CHAPTER I

INDUSTRIAL POLICY
AND
DEVELOPMENT IN INDIA
CHAPTER-I

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Long ago industrialisation came to be recognised as a means of modern living—especially after the Industrial Revolution in West European countries. Thereupon, a number of countries started making planned efforts towards attaining the objective of better ways of living. Industrial policies were evolved by various countries.

The 'Industrial Policy' of any nation is basically composed of two components— one is the philosophy of a given society to shape industrial growth and the other is the implementation which gives the practical shape to the philosophy of the society. The first component of industrial policy is the philosophy which consists of an approach to, and objectives of industrial development. The approach can broadly be classified into three categories.

The first category is capitalism or capitalistic economy which is based upon the faith in the private property and market orientation of the use of resources or in other words, it is an economic system
in which all the means of production are privately owned. It encourages competition and private initiative and lays its foundation on 'survival of the fittest'. But there are many limitations associated with this system. Under the system, the society comes to be divided into 'Haves', and 'Have nots'. This artificial division created social tension. As a result, a large part of the world population got disappointed with capitalistic system and adopted an alternative form of economic system known as a socialistic economic system.

Socialism or Socialistic Economy believes in socialization of all the resources or all the means of production. It is an economic system in which all the means of production are owned only by the Government. The Government itself decides the use of every economic factor/service and directs all the households and the firms. This type of economic system was first of all adopted by the Soviet Union and few other countries in Eastern Europe like Czechoslovakia, Hungary, Poland, Romania, Bulgaria. In Latin America (Cuba), and in Asia, China, North Korea, Vietnam had followed the Soviet Union and adopted Socialism as the form of economic system. Recently, China and other socialist countries have permitted private property on a limited scale.
The afore-mentioned system ensures economic equality and all the available resources are put to their optimum use but it eliminates private enterprise and initiative. Above all, this system is totalitarian in nature and characterized by rigid controls, even then it does promote economic growth, equality and stability. Though theoretically quite good, the system could not work for a long time as the handful people responsible for putting the system into practice used it for their own ends at the cost of common people. The people at large got disgruntled with the system. Consequently, all East European countries and the newly independent Republics of the earstwhile USSR, which organized themselves into the Commonwealth of Independent State (CIS), gave up socialism. China, Cuba, Vietnam and North Korea are the only countries which are still continuing with socialism.

As an alternative to the capitalist and Socialist system, a system wherein the private enterprises were allowed to work, make their own decisions and grow and simultaneously, the Governments were also empowered to play an important role in promoting economic development of their countries, was evolved. In doing so, the governments owned the mean of production, participated in decision making and gave a
general direction to the private enterprises for the overall economic development of their countries. The system came to be known as Mixed Economic System.

The Mixed Economy, as mentioned above, is a combination of both the capitalistic economy and the socialist economy. This economic system has been functioning in India, Pakistan, Sri Lanka, Nepal, Italy, Sweden, Nigeria, Egypt etc. Under the system, private property is allowed and the entrepreneurs are free to choose their lines of production. In India all concerns belonging to Tatas, Birlas, Modies, Dalmias and so on are privately owned while the Government has also actively participated, owned, controlled and managed various production units like the Steel Authority of India Ltd. (SAIL), National Textiles Corporation (NTC). Air India, State Bank of India (SBI), Delhi Transport Corporation (DTC), Modern Bakeries and hundreds of other units which constitute the Public Sector of the economy. The tremendous growth of PSUs in these countries was firstly due to the fact that such undertakings required huge investments which only the Governments could provide. Secondly, while from the Society's point of view the PSUs were of immense importance, private enterprises were not interested in them because of low rate of return.
Pre-independence industrial policy was the conscious adoption of a mixed economy that represented, in general, the continuity of British and Pre-British tradition. In British India the Industrial Policy was practically confined to major public utilities to fulfil the government requirements of defence and industrial goods. The Policy in India was in complete harmony with the law of comparative advantage which meant that the Indian economy should be confined forever to agricultural and extractive industries. The early industrial policy of the British Government has been aptly summed up by Vera Anstey as follows:

"It was thought inevitable that India should remain predominantly agricultural, whilst the Government wished to avoid both the active encouragement of industries (like the cotton mill industry) that competed with powerful English interests and increased State expenditure. Hence, even at the end of the nineteenth century, all that the government did, was to provide a certain amount of technical and industrial education and attempted to collect an industrial information."

In 1905 though the Department of Commerce was established by the Government to encourage industrialization in the country, no serious efforts were made
in the real sense of the term. In 1907, Sir John Hewett, a member of the department held a conference in Nainital and it was agreed that loans and grants be provided to various industrial concerns, especially sugar factories in Kanpur. The government of Madras also succeeded in producing aluminium hollowware, in developing handloom weaving and in introducing chrome process of manufacturing leather.

The First World War caused vulnerability to the Indian economy and the government resolved to examine the industrial policy. Lord Hardinge on 26th November 1915 wrote to the Secretary of the State: 'It is becoming increasingly clear that a definite and self-conscious policy of improving the industrial capabilities of India will have to be pursued after the war. This led to the appointment of the Indian Industrial Commission in 1916.²

The Industrial Commission in its report, after a scholarly analysis of the Indian Industrial Scene, recommended a very active policy of government encouragement of industry. Among its recommendations was one on the national necessity of establishing certain key industries, such as, magnetos, incandescent lamps, ferrotungsten, high speed steel,
graphite crucible, special forms of porcelain for insulators, chemical glass, certain types of heavy chemicals, rubber and vulcanite. It added that where secret or very specialised processes of manufacture are involved government should take steps to facilitate their introduction and make the administrative and scientific and technical staff abundant and capable enough to take the new jobs consequent on the adoption of the recommendations of the commission. The report even urged, 'direct financial aid', which might take the form of guarantee of dividends, loans of money, undertaking to purchase output or contribution to share capital.\(^3\)

