CHAPTER - II
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HISTORICAL BACKGROUND - INDUSTRIAL POLICY DURING THE PLANS UPTO 1980

The Industrial Policy of India owes its origin to the British period in India. 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 attempt to collect an industrial information."

The Industrial Policy of any nation concerns itself with the growth and development of industries in wider perspective. The term 'Indian Industry' includes all sorts of industries big or small, indigenous or modern. Indian industries made their mark right from the medieval times and earlier. After the fall of Mughal Empire, the Indian textiles evoked the envy of the British who sought to destroy it. Invention of the steam power and machines
helped in laying the foundations of modern industries first in Europe and then elsewhere. In India too, a modest beginning in the field was made during the British regime. However, it was only after the independence that the development of basic and strategic industries was taken up in a systematic and planned manner.¹

The first cotton or jute mill or engineering workshop owned its existence to the efforts of British businessmen who inspired their Indian counterparts to join hands at a later stage to make independent efforts. The general British attitude of apathy or even hostility towards Indian industry accept as a subservient partner, is illustrated by the imposition of cotton excise duties to please Lancashire interests towards the close of the last century and by the lack of any response whatsoever in London's money market for financing the first major enterprises in the country by the 'Tata' at the beginning of this century.²

The East India Company initially encouraged the development of such indigenous industries which catered to its export needs. But the policy was later reversed for the benefit of industries in Great Britain and the

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¹ Ahmad, M. Mustaque; "Putting Pep into Industry", Financial Express, New Delhi, October 25, 1990, p.5.
Government followed the 'lassez faire' policy. Towards the end of the century, a few attempts were made to introduce a more progressive policy. Mr. Alfred Chetterton was appointed on special duty to organize and develop technical trades and industries like handloom weaving, leather tanning, well boring, aluminium manufacture etc. The first upsurge of the Swedeshi Movement occurring about this time and gathering momentum by subsequent events gave an impetus to industrialization. In 1905, the Commerce and Industry department was set up with a view to stimulate a coordinated industrial policy in the provinces. Separate Provincial Departments of industries were set up to which were assigned the task of pioneering new activities such as active cooperation and granting loans in the department of aluminium and leather tanning industries. The hostile attitude of the Secretary of State, Lord Morley and the protest of the British vested interests could be overcome by the popular demand for a more progressive industrial policy.

After 1910, Provincial Directors of Industries were appointed to collect and disseminate information, carry on

research, supervise industrial training and advise government on technical matters. When the First World War broke out in 1914, industries had not sufficiently developed to cope with the new situation. An urgent need was felt to foster a new constructive economic policy in India. Therefore, the British Government appointed an Industrial Commission in 1916 to conduct comprehensive survey of Indian resources and industrial possibilities which submitted its report in 1918 with the recommendation that the Government should help the large organised industries by providing for a fully equipped provincial industrial and chemical service with an adequate scientific staff and by creating provincial departments of industries.\(^6\)

On the outbreak of the Second World War in 1939, India was industrially as backward as at the time of World War First. For the successful prosecution of War, the Government had to liberalize her policy towards industries. Accordingly in 1940, the Board of Scientific and Industrial Research was created at the Centre. Facilities for technical training in the country were also greatly expanded. A large number of young men were also sent abroad to get advanced technical training. Moreover, the Government came out with a clear assurance that the

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industries established during the War would not be left unprotected after the war.

The period of World War II saw a notable expansion in many of the industries of undivided India. In 1944, the Government of India established a Planning and Development Department under Sir Ardeshir Dalal. This Department issued a statement of Industrial Policy in April, 1945. The aim of this announcement was to remove the uncertainty which appeared to impede plans of development of private enterprises. The main objectives of this statement were:

i) to increase the national wealth by maximum exploitation of the resources of the country.

ii) to prepare the country for better defence, and

iii) to make a provision of a high standard of employment.

Keeping in view the above objectives, the Government prepared a list of basic industries of national importance which included "aircraft, automobiles and tractors, chemical and dyes, iron and steel, prime movers, transport vehicles, electrical machinery, machine tools, chemicals and non ferrous metal industries. Apart from these key industries, it was laid down that certain industries where tax element was predominant might also be taken over by the Government. All the remaining industries
would be left for private enterprise. In October, 1946, the Government of India appointed for Advisory Planning Board to deal with the question of defining the boundaries between State and the private enterprise. The board remarked in its Report that "Industrial development of the country might not be very rapid, if the State attempted to take in its own hands the ownership of a large number of Industries." The Board suggested in its report that coal, iron and steel, motor, air and river transport should be nationalised. Thus, the Board included only iron and steel industries in the list of industries which were to be nationalised. In December, 1947, an Industrial Conference was held in New Delhi under the chairmanship of the Minister of Industries and Supply of the Government of India which delimitated the scope of State and private enterprise in the interest of the industrial development of the country. This Industrial Conference adopted a resolution indicating the industries (i) which should be under State ownership and management, (ii) which may be jointly owned and managed by the State and private sector, and (iii) which should be owned and managed by private enterprise. 7

Post Independence Industrial Policy

No country, desirous of rapid economic growth, can afford to neglect industries. This fact had been realized by India as soon as it achieved independence. The realization got expression in the strategy of development that was adopted for the Five Year Plans. In this strategy, major emphasis had been laid on the growth of industries, especially heavy capital goods industries: the major objectives have throughout been to achieve rapid economic growth and to remove poverty. The achievement of these objectives and a successful operation of strategy required a consistent industrial policy to be followed by the Government.

