CHAPTER - II

INDUSTRIAL SET-UP & STRUCTURE IN INDIA

i) Pre-Independence
ii) Post-Independence
CHAPTER II
I - PRE-INDEPENDENCE

Indian Economy during the British rule, exhibited most of the fundamental characteristics of an underdeveloped economy in a distinct manner. The Indian industries were in the stage of infancy and the rate of their growth and expansion was very low and slow during the British period. Even before the British rule the picture was not very much shining and prosperous from industrialization point of view. India basically has been and is an agricultural country, yet it had certain well established industries before the British rule. It is also a historical fact that, prior to the 19th century, India had been a great manufacturing country as quoted by the industrial commission 1916, "At a time when the west of Europe, the birth place of the modern industrial system was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for high artistic skill of her craftsmen. Even at a much later period when the merchant adventures from the west made their first appearance in India, the industrial development of his country was, at any rate not inferior to that of the most advanced European nations." Whether it was the northern India or the southern both of them were known for industrial production such

as spinning and weaving. A variety of industrial products were manufactured in India - some of them were well-known such as leather and leather products, iron goods, perfumery products, brick laying and lime manufacture and jewellery products, etc. At that time basically three kinds of industries existed in India such as,

1) the rural cottage and village industry catering the demand for goods in the use of daily life of rural people;

2) the urban domestic industry supplying the goods to the town folk, and

3) the small urban factory producing sophisticated products especially for the use of upper class of the society.

The difference between rural and urban industries was found to be in the nature of markets, organization and specialization. Urban industries mainly catered to the needs of the Emperor and members of the imperial court. A certain proportion of luxury goods was exported. It was customary for the Royal court to organize its own place - workshops, called 'Karkhanas' so that an absolute control over supply could be maintained.

Apart from these state factories, there were skilled artisans working on their own material and selling their wares in the outside market. A different type of industries were located in the towns and cities known for religious sanctity like Banaras, Allahabad, Puri and Tanjore. They have patronized the specialized wares produced in these cities. Some other important products like silk, embroidery and printing, woollen carpet, metal ware and stone were among the principal industries in these places. But in the 19th century urban handicraft products from the west poured into India in increasing amount as a result urban handicraft went through a continuous change in their organization. The markets now became wider, specially after the coming of metalled roads and railways. The competition from factory produced goods enforced a reduction in costs, so gradually machinery was introduced. All these factors were of factory industry and the trend, definitely was towards the market economy.

The new system of transportation made it possible for the village to get things from outside. This broke down the self-sufficiency and isolation of the villages; cheap factory product from the west poured into the villages with the help

7. Ibid., pp.100-23.
of this transport and later factories were started in Indian cities. Village industries could not compete with these, because it suffered from certain defects (like primitive tools and methods, lack of specialization, etc), which contribute to its decay. This change in the handicraft occurred in the second half of the 19th century. But there was no revolutionary change in the industrial structure of the villages. Some changes did take place. There were more payments in cash. The income of the artisans fell and they were ready to migrate to cities and towns. They came to use mill-made materials like mill yarn, synthetic dyes, sheet-metal, etc. Tailors took to sewing machines. All these indicated a trend towards market economy, in which emphasis was on production for market, change of goods and service for money, fixation of price in terms of money, existence of profit motive, and specialization and division of labour. The desire to preserve and revive handicraft industries never conceived by the early national leaders. They stressed on introduction and promotion of modern industry with the help of modern machines as the primary goals of their economic policies, and the panacea for all economic ills in the country. Perhaps they were impressed by large scale industrial development programmes that took place in England as a result of

10. Ibid., pp.10-15
industrial revolution. There battle cry was that "We must become capitalist and enterprises - a nation of traders, machine makers and shop-keepers." Since the root cause of India's economic difficulties was her feudal character leading to poverty under production, unemployment and under-employment, the real remedy which could check further impoverishment and decay, increase national wealth and induce prosperity among the millions, lay in the development of modern industries and manufacturers.

In this way, by the end of 19th century, the demand of rapid industrialization of the country along modern lines had assumed national proportions. But in the growth of capitalist enterprise, Indian capitalist were not allowed to contribute significantly, for it would have been detrimental to British interests. The development of capitalist enterprise in India took two forms.