In 1937, the Congress President Mr. Subhash Chandra Bose called a conference of Provincial Ministers of Industries where the Congress Party was in power to consider the question of economic development. The conference emphasized the need for rapid industrialization and drew up a comprehensive plan for the overall industrial growth and development of the country. This ultimately gave birth to the National Planning Committee under the Chairmanship of Pandit Jawaharlal Nehru. The committee categorized industries into defence, key and public utility, and recommended that they be owned and operated by the
state. The public utility, owned by central, provincial and local governments, were to cover distribution of electricity and gas, public transport and communication, water supply and sanitation. The key industries, among others, included power generation, fuel, including coal, mineral oil and natural gases, machine tools industry for making machinery and machinery parts, locomotives, wagons, automobiles, aircrafts and the like, metals, ferrous and non-ferrous heavy and fine chemicals including dyes, fertilizers and refractories. 4

Two years later the second World War broke out and nothing happened during this time and the policy of industrialization remained unchanged. The slow pace of industrialization was not up to the mark to face the grave challenges posed by the increasing population of the country and low per capita income. Infrastructure needed the pivotal concern of the policy makers. As soon as the Congress Party, led by Pandit Jawaharlal Nehru, came to power in 1947, it contemplated for a fast growth rate for building up of the infrastructure. Thus, it was only after the independence that the development of basic and strategic industries was taken up in a systematic and planned manner 5. To meet the infrastructural development and other necessities congress has to lay down a policy contained in the IPR of 1948 which is reproduced below:
Government of India Resolution on Industrial Policy
dated the 6th April, 1948

The Government of India have given careful thought to the economic problems facing the country. The nation has now set itself to establish a social order where justice and equality of opportunity shall be secured to all the people. The immediate objective is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community. For this purpose, careful planning and integrated effort over the whole field of national activity are necessary; and the Government of India propose to establish a National Planning Commission to formulate programmes of development and to secure their execution. The present statement, however, confines itself to Government's policy in the industrial field.

Any improvement in the economic conditions of the country postulates an increase in national wealth; a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial; and in particular on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange.

The problem of State participation in Industry and the conditions in which private enterprise should be allowed to operate must be judged in this context. There can be no doubt that the State must play a progressively active role in the development of industries, but ability to achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise. Under present conditions, the mechanism and the resources of the State may not permit it to function forthwith in Industry as widely as may be desirable. The Government of India are taking steps to remedy the
situation; in particular, they are considering steps to create a body of men trained in business methods and management. They feel, however, that for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play.

On these considerations, the Government have decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further, in any emergency, the Government would always have the power to take over any industry vital for national defence. In the case of the following industries, the State -- which in this context, includes Central, Provincial and State Governments and other Public Authorities like Municipal Corporations--will be exclusively responsible for the establishment of new undertakings, except where, in the national interest, the State itself finds it necessary to secure the co-operation of private enterprise subject to such control and regulation as the Central Government may prescribe:

(1) Coal (the Indian Coalfields Committee's proposals will be generally followed).
(2) Iron and Steel.
(3) Aircraft Manufacture.
(4) Shipbuilding.
(5) Manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets.
(6) Mineral Oils.

While the inherent right of the State to require any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertakings in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion. At the end of this period, the
The whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the State should acquire any unit, the fundamental rights guaranteed by the Constitution will be observed and compensation will be awarded on a fair and equitable basis.

Management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this.

The Government of India have recently promulgated a measure for the control by the State of the generation and distribution of electric power. This industry will continue to be regulated in terms of this measure.

The rest of the industrial field will normally be open to private enterprise, individual as well as co-operative. The State will also progressively participate in this field; nor will it hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory. The Central Government have already embarked on enterprises like large river-valley developments, which are multi-purpose projects of great magnitude, involving extensive generation of hydro-electric power and irrigation on a vast scale, and are calculated in a comparatively short time to change the entire face of large areas in this country. Projects like the Damodar Valley Scheme, the Kosi Reservoir, the Hirakud Dam, etc., are in a class by themselves and can stand comparison with any of the major schemes in America or elsewhere. The Central Government have also undertaken the production of fertilizer on a very large scale and have in view other enterprises like the manufacture of essential drugs, and of synthetic oil from coal; many Provincial and State Governments are also proceeding on similar lines.

There are certain basic industries of importance, apart from those mentioned in paragraph 4, the planning and regulation of which by the Central Government is necessary in the national interest. The following industries whose location must be governed by economic factors of all-India import, or which require considerable investment or a high degree of technical skill, will be the subject of a Central regulation and control:
(1) Salt.
(2) Automobiles and tractors.
(3) Prime Movers.
(4) Electric Engineering.
(5) Other heavy machinery.
(6) Machine tools.
(7) Heavy chemicals, fertilizers and pharmaceuticals and drugs.
(8) Electro-chemical industries.
(9) Non-ferrous metals.
(10) Rubber Manufactures.
(11) Power and industrial alcohol.
(12) Cotton and woollen textiles.
(13) Cement.
(14) Sugar.
(15) Paper and newsprint.
(16) Air and Sea Transport.
(17) Minerals.
(18) Industries related to defence.

The above list cannot obviously be of an exhaustive nature. The Government of India, while retaining the ultimate direction over this field of industry, will consult the Governments of the Provinces and States at all stages and fully associate them in the formulation and execution of plans. Besides these Governments, representatives of Industry and Labour will also be associated with the Central Government in the Industrial Advisory Council and other bodies which they propose to establish, as recommended by the Industries Conference.

Cottage and small-scale industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprise and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. The healthy expansion of cottage and small-scale industries depends upon a number of factors like the provision of raw materials, cheap power, technical advice, organised marketing of their produce, and, where necessary, safeguards against intensive competition by large-scale manufacture, as well as on the education of the worker in the use of the best available technique. Most of these fall in the Provincial sphere and are receiving the attention of the Governments of the Provinces and the States. The
Resolution of the Industries Conference has requested the Central Government to investigate how far and in what manner these industries can be coordinated and integrated with large scale industries. The Government of India accept this recommendation. It will be examined, for example, how the textile mill industry can be made complementary to, rather than competitive with the handloom industry, which is the country's largest and best organised cottage industry. In certain other lines of production, like agricultural implements, textile accessories, and parts of machine tools, it should be possible to produce components on a cottage industry scale and assemble these into their final product at a factory. It will also be investigated how far industries at present highly centralised could be decentralised with advantage.

