 of the socialist pattern of society as the objective of social and economic policy.[4]

The Industrial Policy Resolution of 1956 will continue to govern the Governments objectives of growth, social justice and self-reliance in the industrial sphere.

As pointed out in the Industrial Policy Resolution the adoption of The Socialist pattern of society as the national objective, as well as the need for planned and rapid development, requires that the nature of public utility services, should be in the public sector.

In the context of the Approach to the Fifth Five Year Plan, the state will have to take direct responsibility for the future development of industries over a wide field, in order to promote the cardinal objectives of growth, social justice, self reliance, and satisfaction of basic, minimum needs. The Governments policy regarding the joint sector is derived from the Industrial Policy Resolution, 1956, and the objective of reducing the concentration of economic power. The role of the joint sector enterprise was to be judged and decided on its merits in the light of Government's social and economic objectives. The joint sector was also to pay a promotional role in guiding

new and medium enterprises in establishing priority industries. In appropriate cases, the Central and State Governments have taken equity participation on either directly or through their corporations with private parties. Some joint sector units have come up in this way.

The Industrial Policy of 1973 is not an entirely new policy but a mere reiterations of the Industrial Policy Resolution of 1956. Foreign collaboration in Indian industry was more clearly defined. Though the 1973 statement was in conformity with the MRTP Act of 1969, yet it failed to curb the entry of big houses into other industries, thereby enhancing monopoly power. This was the outcome of the policy of liberalising industrial licensing delicensing 21 industries, and permitting monopoly houses and foreign enterprises in 30 other industries to expand beyond the licensed capacity in Industrial Licensing Statements of 1974 and 1975. This statement did not specify anything about the removal of regional disparities and the setting up of industries in backward areas by industrial houses.

The 1973 Policy Resolution has kept the concept of joint sector as hazy as ever. Though it is intended to largely associate the middle and small firms in the joint sector, the participation of large industrial houses in the joint sector has not been entirely ruled out. They would be allowed to do so at the discretion of the government. The main idea behind the joint sector is to use it as a "promotional instrument'. It appears that this Promotional concept is the logical consequence of 'transitional socialism' which has become the basic foundation of our type of mixed economy.

The Industrial Policy of February, 1973 should be viewed as a supplement to the Industrial Licensing Policy of 1970. Therefore, it paid greater attention in defining the role of the private sector with particular reference to the larger industrial houses. But it virtually failed to identify the joint sector with a view to making use of private expertise and resources in line with the Governments socio-economic objectives.

The Government Policy in the sphere of industry since the middle of 1956 has been government by the Industrial Policy Resolution of 1956. But the results in the industrial field have fallen far short of the declared objectives. The incidence of industrial sickness has been widespread and some of the major industries have been worst affected. The Industrial Policy, announced in December 1977, was, therefore, primarily directed towards removing these distortions of the past so that the goal of faster economic development could be achieved within a time-bound programme.

The stimulation of cottage and small-scale industries in rural areas and towns will be the main thrust of the 1977 Industrial Policy. The industrial policy of 1977 has laid stress on the development of small and cottage industries. The Khadi and Village Industries Commission will henceforth work out detailed plans for development of these village industries by adopting modern management techniques.

The role of large-scale industry will be essentially related to the programme for meeting the basic minimum needs of the population through

wider dispersal of small-scale and village industries and strengthening of the agricultural sector. The Government will also endeavour to operate public sector enterprises on profitable and efficient lines in offer to ensure that investment in these industries pays an adequate return to society.

Industrial development is a complex process requiring the effective interaction and cooperation of all sections of society. If the objectives of the new Industrial Policy of accelerating the pace of industrial growth, rapid increase in levels of employment, productivity and income of industrial workers and a wide dispersal of small and village industries have to be achieved, the willing cooperation of industrial workers, trade unions, managers, entrepreneurs, financial institution and various governmental authorities responsible for implementing schemes of assistance will be essential.

1977 has been a year of historical changes and people's expectations in the political and economic field are high. It is hoped that the new direction that is being given to the industrial policy of the country will help creation of a just and equitable society in which the benefits of industrial development will be shared by all the people. With the coming of Indira Government at the Centre in January, 1980, a new Industrial Policy Statement was made in July, 1980. The 1956 Resolution forms the basis of this statement.