1) Firstly, the plantation industries of indigo, tea and coffee were the first to be introduced in India. It was from the very beginning owned, managed and controlled by the ex-employees of the East India Company. Europeans became interested in indigo, tea and coffee plantation since they provided easy and high return investment.

ii) Secondly, the factory industry which attracted they attention Indian capitalist enterprise and whose promotion became their main concern. The development of the system of transportation and communication furthered this cause.

Hence, the first cotton textile mill which was established in 1854, in Bombay city, was the venture of a local Parsi cotton merchant. The vast majority of the early cotton mills were the handi-work of Parsi merchants engaged in yarn cloth trade at home and in Chinese and African market. There were signs of a new entrepreneurial class emerging in Bengal from the class of Zamindar created by permanent settlement in Bengal. In fact, the growth of Indian capitalist enterprise came mainly from three communities the Parsi, Gujaratis and Marwaris. These operated in Bombay, Ahmadabad and Calcutta respectively. The earlier entrepreneurs appears to have been mainly Parsis. The indigenous capitalist enterprise, which mainly centered in the Bombay Presidency during mid of 19th century, led the way even in such activities like indigo and tea plantations, and jute manufacture which neither to use to be the monopoly of British capital and Enterprise. In 1911, Jamshedjee Tata, a Parsi entrepreneur started first steel plant at Jamshedpur (Bihar)on modern lines.

14. Ibid., pp.20-25
Thus we come to conclusion that Indian capitalist Enterprise, no doubt, made an emergence, but was not playing an important role till world war I. It mainly confined its activity to cotton textile industry.

 Causes of the Decay of Indian Capitalist Enterprise:

Many are the causes which have contributed to the decay of Indian capitalist enterprise. The most important of them may be enumerated as follows:

1) During the early period of development, Indian industries did not receive any help from the government which adopted the policy of "Laissez fair". Such a policy retarded the growth of Indian capitalist enterprises which could not compete with British manufactured goods.

ii) Indian capital was "shy" as regards industrial concerns. Industries during the earlier years did not attract sufficient capital owing to the fact that rich men of India preferred investment in land. Such an attitude affected growth of Indian capitalist Enterprise.
iii) There was absence of qualified managerial and technical personnel. Further, certain economic institutions necessary for mobilization and investment of resources were lacking. Thus lack of efficient organization was a contributory factor to slow growth and emergence of Indian capitalist Enterprise.

iv) Last, but not the least, some of the industries like sugar etc. could not attract Indian capitalist Enterprise due to high cost of Indian sugar which was mainly due to inferior quality and low yield of sugar-cane. The shortage of the fine-cloth was partly due to the short supply of long-staple cotton which was imported. Owing to high cost of railway transportation industrial concerns in outlying regions found it impossible to secure power supply (mainly coal) at economical prices. These factors affected adversely the early industrialization in India.

World war I provided great impetus to Indian capitalist enterprise. It led to the development of some of the important industries where Indian capitalist enterprise was already playing an important role. Further the policy of protection granted to Indian industries led to the development of it. The progress registered by Indian Industries between 1922 and 1939 shows that
during these 17 years production of steel ingots increased by 800 percent, the production of cotton piece goods by 250 percent, the output of match industry increased by 30 percent and so on. The second world war further gave a big fillip to the development of industries in India. A few new industrial enterprises were set up wherever opportunities were available for the purpose, for instance, ferro-alloys, non-ferrous metal and metal fabricating industries like diesel engines, pumps and machine tools etc., and chemicals like caustic soda etc., were the new in Indian scene. On the eve of planning in India two important defects in industrial development programmes during British period were noted namely, the lack of capital goods industries and concentration of industrial activity at few places. The Fiscal commission, which was appointed in 1921, recommended the adoption of what is known as the policy of discriminating protection for the Indian industries. The underlying principle of this policy was that the protection against foreign competition was to be given to certain carefully selected Indian industries. The Tariff Board appointed in 1923 also recommended protection to certain industries. The object of adopting a policy of protection was to make the foreign goods comparatively dearer either by means of a levy.