The Resolution of the Industries Conference has recommended that Government should establish a Cottage Industries Board for the fostering of small scale industries. The Government of India accept this recommendation and propose to create suitable machinery to implement it. A Cottage and Small-scale Industries Directorate will also be set up within the Directorate General of Industries and Supplies.

One of the main objectives will be to give a distinctly co-operative bias to this field of industry. During and before the last war, even a predominantly agricultural country like China showed what could be done in this respect, and her mobile industrial co-operative units were of outstanding assistance in her struggle against Japan. The present international situation is likely to lessen to a marked degree our chances of getting capital goods for large-scale industry, and the leeway must be made up by having recourse to small-size industrial co-operatives throughout the country.

The Government, however, recognise that their objective, viz., securing the maximum increase in production, will not be realised merely by prescribing the respective spheres of the State and of private enterprise in Industry; it is equally essential to ensure the fullest co-operation between labour and management and the maintenance of stable and friendly relations between them. A Resolution on this subject was unanimously passed by the Industries Conference which was held in December last. Amongst other things, the Resolution states:
".... The system of remuneration to capital as well as labour must be so devised that, while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort, after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking."

Government accept this Resolution. They also consider that labour's share of the profits should be on a sliding scale normally varying with production. They propose in addition to the over-all regulation of industry by the State to establish machinery for advising on fair wages, fair remuneration for capital, and conditions of labour. They will also take steps to associate labour in all matters concerning industrial production.

The machinery which Government propose to set up will function at different levels, central, regional and unit. At the Centre, there will be a Central Advisory Council, which will cover the entire field of industry, and will have under it Committees for each major industry. These Committees may be split up into sub-committees dealing with specific questions relating to the industry, e.g., production, industrial relations, wage fixation, and distribution of profits. The regional machinery under the Provincial Governments will be Provincial Advisory Boards which, like the Central Advisory Council, will cover the entire field of industry within the province; they will have under them the Provincial Committees for each major industry. The Provincial Committees may also be split up into various sub-committees dealing with specific questions relating to production, wage fixation and industrial relations. Below the Provincial Committees will come the Works Committees and the Production Committees attached to each major industrial establishment.

The Works Committees and the Production Committees will be bipartite in character, consisting of representatives of employers and workers only, in equal numbers. All other Committees will be tripartite, with representatives of Government employers and workers.
Government hope that the machinery proposed will substantially reduce the volume of industrial disputes. In the case of unresolved conflicts, Government trust that management and labour will, in their own interests and in the larger interests of the country, agree to settle them through recognised channels of conciliation and arbitration, which will be provided by Government. The Industrial Relations Machinery, both at the Centre and in the Provinces, is being strengthened, and permanent Industrial Tribunals are being established for dealing with major disputes.

The Government of India are also taking special steps to improve industrial housing as quickly as possible. A scheme for the construction of one million workers' houses in ten years is under contemplation, and a Housing Board is being constituted for this purpose. The cost will be shared in suitable proportions between Government, employers and labour, the share of labour being recovered in the form of a reasonable rent.

In order to ensure quick decisions on the various matters arising out of the Industrial Truce Resolution, Government are appointing a special officer.

The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this purpose. Such legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that, as a rule, the major interest in ownership, and effective control, should always be in the Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.
The Government of India are fully alive to their direct responsibility for the development of those industries which they have found necessary to reserve exclusively for State enterprise. They are equally ready to extend their assistance to private or co-operative enterprise in the rest of the industrial field, and in particular, by removing transport difficulties and by facilitating the import of essential raw materials to the maximum possible extent. The tariff policy of Government will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer. The system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

The Government of India hope that this elucidation of their intentions of fundamental aspects of industrial policy will remove all misapprehensions, and they are confident that a joint and intensive effort will now be made by labour, capital and the general public, which will pave the way for the rapid industrialisation of the country.

A careful perusal of the Industrial Policy Statement reveals that it contemplated a mixed economy reserving a sphere for the public sector and another for the private sector. The Industries were divided into four broad categories: (a) the manufacture of arms and ammunitions, production and control of atomic energy and ownership and control of railway transport were to be the exclusive monopoly of the Central Government, (b) the second category covered coal, iron & steel, aircraft manufacture, ship-building and
manufacture of telephones, telegraph and wireless apparatus excluding radio receiving sets and mineral oils and new industries in these fields could henceforth be undertaken only by the state, (c) the third category covered industries of such basic importance that Central Government would feel it necessary to plan and regulate them; it consisted of industries like salt, automobiles, tractors, prime movers, 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 (d) remainder of the industrial field was left open to the private enterprise, individual as well as cooperative.

Thus, after the IPR of 1948, the field for the operation of the private sector was confined to the unorganized small and tiny sector where individuals could engage themselves in petty shop keeping or trading and manufacturing on a very small-scale.
Similarly, while the Government recognized the need for securing the participation of foreign capital and enterprises for fostering the pace of industrialization in the country but it was made amply clear that, 'as a rule, the major interest in ownership and effective control should always be in the Indian hands. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.  

Since the adoption of IPR of 1948, significant developments had taken place in the country. Firstly, the country had adopted its own constitution on January 26, 1950 which guaranteed certain fundamental rights and laid down Directive Principles of State Policy, the First Five Year Plan had been completed and, thus, planning had proceeded on an organized basis and finally the Parliament, after Pandit Nehru's visit to the USSR in 1954, had adopted 'socialist pattern of society' as the basic aim of social and economic policy. All these developments called for a new IPR which was announced on April 30, 1956 which is reproduced below:
The Government of India set out in their Resolution dated the 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. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government the State would be exclusively responsible for the establishment of new undertakings in six basic industries -- except where, in the national interest, the State itself found it necessary to secure the co-operation of private enterprise. The rest of the industrial field was left open to private enterprise thought it was made clear that the State would also progressively participate in this field.

2. Eight years have passed since this declaration on industrial policy. These eight years have witnessed many important changes and developments in India. The Constitution of India has been enacted, guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised 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 governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.