Industrialization in a developing country has two aspects, viz. optimum utilization of installed capacity and expansion of industries. The

industrial progress of India during the past three decades can be attributed to the policies pursued by the congress government. While the country had reached a take off stage towards mid-1970s both the growth channels-optimum utilization of installed capacity and expansion of industries were choked off by the 33 month-rule of Janata Party and its successor government. The runaway of the economy has been damaged by the last two governments and the entire process of development was put in reverse gear. Industrial policy during the Sixth Plan aims at optimum utilization of existing capacities quantitative increase in output of consumer, intermediate, capital goods and improvement of productivity. It aims at an annual growth rate of 8 per cent of industrial production during the five year period. The average annual growth rate achieved during the first three years of Sixth Plan is 4 per cent in 1980-81 8.6 per cent in 1981-82 and 3.9 per cent (provisional) in 1982-83. The average growth rate during the first three years of the plan is thus 5 per cent per annum.

A review of performance for the first three years of the Sixth Plan reveals that while targets are likely to be achieved in some important industries, e. g., petroleum, paper and paper board, commercial vehicles, scooters, motor cycles and mopeds, matching tools, etc., shortfalls are likely in a number of other important industries, such as steel, non-ferrous metals, textiles, fertilizers, locomotives, railway coachings, electric cables and transformers. The expected shortfalls in physical production of a number of industries in 1984-85 are primarily due to delays in the execution of projects,

shortages of power in a number of states and demand constraints. The number of on-going schemes in this sector is large, and many of these will spillover to the Seventh Plan.[5]

The Industry Minister, Ajit Singh announced the New Industrial Policy on May 31, 1990 and made a case for the growth of the small-scale industries just on the lines of the steps taken by the Janata party Government of 1977. The new industrial policy is a curious amalgam of the philosophy of the Janata Dal and the philosophy of indiscriminate liberalisation followed by Rajib Gandhi;

The Industrial Policy raises the investment limit of the small-scale industries (fixed in 1985) from 35 lakh to Rs. 60 lakh and correspondingly for ancillary units from Rs. 45 lakhs to 75 lakhs. Although the price level during this period had raise by 43 per cent, but the investment limit in the case of the small-scale units has been by 71 per cent and that of ancillary units by 67 per cent.[6] This implies that the government has more than compensated for the inflationary rise that has taken place for the value of plant and machinery.

The initiatives proposed in the New Industrial Policy to modernise the small sector by setting up a number of locomotory centres, tool rooms, process and product development centres, testing centres etc. are welcome. This is bound to increase the competitive strength of the small units by improving their quality of output and reducing their costs. Similarly, efforts

to eliminate bureaucratic interference so that the small-scale entrepreneurs are not harassed is another welcome feature of the new policy. The Pepsi-Cola project sanctioned in Punjab by the Rajiv Gandhi Government is a very highly capital intensive project which had a very poor employment generation potential.

The New Industrial Policy is scrupulously announced by the Rajib Gandhi Government in 1985 by replacing the traditional vertical productive sectors such as handlooms, powerloom, and composite mills with the new horizontal sectors - spinning, weaving and processing and placing organized and unorganized sectors in the same category of the mill sector. The relatively weak powerloom units unable to compete with the strong mill sector suffered in terms of unemployment. Since textiles is a major area of production of the small-sector, the government should have reversed this policy in a bid to boost the powerloom sector. The Rajiv Gandhi Government, by withdrawing the differential advantage to the powerloom sector, hastened the process of closure of powerlooms and thus the mill sector was able to swallow the powerloom sector. The reversal of this policy was in consonance with the new philosophy.

The economic reform measures which were introduced in 1991-92 and the subsequent period, by deregulating the dismantling the licensing of domestic investment, reforming the financial sector and the tax system and reducing the prohibitive rates of tariffs and taxes, radically changed the economic set-up of the country, and placed it in a position to fully utilise the

opportunities created and potential established for a rapid growth of output, investment and employment, based on increased efficiency of resource allocation. These measures were much more comprehensive than the earlier liberalisation measures and policy changes introduced in the 1980s and would therefore be expected to accelerate the growth process and expand the scope of structural changes which had already been initiated in the Sixth and Seventh Plan periods. However, as has been noted above, the earlier policy changes were becoming increasingly unviable because of the mounting fiscal and current account deficits and rising domestic and external debted burdens, and the more recent economic reforms were expected to ensure the sustainability of these policy changes by correcting the fiscal and external payments imbalances. The following sections would analyse the significant and often very impressive performance of the economy in all the sectors in terms of growth of output and efficiency, clearly demonstrating the positive outcome of the policy changes in the post-reform period. But the record on budgetary deficits and current account imbalances as well as the debt burdens in recent years show that we have still not been able to solve all the problems.