17. Ibid., pp.25-30
18. Ibid., p.13
on imports of foreign articles or by subsidizing home indus-
tries. It was hoped that such a policy, by improving competi-
tive strength of Indian industries, will help to promote their development. In 1939, the following eight industries were under the protected list - iron and steel, cotton textiles, sugar, paper, magnesium chloride, sericulture, gold and silver threat, artificial silk and cotton fabrics. Such a policy, apart from promoting growth of Indian capitalist enterprise, resulted phenomenal growth in these industries.

The Indian Capitalist Enterprise and Major Manufacturing Indian Industries:

1. The Cotton Textile Mill Industry

The first cotton mill was started in Bombay in 1854 by a Parsi industrialist. Indian capital and enterprise, from the very beginning played an important role in the growth of this industry. Between 1877-1880, a large number of cotton mills were established in Bombay, Ahmedabad, Sholapur and surrounding cotton areas. The Indian mills in those days produced mainly coarse cloth. The progress of the industry was very slow in the beginning, but in between 1877-1895, the rate of growth of this industry was steady and continuous. The

20. Ibid., p.345
next decade after 1895 was a period of depression for the industry. In 1905, the Swadeshi movement imparted a great stimulus to the local consumption of mill products and provided encouragement to the development of the industry. By 1914 the industry had considerably expanded and new mills had been started not only in Bombay but also in Bengal, U.P. and other states. The war of 1914-18 caused a boom in the industry. The mills worked to full capacity to make large governmental orders for military requirements of cotton goods and made huge profits. The boom in the industry lasted for a period of six years after which again industry had to face problem due to foreign competition especially emergence of Japanese competition and increases in cost of production which was due to increased prices of cotton, inferior quality of local raw cotton, lack of skilled workers, defective machinery and inefficient management. From 1920-39, the industry passed through a period of severe depression and was saved from extinction by protective duties imposed under the policy of discriminating protection.

The advent of the world war second in 1939 resulted in the reappearance of boom conditions in the cotton textile industry,

i) increased war orders,

ii) total stoppage of foreign imports, and
iii) increased demand from the middle and far-east countries.

But after the world war second the industry had a tough time due to defective government control on production, prices and distribution as well as shortage of suitable types of cotton, and the uneconomically high prices that had to be paid for whatever cotton was available. The chief difficulties of the industry at the time of planning in India were:

i) problems of supply of good quality raw materials,

ii) lack of modern methods of production;

iii) high cost of production; and

iv) lack of skilled workers.

2. The Iron and Steel Industry:

Iron and steel industry forms the base of industrial structure of any country. A large number of industries manufacturing capital goods depend on iron and steel industry for their basic requirements of steel. The real beginning in the history of Indian Iron and Steel industry was made by Tata Iron & Steel company at Jamshedpur in Bihar in 1907 and the production of

iron on modern lines started in 1911. The steel production began a little late. Later on two other important manufacturers came on the scene – the Indian Iron and Steel company in 1918 and the Mysore state Iron Works in 1923. Severe foreign competition forced the industry to seek protection. The protection granted to the industry lasted till 1947. The policy of granting protection helped the industry a lot. After 1947, the Industry has made already progress under planning. The important features of Indian Iron and steel industry are as follows:

1) It made a modest beginning and was the result of Indian Entrepreneurs;

ii) The industry started on modern lines, hence could face the foreign competition because of its sound position;

iii) It made a good development under the policy of discriminating protection.

Some of the main problems which the industry is facing are as follows:

1) Under-utilization of its installed capacity;

ii) Relative old methods of production;

iii) Labour problems; and

iv) Statutory control over prices and distribution of steel.
3. **The Jute Textile Mill Industry:**

The first Indian Jute Mill was started in 1855, initial progress of the industry was slow, but from 1877 there was a rapid expansion. Unlike the cotton and iron and steel industry, the jute mill industry owes its existence in India to foreign - mainly Scottish and British capital. The first and second world wars provided prosperous conditions for the industry, though in between, the industry was affected adversely by the great depression of thirties.

The distinguished features of the Indian jute industry may be stated as follows: 24

i) Jute manufactures being practically a monopoly of India, the jute industry was in a very favourable position in international trade. But after partition of the country, this position has declined over a number of years.

ii) Jute exports provide the major portion of India’s supply of foreign exchange.

iii) The industry is located in and around the city of Calcutta.