3. 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 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 inform 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 are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength;

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

4. 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 directions.

5. 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 co-operative 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 co-operation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along co-operative lines.

6. 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. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The State has therefore to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limiting factors which make it necessary at this stage for the State to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role. After considering all aspects of the problem, in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the State would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity might defeat the purpose in view. But the basic principles and objectives have always to be kept in view and the general directions hereafter referred to be followed. It should also be remembered that it is always open to the State to undertake any
type of industrial production.

7. In the first category will be industries the future development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively State-owned and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.

8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever co-operation with private enterprise is necessary, the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertakings.

9. Industries in the second category will be those listed in Schedule B. With a view to accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time private enterprise will also have the opportunity to develop in this field, either on its own or with State participation.

10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in
successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institution to provide financial aid to these industries and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

11. 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 Government 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.

12. The division of industries into separate categories does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the State to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light-craft, generation of power for local needs and small scale mining. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector. The
same principle would apply with even greater force to the relationship between large scale and small scale industries.

13. The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

14. The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State Policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial co-operatives. Such co-operatives should be encouraged in every way and the State should give constant attention to the development of cottage and village and small scale industry.
15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. Only by securing a balanced and co-ordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

16. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of village and small scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet shortages at supervisory levels, to organise apprenticeship schemes of training on a large scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

17. It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with the growing recognition of the obligation of both management and labour. There should be joint consultation and workers and technicians should, wherever possible, be associated progressively
in management. Enterprises in the public sector have to set an example in this respect.

18. With the growing participation of the State in industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.

19. The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statements of policy. The division of responsibility between the Central Government and the State Governments in regard to industries has been set out in the Industries (Development and Regulation) Act. The Prime Minister, in his statement in Parliament on the 6th April, 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution.

20. The Government of India trust that this restatement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.

SCHEDULE A

1. Arms and ammunition and allied items of defence equipment.

2. Atomic energy.

3. Iron and steel.

4. Heavy castings and forgings of iron and steel.
5. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.

6. Heavy electrical plant including large hydraulic and steam turbines.

7. Coal and lignite.


9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.

10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.


12. Aircraft.


15. Shipbuilding.

16. Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).

17. Generation and distribution of electricity.

SCHEDULE B

1. All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.

2. Aluminium and other non-ferrous metals not included in Schedule 'A'.


4. Ferro-alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.

6. Antibiotics and other essential drugs.

7. Fertilizers.

8. Synthetic rubber.


10. Chemical pulp.

11. Road transport.

12. Sea transport.

A close look at the IPR of 1956 reveals that the division of industries into three categories as against four in 1948, bore a close resemblance to the earlier classification but they were more sharply defined and were definitely far more broad in coverage with regard to the role of the State in owning, regulating and exercising effective control over the industrial structure of the country.

Schedule A covered all those industries which were to be the exclusive responsibility of the State while Schedule B contained all those industries which were to be progressively State-owned and in which the state would generally set up new undertakings but in which private sector industries would be expected only to supplement the efforts of the state Schedule C covered the remaining industrial field which would, in
general, be left to the initiative and enterprise of the private sector. Schedule A covered seventeen industries while Schedule B covered twelve industries.

It is to be noted here that Schedule C industries, left to the operation of the private sector could not be freely started and operated by the private sector. All these industries had to be fitted into the framework of the Social and economic policy of the State and were to be governed by the provisions of the industries (Development & Regulation) At, 1951, and in terms of other relevant legislations. Thus, the State reserved the right to enter into category C industries also when the needs of planning or some other important reasons, required the State to do so. It has rightly been remarked by Gunnar Myrdal that taking a good hard look at what, in fact has happened in India over the last decade and a half, it is evident that public and private enterprises have not remained in the categories prescribed by the industrial policy Resolution".7

The IPR of 1956 expressed clear doubts in the ability of the private sector to bring about faster economic growth and development in the country. The public sector was accorded' commanding heights' while the private sector was relegated to the background.
The so-called private sector became a sort of residuary legatee. Economic development was more explicitly equated with State enterprise. Though, on the face of it, public sector in terms of the provisions of the IPR, 1956 was not to develop as a rival but create congenial conditions and infrastructure which would facilitate the growth of the private sector, later developments, through bureaucratic controls and regulations, made it difficult for the Private sector to grow. The supporters of the commanding heights of the public sector were of the view that 'the IPR of 1956 set out some of the Principles of Nehru's philosophy though it retained sufficient ambivalence to placate the uncommitted elements.

Their view is based on the facts that licences were, later on, issued to the private sector in the areas which were reserved for the expansion of public sector. In our opinion this was more due to the compelling circumstances rather than encouraging the private sector enterprises. If the private sector investments zoomed in the wake of rapid public sector expansion it was more on account of boosting the growth of public sector (many of the private sector
units were obliged to supply components and inputs for the growth of the PSUs) rather than the Governments' sympathetic attitude towards it.

**INDUSTRIAL POLICY STATEMENT-1977**

In March 1977, the Janata Party assumed power in the Centre, replaced the Congress Government which had been ruling the country since independence. The Janata Government, on December 1, 1977, announced its Industrial Policy Statement, 1977.

The Policy stated that the Government policy in the field of industry had been governed by the IPR, 1956. Despite some desirable elements it has created some distortions, viz., unemployment has increased, there is not more than three to four per cent growth in industrial output every year, industrial sickness has widespread, some of the major industries are worst affected, rural-urban differences have widened and the rate of investment has become stagnant. Therefore, the industrial policy concentrated on the following:

**DEVELOPMENT OF SMALL SCALE SECTOR** : The main thrust of the Janata Government Industrial Policy was expressed in the following words : 'So far, the industrial
policy has mainly emphasized on large industries, cottage industries have been neglected and small scale industries were having minor role ..... So, the main thrust will be on effective promotion of cottage and small scale industries which are distributed throughout the rural areas and small towns. Government's policy was that whatever can be produced through small and cottage industries must only be so produced.'

The small-scale industries were classified into the following three categories :

(a) Cottage and household industries which provide employment on a wide scale.