The objectives of our national economic policies have remained unchanged - economic development with social justice and equity, reducing disparity among income classes and among regions and states, as well as eradication of poverty. It must be noted that as soon as we give ourselves these multiple objectives, we implicitly assume a role of the government, as markets along cannot achieve them, unless we have an indefinite time horizon.

The earlier thinking was; if we maximise economic growth, it will take care of the problems of equity and poverty eradication through a "trickle down" process. To maximise growth, we tried to rapidly increase investment and savings by reducing consumption and preventing frittering away of resources through production of non-essential goods and investment in priority sectors. The result was the licence-permit raj, industrial licensing, import controls and interventions in the markets. The resulting distortions created inefficiency Investments increased but productivity fell, which slowed down growth.

The economic reforms are expected to remove these distortions and restore economic growth. But even then the problems of inequity and poverty removal will not be solved. The theory that economic growth will trickle down to increase the income of the poor to remove their poverty, is unrealistic unless we wait for many many years or the growth rate is very high. Even if we double the per capita income in 10 years there would still be a large number of poor people in India.(7)

The response of the economy in terms of growth performance since the initiation of the reforms in 1991 appears somewhat less than expected when compared to the past trends or to the trajectories embodied in the Eighth Plan targets. The average rate of growth of the GDP during the period 1980-1991 was 5.63 per cent per annum. The growth rate came down to 0.9 per cent in 1991-92, and rose to 4.3 per cent in 1992-93.

We have thus seen that the NIPS is not all that radical from earlier

policy statements. The policy on delicensing, while a good step towards easing the legal barriers to entry may not in fact attract significant fresh entry in such large numbers that would lead to a fall in concentration ratios. This is because the erection of a capital barrier to entry have retained the height of the barriers to entry. While the MRTP undertakings stand abolished, the NIPS have quite silent as to how the market conduct of enterprises is going to be regulated. Though the earlier MRTP Act has been relatively successful as a watch dog body regulating the conduct of firms it had very little power or control to enforce its ceiling. There is already a Consumer Protecting Act, 1986 which was enacted recently Instead of duplicating different institutional mechanisms in regulating the behaviour, the government needs to strengthen either the monopolistic restrictive and unfair trade practices of the MRTP Act or enlarge the scope of the Consumer protection Act. One strong and all encompassing mechanism is preferable to a number of incomplete legislations. [8]

The NIPS was also not spelt out in what way the government would endeavour to reduce levels of concentration in very highly concentrated industries. It has also refrained from clearly articulating on barriers to exit, excepting for some vague statements about a social security net to take care of retrenched labour. However, there is a very welcome aspect of the policy statement in that it has not delicensed a host of luxury consumer durables like TVs, white goods (refrigerators, washing machines, etc.) where the profit rates are traditionally found to be very high. Otherwise investment may have

flowed into such sectors at the cost of items of necessity leading to a very lopsided production structure. But this danger appears to have been avoided due to be requirement of compulsory licensing for such industries.

As far as FDI (Foreign Direct Investment) is concerned we have argued that given the changes in the external environment, we may not attract much FDI. But relaxation of the controls on the price of purchasing technology through licensing agreements may in fact lead to an indiscriminate import of technology thus adversely affecting any future attempts towards technological self-reliance.[9] But that may have to be the price to be paid for obtaining modern technology in a large number of sectors.

The policy on privatisation has two components : deregulation and partial denationalisation. While the NIPS has been quite clear on the former aspect, it has been quite vague on the latter. Deregulation which is a good policy of subjecting hitherto monopolistic enterprise to an element of competition, is considered to be a better way of increasing efficiency than denationalisation. The partial denationalisation has been designed more to raise resources than to improve performance.

In conclusion, it should be added that the NIPS should be seen along with the union budget for 1991-92 and the statement on trade policy, to integrate the economy more with the international economy, to make Indian industries very competitive, both internally as well as externally. However, one is not sure whether the NIPS has really gone in that direction.

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