24. Ibid., pp.360-65.
Similarly, a number of other industries, like cement, paper, leather and glass ware started with the help of Indian capitalist enterprise. The world war I and II along with the policy of protection granted to some of the industries helped in their development.

**Industry and British Rule:**

There was decline of rural and village handicrafts industries during British rule in India. This decline was caused partly by the competition from British manufactured goods. Before the modern industrial system, Indian manufacturers had a world-wide market. Indian Muslims and calico were in great demand all over the world. The impact of British connection and industrial revolution led to decay of Indian handicrafts industries. Factory system and the pattern of industrialization introduced during the British rule in India served only British interest. It did not result in the industrial development of India. Only few industries like cotton, jute, iron and steel etc., developed, but a systematic approach to industrialization was lacking, as it would have been detrimental to British interest.  

As a result, following consequences on industrial development in India during British period.

I) Lop-sided pattern of industrial development effect was reflected in pattern of industrial employment and concentration of industries in few cities and towns, and was caused mainly by colonial character of our economy. Further the lop-sided was reflected in the composition of industrial output which showed dominance of consumer goods over producers and capital goods. Textile and plantation industries were over emphasized and heavy industries were almost neglected.

II) British capital which was playing a leading role in the industrial development programmes of India. In industries like jute, processing raw materials, tea and coffee, and coal mining. British capital played an important role. The leading role played by British capital not only caused 'economic drain' from the country, but also affected growth of Indian capitalist enterprise. It was only after fiscal protection, that some of the industries progressed with the help of indigenous capital.

III) Lack of development of certain basic and infrastructure industries like iron and steel industry, heavy chemicals and the like were not developed during British rule in India. Since Britishers mainly wanted India to remain a raw supplier country, they never took interest in developing basic industrial activities in the country. They knew that development of such industries would create a solid capital base for the Indian economy which would facilitate the process of industrialization and would accelerate the tempo of economic development. Thus there was lack of basic goods industries during British rule in India.

IV) Decline of village handicrafts and slow growth of modern industries of the economy as it increased pressure of population on land. Since artisans could not get absorbed in other non-agricultural activities they had to be dependent on land for their livelihood.

In this way it may be said that indifferent attitude of British Government led to lopsided development of industries in India. The British government sacrificed all its interest of developing industries in India, as it would have been detrimental to industrial development in England. There was thus, lack of
development of basic and strategic industries. The country was mainly dependent on imports of commodities meant even for daily use e.g., razor blades, sewing machines, needles, matches, and the like others.
II - POST-INDEPENDENCE

India had the largest industrial potentialities of all the colonial and dependent countries at the time of independence. In absolute terms of the number of industrial enterprises, the number of workers, the gross industrial output, the volume of the value added by manufacturing and the degree of industrial diversification - India was far ahead of the other countries which are now enlisted in the group of developing economies of the world. It marked with the extreme industrial backwardness of such countries in question rather than of some advanced state of India's industrialization at that juncture. 27

A characteristic feature of the economic structure of colonial India was in fact the predominance of a traditional agriculture accompanied with an insufficient and a little modern industries depending upon the foreign markets for reproduction of fixed as well as working capital. Hence, the development was not possible in the country without the improvement in agriculture which could proceed beyond the point where the surplus working-force on the land was progressively diverted to industries and services on the one hand and an adequate supply of foodstuff could be ensured to the population bringing the technical, mechanical and institutional changes therein on the other. 28

efforts were necessary to obtain raw materials from agriculture required for the industries which could expand and develop rapidly. The productivity of labour in industry was much higher than in agriculture that could also need for rapid industrial development. Besides, in such country there was always possibility of the creation of greater surpluses in the industrial sector than what were possible in agriculture sector for the further expansion and development of industries in the country.

With this contention of industrialization was adopted on the pattern so that a relative emphasis was laid upon the capital goods industries, consumer goods industries were not totally neglected so that the domestic demand for such goods might be met. For this purpose the degree of capital intensiveness in different lines of industrial production was well maintained vis-a-vis the development of infrastructure.