(b) Tiny sector incorporating investment in industrial units in equipments and machinery upto Rs. 1 lakh and situated in towns having a population of less than 50,000.

(c) Small scale industries having Rs. 10 lakhs and in case of ancillaries upto Rs. 15 lakhs in fixed capital investment.

The Janata Party, thus, decided to develop all the three categories simultaneously. They were classified for designing policy measures for each category. The measures suggested for their promotion were as follows :
(i) Only 180 items were in the list of reservations for SSI Sector which were expanded further upto 807 items in May 1978.

(ii) In each district an agency called 'District Industries Centre' (DIC) was set up for the development of small scale and cottage industries. The agency provided a support and rendered the services needed by the industries. A separate wing of IDBI dealt with the credit requirements by these small scale and cottage industries.

(iii) To ensure effective approach for the development and widespread application of technology for small industries, so as to improve productivity and earning capacity of workers, special arrangements were made in this regard.

(iv) The Janata government proposed to renovate the Khadi and village Industries Commission so that the small scale industries could enlarge their areas of operations. The government also proposed to increase the production of footwear and soaps, through these industries.

Khadi was given a special place (Polyester Khadi, Nai Khadi) so that productivity and earnings of
Khadi weavers could be improved.

**Areas for Large Scale Sector**:

According to the Industrial Policy Statement, 1977, role of large scale industries was to fulfil the basic needs of the masses through wide dispersal of small scale and village industries and strengthen the agricultural sector.

In accordance with the Industrial policy Statement the following areas for large scale industries were prescribed.

(a) Basic industries, which can provide infrastructural development and the development of small scale and village industries such as steel, cement, oil refineries and non-ferrous metals.

(b) Capital goods industries which can meet the requirements of small scale and village industries.

(c) High technology industries giving large scale production and related to agricultural and small scale industries as fertilizers, pesticides and petro-chemicals.
(d) Other industries which were not included in the items of small-scale industries but were necessary for the economic development, such as machine tools, organic and inorganic chemicals.

Expanding role of the Public Sector:

The policy stated that public sector will not only be the producer of essential and strategic goods but it would act as a force on essential supplies to the consumers. Public Sector would provide help in terms of technical and managerial expertise to the small-scale and cottage industries for their proper growth.

Promotion of Technological Self-reliance:

The Industrial Policy Statement recognized the necessity of continued inflow of technology in sophisticated areas where Indian technical skills and technology were not suitably developed.

Approach Towards Foreign Collaboration:

It emphasised that in the areas where technical know-how is not needed, foreign collaboration would not be renewed and in case of ownership and
effective control, the Statement endorsed the earlier stand that it should be in Indian hands. Government may consider the areas exceptionally which are export-oriented and/or having sophisticated technology. In hundred per cent export oriented cases the government may consider even a fully foreign owned company.

**Approach Towards Large Business Houses:**

As the large business houses growth was not in proportion to the size of their internally generated resources and they were relying mainly on public financial institutions and banks, the policy was reversed and these houses were required to rely on their own resources for their new projects and expansion works. The funds of the public financial institutions were largely to be available for small-scale industries. In capital investment field large industries were dominant, so preference was given to medium entrepreneurs and public sector corporations so that there was no concentration of economic power.

**Approach Towards Sick Units:**

Selective approach was made towards sick industrial units. It proposed that while the government could not ignore the necessity to secure
employment, the cost of their maintenance was also considered. In many cases, public funds in large amounts had been invested in the sick units even then they incurred losses so more funds from public exchequer were fed to these units but it could not go indefinitely. 10

The main contribution of the 1977 Industrial Policy Statement was to expand the list of 180 items reserved for the SSI Sector to 807 items. It failed to impose a ban on multinationals or Indian big business houses to produce items of common consumption such as breads, biscuits, toffees, footwear, leather products etc. Further, the large industrial houses also did not relish the idea that such units would have to rely on their internally generated resources for financing new projects or expansion of their existing units. This proved to be a big blow to them as they had built up their empires by using the funds provided by the financial institutions and banks. After three years in 1980, the Congress (I) Party dethroned the Janata Party which led to the announcement of the new Industrial Policy Statement in 1980.

INDUSTRIAL POLICY STATEMENT, 1980:

The Industrial Policy Statement of 1980 stated that the 1956 policy reflects the value system of our
country and has shown the constructive flexibility. In terms of the 1980 Industrial Policy Resolution, the task of raising the pillars of economic infrastructure in the country was entrusted to the public sector for reasons of its greater reliability, for the very large investments required and the lower gestation period of the projects crucial for economic development. The 1956 Resolution, therefore, forms the basis of this Industrial Policy Statement which suggested the following measures:

**Effective Operational Management of the Public Sector:**

It was accepted in 1980 statement that there has been an erosion of faith in the public sector in recent years due to its poor performances and inefficiency. So, the government decided to revive the efficiency of the public sector.

**Economic Federalism and Integrated Industrial Development:**

The Industrial Policy Statement of 1980 also brought the new concept of economic federalism and integrated industrial development. It specifically stated that the government would reverse the last three years trends of creating artificial division of
large and small sectors, which were misconcepted to create an interest of conflict, the concept of setting economic federalism by setting different nucleus plants in each district which were recognized by the government as industrially backward districts and thus to generate as many ancillaries, small and cottage industries in the districts as possible was emphasised.

**Redefining of Small Units**: For boosting up the development of small industries the government decided:

(1) To increase the investment limit of tiny industrial units from Rs. one lakh to Rs. two lakhs.

(2) The limit of investment for small-scale industries unit was raised from Rs. 10 lakhs to Rs. 20 lakhs.

(3) In case of ancillaries, limit of investment was increased from Rs. 15 lakhs to Rs. 25 lakhs.

**Removal of Regional Imbalances**: To correct imbalance in regional development and disproportionate dispersal of industries, setting up of new units in industrially backward areas was encouraged.
Promotion of Industries in Rural Areas:

The Industrial Policy Statement also stated the need to promote suitable industries in rural areas so as to provide employment in the areas and to increase the per capita income of the villagers. Handlooms, handicrafts and Khadi were given special attention for the faster growth of village industries.

Automatic Expansion:

Extension and simplification of the facilities of automatic expansion were specially given attention for large scale industries. These industries were those included in first schedule of Industries (Development & Regulation) Act of 1951.

Regularization of Unauthorized Excess Capacity:

It stated procedure for regularizing the unauthorized excess capacity. FERA and MRTP companies were specially considered selectively for regularizing unauthorized capacity in excess of the licensed capacity.

Industrial Sickness:

Regarding the industrial sickness the 1980 Industrial Policy Statement recognized the fact of
mis-management and financial improprieties in a large number of industrial units which kept them sick. The government decided to deal with the phenomenon with a firm hand.

In the case of existing sick undertakings which showed adequate potential for revival, it would be the policy of government to encourage their merger with healthy units which were capable of managing the sick undertakings and restoring their viability. For this purpose the existing tax concession under Section 72-A of the Income Tax Act would be made more liberally available to amalgamation proposals which would serve the purpose of revival of sick units. Management of sick units would be taken over only in exceptional cases on grounds of public interest where other means for the revival of sick undertakings were not considered feasible.¹¹

The Industrial Policy (1980) was guided merely by considerations of growth. It liberalised licensing for large and big business but by blurring the distinction between small scale and large scale industries it seeks to promote the latter at the cost of the former. Broadly speaking, the Industrial Policy choose a more capital-intensive path of development and thus, it underplayed the employment objective.¹²
LIBERALIZATION MEASURES, 1985

Soon after resuming the office, the then Prime Minister Late Mr. Rajeev Gandhi's Government declared the liberalization of licensing policy in favour of the large industries and they were freed from the provisions of the MRTP and FERA Acts. Some of the important features of the Industrial Policy Statement, 1985 were as follows:

a) **Liberalization of Licensed Capacity**:

Policy changes of 1985 made the industries to stand at place where they could grow with a rapid pace, achieve economies of scale and undergo modernization thus setting some latest technologies. The scheme for re-endorsement of capacity was liberalized. Increase was granted to those units which were paying attention to the economies of scale and due to modernization a 49 per cent rise in capacity was allowed to them. On 30th January, 1986 the Government delicensed 23 industries to which provisions of the MRTP and FERA Acts applied. Delicensing was, however, proposed only for those undertakings which were in centrally approved backward areas.
b) **Concept of Broad-Banding Introduced**:  

Keeping in view the market demand, the concept of broad banding was developed to enhance production and give flexibility to the manufacturers to adjust their product-mix. It was introduced to a large number of items, some of these were machine tools, motorized two-wheelers and four-wheelers, paper and pulp, fertilizers, pharmaceuticals, petro-chemicals and entertainment electronics. Basic advantage of this concept was that licenses issued in terms of broad categories would enable the undertakings to produce any of the items covered so that total production should not exceed the licensed capacity.

c) **Raising Asset Limits of MRTP Companies**:  

The assets limit of the companies which were under MRTP Act was raised from Rs. 20 crores to Rs. 100 crores. This enabled 112 companies to come out of range of the MRTP Act. In May 1985, twenty seven industries were exempted from the application of Section 22A of the MRTP Act and thereupon 22 of these industries were delicensed from the MRTP and FERA Acts.

Again, the Cabinet Committee on Economic Affairs was to clear the licensing proposals of those
companies which were having an investment of Rs. 50 crores against the earlier limit of Rs. 20 crores.

d) **Attitudes towards small-scale Sector Units:**

Investment limits of the small-scale industrial units and ancillaries were enhanced from Rs. 20 lakhs to 25 lakhs and from Rs. 35 lakhs to Rs. 45 lakhs respectively. Further, nearly 200 items which were on the reservation list were dereserved and were made open for medium and large scale sectors.

It will be clear from the foregoing discussion that the number of industries requiring compulsory licensing was reduced from 56 to 26. Non-MRTP and Non-FERA Companies were required to obtain industrial licenses under IDRA for projects involving investment in fixed assets upto Rs. 50 crore if they were located in lintrally declared backward areas and Rs. 15 crores if they were located in non-backward area. The delicensed sector under new dispensation was extended to units importing upto 30% of their is put needs against 15% in the past. This was a case where import liberalisation was combined with industrial liberalisation to a good effect. Furthermore, income tax relief under section 80-HH (20% deduction of net profit upto 10 years) and section 80-1 (25% deduction
of profit upto 8 years) were made available cumulatively to industrial undertakings established in notified backward districts.

NEW INDUSTRIAL POLICY - 1990 :

The Janata Dal Government announced its Industrial Policy Statement on May 31, 1990, which gave a fresh direction to the industries and tried to generate more employment, show cross-sectional distribution of industries in rural areas and enhance the contribution of small-scale industries to exports. Specifically, the following measures were taken for the above mentioned purposes:

(1) The investment limit for small-scale industries was raised from Rs. 35 lakhs to Rs. 60 lakhs, whereas for ancillary units it was raised from Rs. 45 lakhs to Rs. 75 lakhs. The small-scale units which were to undertake 30 per cent of their annual production for export by the end of the third year, were permitted to step up their investment in plant and machinery to Rs. 75 lakhs.

(2) For tiny units investment limit was increased from Rs. 2 lakhs to Rs. 5 lakhs.
(3) Products manufactured in small-scale sector would be taken into account to increase the competitiveness in the market. So, programme for modernization and upgradation of technology would be implemented. For achieving this objective, a number of technology centres, tool rooms, process and product development centres and testing centres were to be set up under the roof of an apex technology development centre in Small Industries Development Organization.

a) A new apex bank named SIDBI would be established to assess the adequate and timely flow of money to the small-scale industries. The major task of the SIDBI formed and other commercial banks/financial institutions would be to channelize the need-based high flow of credit in terms of working capital or loan to the tiny and rural industries.

b) An exercise would be undertaken to identify locations in rural areas endowed with adequate power supply and intensive campaign would be launched to attract suitable entrepreneurs and provide all other inputs to foster small-scale and tiny industries. Similarly, industries which were not energy intensive would be identified for proliferation in rural area, where power supply was at that time a constraint.
c) Small-scale industries which were subjected to a large number of Acts/Laws, thus having a lot of complaints and were maintaining a number of registers particularly in the field of labour legislation were to be freed from bureaucratic controls so that unnecessary interference did not come in the way of development and growth of those industries.