A brief review of industrial backwardness in India may be judged from the fact that in 1948-49 factory establishments accounted for only 6.6 percent of total national income and total labour-force engaged about 2.4 million or 1.8 percent of the working population in the country. While in the aggregate India's industrial output was not insignificantly low available per-head even though it was different from the composition of

of the industrial output in the developed countries. The first census of Manufacturing Industries was undertaken in 1946, the industrial structure revealed the dominance of the following industries such as sugar, vegetable oils, cotton textiles, jute textiles, iron and steel smelting rolling and rerolling and general engineering industries. Just after independence, Jawahar Lal Nehru who became the first Prime Minister of India, put great emphasis upon the development of heavy industries that was synonymous to industrialization. Nehru's strategy of development made possible for India to emerge as one of the industrialized nation in the world. Nehru's economic policy helped make remarkable achievement in agricultural productivity per hectare on account of application of seed, fertilizer, technology, building of reserves of food-grains, a high degree of industrialization especially in the capital goods sector through a leading role played by the public sector. This has resulted in the diversification and expansion of India's industrial capacity and capability. India ultimately became self-sufficient in consumer goods and in basic commodities like steel and cement, while the capacity of new industries like fertilizers is rapidly expanding India desired to have the balanced growth of the economy with the objective of self-

reliance in the supply of food. She paid special attention on the growth of industries. The public sector was given a significant place since independence undertaking the heavy and core industries in its policy with the purpose of rapid industrialization in the country. India gave up the policy of *laissez faire* which was strictly pursued during the British regime. Government of India attempted to evolve an entirely new industrial structure for the economic under the sound industrial policy.

A View of Structure of Industry Under Industrial Policy:

**Industrial Policy 1948:**

The level of economic development is marked with the degree of industrialization - higher the degree of industrial growth in a country, greater the pace of economic development. Industrial policy was adopted in April 1948. The main thrust of this industrial policy was to lay the foundation of a mixed economy in which there is scope for the growth of both private and public enterprises. The industries were divided into four broad categories:

1) The manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and

33. Ibid., pp.423-24
management of railway transport were to be the exclusive monopoly of the central Government.

ii) The second category covered coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraphs and wireless apparatus excluding radio receiving sets and mineral oils. New undertakings in these industries could henceforth be undertaken only by the state.

iii) The third category was made up of industries of such basic importance that the central Government would feel it necessary to plan and regulate them. It comprised certain basic industries of importance including salt, automobiles, tractors, electric engineering, heavy machinery, machine tools, heavy chemicals, fertilizers, electro chemical industries, non-ferrous metals, rubber manufactures, power and industrial alcohol, cotton and woollen textiles, cement, sugar, paper and newsprint, air and sea transport, minerals and, industries relating to defence.

iv) A fourth category, the rest in the industrial field was normally left open to the private enterprise, individual as well as cooperatives.

The 1948 Policy was formulated in an atmosphere of piecemeal economic planning, dominated by an intense urge for quick
nationalization of private industrial enterprises. Premature economic reasoning instigated the government to put up the threat of nationalization in the sphere of basic and key industries. This threat of "nationalization after ten years" unnerved the private entrepreneurs, retarded capital formation in the private sector and postponed expansion and replacement of plants and equipments 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 nationalize all the existing units of basic and key industries.

The main demerits 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 industrialization programmes in relation to economic development.
Industrial Policy Resolution 1956:

Since the adoption of 1948 Policy Resolution, significant development took place in India. Planning had proceeded on an organized basis and the first Five Year Plan had been completed the 'socialist pattern of society' as the basic aim of social and economic policy. These important developments necessitated a fresh statement of industrial policy. A second Industrial Policy Resolution was adopted in April 1956, replacing the Resolution of 1948. Though some changes and modifications to the industrial policy have been made by new statements from time to time the basic principles embodied in the Industrial Policy Resolution of 1956 still remain without any major change. Important provisions of the 1956 Resolution were:

1) New classifications of Industries into these categories having regarded to the role which the state would play in each of them. These categories were scheduled as follows:
   a) Schedule - A it included seventeen industries such as arms and ammunition, atomic energy, iron and steel, heavy castings and forgings of iron and steel, heavy machinery required for iron and steel production, for mining, for machine tool

manufactures; etc., heavy electric industries, coal, mineral oils; iron ore and other important minerals like copper, lead and zinc; aircraft; air transport, railway transport, ship-building, telephone and wireless equipment, generation and distribution of electricity. All those which were to be exclusive responsibility of the state.