Agro-based rural Industries:

(4) The roles of the KVIC (Khadi & Village Industries Commission) and KVI (Khadi & Village Industries) would be enhanced and expanded and these organisations were to be strengthened to discharge their responsibilities more effectively to assist the artisans engaged in the rural and cottage industries. Special marketing organizations at the Centre and State levels would be set up to market their products and to get adequate supply of raw materials. Besides, special training, concessional credits and free consultancy to groups of artisans would be provided.

(5) Greater success had been achieved in agro-processing industries where growers and processors were integrated, as in the case of
sugar. In other agro-based industries closer links must be forged between growers and processors units. Industrial policy would promote those projects which were organized in close cooperation on the basis of joint ownership. If the growers wanted to set up a processing unit they would be assisted within the framework of cooperative units and financial assistance and better technology would be given to the growers to enhance their agricultural production.

(6) High priority would be given to the agro-processing industries in credit allocation from the financial institutions.

**Procedure for Industrial Approvals:**

It was perceived that Indian Industries must be kept at a place where they could compete in the international market by releasing them from the unnecessary bureaucratic shackles and reducing the clearance required by government. So, the Government decided to examine the large projects in view of resource constraints while decision for medium sized investments would be left to the entrepreneurs. To achieve the above mentioned goals following points were considered:
7) **Location Policy and Environmental Clearance**: The policy applied only to those industries which would be set up or were at that time in and around the metropolitan with a population of above four millions. For these cities location would not be permissible within 20 kms, calculated from the periphery of the metropolitan area. The non-polluting industries such as electronics, computer software and printing were excluded from the policy.

8) **Export-oriented Units**; 100 per cent export oriented units (EOUs) having as upper investment limit of 75 crores, and units to be associated with Export Processing Zones (EPZs) were delicensed under the scheme. But 836 items reserved in the small-scale sector would continue.

9) **Delicensing**:

(i) All the new units upto an investment in assets upto Rs. 25 crores in non-backward areas and Rs. 75 crores in Government recobackward areas were exempted from obtaining a license or registration under the policy.

(ii) **Import of Capital Goods**: For the import of Capital Goods, an entrepreneur was allowed to
import upto a landed value of 30 per cent of the total value of plant and machinery for the unit.

(iii) **Import of Raw-materials and Components** : For the import of raw materials and components, it was permitted upto a landed value of 30 per cent of the ex-factory value of annual production (excluding the excise duty on the items of production and raw materials and components on OGL).

(iv) **Foreign collaboration** : If transfer of technology was needed and it was necessary, entrepreneur could conclude an agreement with the collaborator, without any clearance from the government having a provision that royalty payment must not exceed five per cent on domestic sales and eight per cent on exports.

(v) **Foreign Investment** : Considering the need for inflow of the effective technology, investment upto 40 per cent of equity was allowed on an automatic basis.

It will be observed from the foregoing discussion that the 1990 Industrial policy tried to boost up the growth of small-scale sector as well as
made an effort to permit blanket liberalisation with a view to accelerate the growth of the medium and large-scale sector. It also gave an unfettered right to conclude foreign collaborations in case the royalty payment did not exceed 5 per cent on domestic sales and 8 per cent on exports. The entrepreneur could import capital goods up to a landed value of 30 per cent of the total value of plant and machinery required for the unit. Similarly, imports of raw materials and components were also permitted up to landed value of 3 per cent of the ex-factory value of annual production. It would not include raw materials and components on open general licence. Thus, the same unit could claim import licence for Capital goods as well as raw materials and components. Due to the adverse balance of payment situation, the industrial policy added to the burden of imports. Moreover 100 per cent Export Oriented Units (EOUs) and units to be set up in Export Processing Zones (EPZs) were delicensed under the scheme up to an investment limit of Rs. 75 crores. This reopened the import window under the title of export promotion. Thus the upshot of the entire criticism of the 1990 Industrial Policy was that whereas it aimed to promote small scale and agro-based industries, it did not provide adequate safeguards against encroachments by the large
business houses and multinationals which grabbed the market share of small-scale sector in mass consumption goods and seriously jeopardised the employment generation of the SSI Sector.

**NEW INDUSTRIAL POLICY - 1991:**

A sweeping change in the form of 'New Industrial Policy' was announced by Indian Government on July 24, 1991. The basic philosophy hidden behind this policy is summarized as 'continuity with change'. The main objectives of the policy are:

(i) To consolidate the strengths built up during the last four decades of economic planning and to build on the gains already made.
(ii) To correct the distortions or weaknesses that may have crept in the industrial structure as it has developed over the last four decades.
(iii) To maintain a sustained growth in the productivity and gainful employments, and
(iv) To attain international competitiveness.

For attaining the aforementioned objectives following two factors will be kept in mind.

(a) The need to preserve environment.
(b) The need to ensure the efficient use of available resources.
Policy Measures:

According to the objectives, government took a series of initiatives in respect of the policies related to the following areas:

(A) Industrial Licensing
(B) Foreign Investment
(C) Foreign Technology Agreement
(D) Public Sector Policy
(E) MRTP Act
(F) Small and Tiny Sector.

(A) Industrial Licensing Policy:

In Industrial licensing area, government's role was to exercise control, to provide help and guidance by making essential decisions and eliminate the delay which needed bold and imaginative decisions to remove the restraints on capacity creation (Keeping in mind the national interests of the country).

(i) Industrial licensing will be abolished for all projects except for a number of industries related to strategic concerns and security, social reasons, hazardous chemicals, overriding environmental issues and items of elitist consumption.

(ii) Only a group of six industries where security and strategic concerns predominate will be reserved exclusively for the public sector.
(a) where foreign exchange availability is ensured through foreign equity.

(b) if the CIF value of imported capital goods required is less than 25 per cent of the total value of plant and equipment, up to a maximum value of Rs. 2 crores.

(iii) In locations other than cities having more than one million population industrial approval would not be required from the government except for the industries which requires compulsory licensing.

(iv) Except non-polluting industries, other industries would be located outside 25 kms of the periphery, neglecting prior designated industrial areas.

(v) The mandatory convertibility clause for new projects would not be applicable for term loans from the financial institutions.

(B) **Foreign Investment** :

(i) In order to invite foreign investment in high priority Industries 34 such industries were recognized. Such priority is given when the foreign equity covers the Foreign Exchange requirements on capital goods.
(ii) For the export promotion of Indian products in international market, the government would encourage the foreign trading companies to assist the Indian export companies in export activities.

(iii) A Board having special power will be constituted to negotiate with large international firms and approve direct foreign investment in selected areas.

(C) **Foreign Technology Agreement** :

(i) To give a desired level of technical injection in high priority industries, government would provide an automatic permission of foreign technology upto a lumpsum payment of Rs. 1 crore. 5 per cent royalty for domestic sales and 8 per cent for exports, subjected to total payment of 8 per cent of sales over a ten-year period from date of agreement or seven-year from the commencement of production.

(ii) Similar facilities would be available for other industries if the agreement is not bound to the expenditure of free foreign exchange. Indian companies are to negotiate with their foreign counterparts about their terms of technology as it will be fit for their own commercial judgement.
(D) **Public Sector Policy**: 

The public enterprises have shown a very low rate of return on the Capital Investment. This has inhibited their ability to regenerate themselves in terms of new investments as well as in technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government. The original concept of the public sector has also undergone considerable dilution. The most striking example is the take over of sick units from the private sector. This category of public sector units accounts for almost one third of the total losses of Central Public Sector Enterprises. Another Category of Public enterprises, which does not fit into the original idea of the public sector being at the Commanding heights of the economy, is the plethora of public enterprises which are in the consumer goods and services sectors.

It is time therefore that the Government adopt a new approach to public enterprises. Units which may be faltering at present but are potentially viable, must be restructured and given a new lease of life. The priority areas for growth of public enterprises in the future will be the following:
(a) Essential infrastructure goods and services.

(b) Exploration and Exploitation of oil and mineral resources.

(c) Technology development and building of manufacturing capabilities in areas which are crucial in the long-term development of the economy and where private sector investment is inadequate.

(d) Manufacture of products where strategic considerations predominate such as defence equipment.

(i) Portfolio of public sector investment will be reviewed with a view to focus the public sector on strategic, high-earn and essential infrastructure whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly, the public sector will also be allowed entry in the areas not reserved for it.

(ii) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/
rehabilitation scheme, be referred to the Board for Industrial and Financial Reconstruction.

(iii) In order to raise resources and encourage wider public participation, a part of the government's share holding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

(iv) Boards of public sector companies would be made more professional and given greater powers.

(v) There will be greater thrust on performance improvement through the Memorandum of understanding (MOU) system through which managements would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective.

(vi) To facilitate a fuller discussion on performance, the MOU signed between Government and the public enterprise would be placed in parliament. While focussing on major management issues, this would also help place
matters on day to day operations of public enterprises in their correct perspective.

(E) **Monopoly and Restrictive Trade Practices Act (MRTP Act)**:

The complexity was increased due to growing structure of industries and the need was to attain economies of scale to get higher productivity and competition in the market. So, it was decided that threshold limit of assets of MRTP and other dominant companies will be removed which were earlier governed by the MRTP Act - through the interference of government on its investment decisions.

With this change, the government's approval will not be required for establishment of new undertakings, expansion, merger, amalgamation and takeover of existing firms. Emphasis would be fully concentrated on the control and regulation of monopolistic, restrictive and unfair trade practices.

**List of Industries in Respect of Which Industrial Licensing will be compulsory**:

1. Coals and lignite
2. Petroleum (other than crude) and its distillation products.
3. Distillation and brewing of alcoholic drinks.
4. Sugar
5. Animal fats and oils
6. Cigars and Cigarettes of tobacco and manufactured tobacco substitutes.
7. Asbestos and Asbestos-based products
8. Plywood, and decorative veneers and other wood based products such as particle board, medium density board block board.
9. Raw hides and skins, leather, chamois leather and patent leather.
10. Tanned or dressed furskins
11. Motor cars
12. Paper and newsprint except bagasse-based units
13. Electronic aerospace and defence equipments of all types.
14. Industrial explosives, including detonating fuse, safety use, gun powder, nitrocellulose and matches.
15. Hazardous chemicals
16. Drugs and pharmaceuticals (According to drug policy)
17. Entertainment Electronics (VCRs, Colour TVs, CD Players, Tape Recorders).
18. White goods (Domestic refrigerators), Domestic Dish, Washing Machines, Programmable domestic
washing machines, microwave ovens, Air
conditioners).

NOTE: The compulsory licensing provisions will not
be applied for the small scale units for any
items reserved for exclusive manufacture in
the sector.

Proposed list of Industries reserved for the public
sector:

1. arms and ammunitions and allied items of defence
equipments defence aircrafts and warships.
2. Atomic Energy
3. Coal and lignite
4. Mineral oils
5. Minerals specified in the schedule of atomic
energy (Control of production and use) order 1953.
6. Railway Transport.

Having examined both the aspects of the
meaning of the term 'Industrial Policy', IPRs of 1948
and 1956 in particular and a number of subsequent
Industrial Policy Statements, most of which centred
round the IPR of 1956 in letter and spirit, we now
turn to discuss the type of industrial development the
country had upto the end of the 'Eighties'. Briefly,
Indian Government exactly up to the mid-eighties accorded commanding heights to the PSUs by investing huge public funds in them and extending their activities to almost every sphere of life. Despite constructive criticism in the Parliament and outside the PSUs failed to provide reasonable rate of return on the invested funds and the 'Public Sector' in a whole proved to be a white elephant to the Government. It is against this background that the following chapter examines the growth and development of PSUs through various Five Year Plans.

REFERENCES


5. Ahmad, M. Mushtaque, Putting Pep into Industry, Financial Express, New Delhi, October 25, 1990, p. 5.