b) **Schedule - B** it contains the industries which were to be progressively state-owned and in which the state would generally set up new enterprises, but in which private enterprise would be expected only to supplement the efforts of the state. In this categories twelve industries were named: such as mining industries, alluminium and other non-ferrous metals which were other than those included in Schedule A; machine tools, ferro-alloys and tool steels, the chemical industry; antibiotics and other essential drugs; fertilizers, synthetic rubber, carbonization of coal; chemical pulp; road transport and sea transport.

c) In **Schedule - C** all the remaining industries and their expansion would be undertaken ordinarily through the initiative and enterprise of the private sector through the option was there with the State government to start and undertake any industry under this category whenever it was desired.
so yet the policy of the state aimed at facilitate and encourage the development of these industries largely in the private sector.

ii) Fair and non-discriminatory treatment for the private sector.

iii) Encouragement to village and small scale enterprises.

iv) The need for regional disparities, and

v) Attitude of foreign capital.

In the Industrial Policy Resolution of 1956 public sector was assigned major role covering the basic and heavy industries needed huge investment for the establishment and progress. Therefore, the Resolution looked at with fear and doubts that the public sector would grow like a giant and snatch away most of the rights and privileges of the private sector. Indian economy was designed with the predominance of public sector in production and development and private sector would be assigned only a supplementary role, if not a secondary role. The latter became a sort of residuary legatee. Economic development was more explicitly equated with expansion of state enterprises. A different industrial structure had been solved and thus it was evolved in Industrial policy of 1956.

Consequently, capital goods sector grew at an annual rate of 2.6 percent at the end of Fourth Five Year Plan.

Moreover, development in the public sector stimulated actively in the private sector. For instance, the steel plants and heavy electric plants in the public sector create opportunities for several ancillary industries in the private sector to produce components and accessories using steel. The industrial policy Resolution of 1956, therefore naturally contemplated Indian economy as mixed or controlled economy in which public and private enterprises work hand in hand in order to make the development plan a success. It should be noted that the Industrial Policy of 1956 consisted with objective of the socialist pattern of society on the one hand and the full employment with greater production, on the other. Under the Directive Principle of the Constitution which aim at social, economic and political justice. Therefore, with the announcement of the 1956 policy, the industrialists in the private sector showed a great resentment and raised a strong protest pleading that strengthening the dominance and executive powers of government was conceived a indirect threat of nationalization. It would curb incentives and retard capital formation in the private sector. The private sector grew unusually nervous in
spite of the fact that the policy Resolution of 1956 did not aim at nationalizing the units then existed. On the contrary, it devised the adequate steps for their growth and development. Although the State could enter any sphere of production, the private sector was also acknowledged as an agency coordinating with public sector for planned development. Under the Resolution of 1948, the Resolution of 1956 did not contain the threat of nationalization of the important industries after a certain period. This could make the private investors feel more secure. The 1956 Resolution, therefore, was said to form the basis of the Industrial Policy statement of 1980. The Industrial Policy Statement of 1973, inter alia identified high priority industries where investment from large industrial houses and foreign companies would be permitted. The Industrial Policy of 1977 laid emphasis on decentralization and on the role of small-scale, tiny and cottage industries.

**Industrial Policy of 1980:**

The Government of India adopted new Industrial Policy Resolution in 1980 reiterated the Industrial Policy of 1956. The Industrial Policy operated in 1977 that was followed for a very short period of two years. It did not have a significant impact on the industrial scene. The Industrial Policy statement
of 1980 focussed attention on the need for promoting competition in the domestic market, technological upgradation and modernization. The policy laid the foundation for an increasing competitive export base and for encouraging foreign investment in high-technology areas. This found expression in the sixth Five Year Plan which bore the distinct stamp of Smt. Indira Gandhi. It was Smt. Indira Gandhi who emphasized the need for productivity to be the central concern in all economic and production activities.

The main objectives of the 1980 Policy were as following:

1) acceleration of industrial development.
2) better capacity utilization;
3) achieving economies of scale;
4) generate higher employment & high per capita income;
5) solve the problem of shortages of major industries inputs like energy, communication and coal;
6) expand industries in rural and urban areas which will reduce regional imbalances;
7) increasing competitiveness and competition; and
8) promote economic federalism.

37. Ibid., p.262
Important measures taken during the eighties to rejuvenate the industrial sector included:

1) delicensing of a number of industries;
2) enlargement of list of industries open to large houses and foreign concerns and other policy relaxation in respect of MRTP and FERA companies;
3) enhancement of investment limit for exemption from licensing and also for small scale units;
4) liberalization of import policy and foreign collaborations; and
5) greater thrust to industries with export potential.

These measures, although piecemeal in nature, have produced very favourable effects. They have imparted some amount of dynamism to the Indian economy, particularly to the industrial sector. The increase in competition and the gradual emergence of a buyer's market in several industries where a seller's market prevailed in the past has been encouraging technological upgradation, improvement in efficiency, more attention to quality, competitive pricing and customer satisfaction etc. The period of 1980 Industrial Policy is called as a period of industrial recovery. Where output expanded at the rate of 11.19 percent

per annum during the period i.e. from 1981-82 to 1988-89. All leading role which chemicals and petrochemicals acquired in the 1980s shows that this sector has become the Prime determinant of growth in the industrial sector. As a whole the output of capital and basic goods increased in line with the average industrial growth at 9.5 and 8.2 percent respectively. However, the product of intermediate goods could increase only by 6.5 percent per annum considerably less than the overall growth rate of industrial sector. The above points became to a strong constraint on future industrial growth in the country.

Hence, the above industrial pattern move towards in favour of richest sections, ignores natural endowments of the country, lower employment potential and increasing regional imbalances.

i) The significantly higher rate of growth registered by consumer durable goods sectors points to the emergence of an industrial production pattern moved in favour of the relatively small richer section of the society. Total saving in the economy have actually declined from 21.2 percent of GDP (new series) in 1980-81 to

41. Ibid., p.52
20.2 percent in 1987-88. This trend in domestic saving rate does not predict well for future mobilization of investment resources.

ii) The pattern of industrial growth that has been promoted by the government in the eighties but ignores the natural endowments of the country. While the growth of metals and metal based products, machine building etc. has failed to increase at a sufficient pace the production of chemicals and other basic industries. It also shows that the government has imposed an industrial structure which goes against the comparative advantages of the economy.

iii) The western regions such as Maharashtra and Gujarat have had a larger share of industrial investment rapidly since the latter half of the sixties than what the rate of investment in other regions like west Bengal, Bihar and Orissa. Besides the share in total value addition there in the industrial sector also decreased from 23 percent in 1968-69 to 16 percent in 1984-85 while the share of Maharashtra and Gujarat increased up to more than 33 percent in 1980s.

43. Ibid., p.218
44. Ibid., p.214
In the light of above objectives it is criticized that under the 1980 Industrial Policy the government extended the area of reservation to 834 industries for small sector keeping in view its performance and potentialities. The government also made free availability of raw-materials to such units. Several concessions were also granted upon such as income tax concessions, liberalization of the excess capacity were announced under this policy to the large scale industries. The Industrial Policy of 1980 had witnessed a tremendous leap and surge of economic development and better industrial structure in India.

**New Industrial Policy of 1991:**

The New Industrial Policy aiming at the liberalization and delicensing it carried forward the path outlined by the Congress (I) Government under Rajiv Gandhi. It was feared that indiscriminate and unregulated liberalization would result in serious distortions like driving out the small scale units from the market, permitting imports of unessential items or permitting capital goods imports even when domestic capacities remained under-utilized. The Government did not provide any safeguards against such misuse or abuse of blanket liberalization. Unrestricted freedom to enter into foreign collaboration might
lead to establish such ventures entering mass consumption goods and thus instead of transfer of technology, foreign collaboration started a process of economic drain.

On July 24, 1991, Government of India announced major changes in the Industrial Policy. The main aim of the New Industrial Policy is to strengthen the Indian industrial economy and to protect it from the bureaucratic control, to introduce liberalization with a view to integrate the Indian economy with the world economy, to remove restrictions on direct foreign investment as also to free the domestic entrepreneurs from the restriction of MRTP Act and to shed the load of the public sectors which have shown a very low rate of return over the years.

The salient features of the New Industrial Policy of 1991 are:

1) Industrial licensing policy was abolished for all projects except in 18 industries where strategic or environmental concerns are supreme or where industries producing goods with exceptionally high import content. Thus eighty percent of industry has been taken out of the licensing fold.

ii) The MRTP Act was amended to eliminate the need for prior approval by large companies for expansion in capacity. This will be helpful for Indian firms to become large enough to compete effectively in the world markets.

iii) The requirements of phased manufacturing programmes were discontinued for all new projects.

iv) Private sector was permitted to expand core and basic industries and areas for public sector were narrowed down. In the place of the 17 areas earlier reserved for investment by the public sector, only 8 such areas are now left as reserved. These eight are mainly those involving strategic and security matters.

v) Government of India was empowered on clearance for the location of projects which was dispensed with except in the case of 23 cities with a population of more than one million.

vi) Small-scale enterprises were provided greater access to capital and technology with 25 percent of their share-holding option in large-scale industries.

vii) A National Renewal Fund (NRF) has been set up with a corpus of Rs.200 crores to ensure that the costs
of technological change and modernization of industry would not be borne by workers. It will be used to provide a safety net to workers in sick and non-viable enterprises and to finance their retraining and redeployment.

viii) Loan agreements of the financial institutions with privately managed firms were earlier required to provide for the right of the financial institutions to convert the loans into equity. In August 1991, the institutions were permitted not to insist on this provision in future loans unless they felt it necessary for commercial reasons. In December 1991, the institutions were permitted to delete the provision of the interest rate where it was appropriate.

In the light of above New Industrial Policy Reform objectives the following measures have been taken. 46

I) The limit of foreign equity holdings was raised from 40 to 51 percent in a wide range of priority industries. Such foreign equity participation no longer has automatic approved and is to be cleared by RBI.

II) The Foreign Investment promotion Board (FIPB) has been established to negotiate with large international firms and to expedite the clearances required. The FIPB also consider individual cases involving foreign equity participation over 51 percent.

III) Technology importation for priority industries are automatically approved for royalty payments up to 5 percent of domestic sales and 8 percent of export sales or for lumpsum payments of Rs. 1 crore.

It is observed from the above objectives of New Industrial Policy of 1991 that the number of investment approvals has risen to 5538 in 1991 from 3335 in 1990. The figure for 1991 includes 3095 industrial Entrepreneurs Memoranda in Indian field under the new industrial policy, which would have earlier required letters of intent on industrial licences. Investment proposals of 3897 were cleared between the announcement of the new policy on 24 July 1991 and 31 January 1992 and during the same period, 505 foreign technology import agreements were also approved. From the stand point of this New Industrial Policy of 1991 in Eighth Plan Government has allocated Rs. 14579 crores for steel, besides Rs. 2771 crores for heavy industries to upgrade technology in this

sector. Industrial growth rate during 1994-95 have increased by 8 percent over the previous year. 48

As it is also clear from the above objectives that licensing has been abolished for all industries except coal, petroleum, sugar, motor cars, cigarettes, chemicals, pharmaceuticals and some luxury items, etc. Besides this, policy lifted the limit of assets fixed for MRTP companies and dominant undertakings. Hence, business houses intending to float new companies or undertake substantial expansion will not be needed to seek clearance from the MRTP commission. On the otherhand it may be said that this policy introduced liberalization and privatization to globalize Indian economy. All these concession and facilities have been very much welcomed by the businessmen class in international market.

We particularly note that the structure of Indian industries has also undergone significant changes and in general the climate for rapid industrial developments has been created in the country. The light consumer goods industries have yielded place to heavy and basic capital goods where intermediate goods industries as the largest components of the industrial structure. Even among the consumer goods the durable

goods industries have good impact to grow both absolutely and relatively. Now the present policy is much more conducive for both domestic and foreign investments than in the past. However, there are now a host of countries trying to woo foreign investment with much more conducive economic environment than in India. Further, cultural factors also tilt the balance in favour of other countries as far as foreign investors. Many multinationals are busy establishing foot holds in the newly opened markets of the 'communist' world. Further, foreign business still regard the policy and procedural system in India perplexing. Because of these factors one should not expect wonders out of the belated measures. Therefore, for the first time the domestic industry has been given a considerable leeway to prove its mettle. This dynamic coupled with an enhanced external collaboration and competition should be expected to provide a considerable momentum for development. Overall the industrial climate is now well developed more favourable in India in comparison with other developing countries.