The industrial policy presently being followed in India was announced on July 24, 1991. Till then, the industrial policy was being formulated within the broad framework provided by the Industrial Policy Resolution, 1956 which itself was a modified version of the Industrial Policy Resolution, 1948, announced on April 6, 1948. After independence the things were unstable and unsettled. There were fears of total nationalization of industries by the Government. Indigenous and foreign entrepreneurs were shy to invest in India. Labour relations were very disturbing. In such a atmosphere, it was natural that industrialization could not be hoped to be promoted. 8

The period was marked by typical post-War inflation throughout the world. The Indian production had declined but the population was rapidly increasing. Inflation worsened due to the political disturbance of the country and the problem of refugee rehabilitation. Hence, a general increase in production and to counter inflationary tendencies were thought to be the important components of the Industrial Policy to be adopted by the government. Keeping in view the economic conditions of the nation, the Government announced such an industrial policy statement which came to be known as Industrial Policy Resolution, 1948 (I.P.R, 1948).

The main objectives of the 1948 Resolution were the following:

a) to establish a social order where justice and equality of opportunities could be assured to all the people;
b) to promote rapid rise in the standard of living of the people by exploiting the hidden and available resources of the country;
c) to accelerate production by all possible means to meet the needs of growing population; and
d) to provide more opportunities for employment.\(^9\)

The main emphasis of the Resolution was to increase
The main emphasis of the Resolution was to increase the wealth of the country through rapid and balanced industrialization and thus raise national as well as per capita income. A noteworthy feature of the resolution was to say goodbye to the 'laissez faire' policy. Besides, the Industrial Policy Resolution envisaged the policy of mixed economy, according to which the State must play a progressively active role in the industrial development of the country. 10

The Industrial Policy Resolution of 1948 made a clear demarcation of industries into the following four categories:

(a) The first category of industries consisting of the manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport were the exclusive monopoly of the Central Government. Besides, it was also laid down that the Government would also have power in an emergency to take over any industry vital for national defence.

(b) The second category of industries consisting of coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless equipments (including radio receiving sets) and minerals

10. India's Industrial Economy, The Statesman, Delhi, April 7, 1948, p.5.
were reserved for the production and control by the Central or the State Government undertakings.

Besides, the industries which were covered by the above category 'b' but were already in the private sector, all such industries were allowed to continue in the same sector for a period of 10 years. During this period, all the facilities for expansion and development were to be allowed. On expiry of this period, the Government had to decide whether to take over the management of the industries in the light of the circumstances prevailing at that time. If the State was to acquire any undertaking, compensation would be paid on a fair and equitable basis.\textsuperscript{11}

(c) 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 in consultation with the State Government concerned. It comprised some basic industries of importance including salt, automobiles, heavy machine tools, heavy chemicals, fertilizers, tractors, prime movers, electronics, electrical engineering, heavy machinery, electro chemical industries, non-ferrous metals, rubber manufactures, power and industrial alcohol, cotton and woollen textiles, cement, sugar paper and newspaper, air and sea transport, minerals and industries

\textsuperscript{11} Text of Industrial Policy Resolution; The Statesman, Delhi, April 7, 1948, p.5.
relating to defence. It was also laid that the Central Government could undertake any industry vital for national defence.

(d) The fourth category comprising the remaining industries not covered by the above categories was left open to private enterprise, individual and cooperative. Besides, it was also laid down that the State would be allowed to participate progressively even in this field and it will not hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory. 12

2. **Cottage and Small Scale Industries**:

These industries were assigned a predominant role in the fuller utilization of local resources of the country and reaching the goal of self sufficiency in consumer goods. These industries were seen as offering good scope for employment in rural and urban areas, and for centralization of income and wealth. The State Government would have to extend financial assistance for their expansion.

3. **Foreign Capital**:

The Resolution recognized the need of foreign

12. India's Industrial Policy; the Statesman, Delhi, April 7, 1948, p. 5.
capital and enterprise to speed up the pace of industrialization. The importance of foreign industrial techniques and know how was specially emphasized. However, it was laid down that as a rule the major interest in ownership and effective control should always be in Indian hands and that facilities be provided in foreign concerns to train Indians so that they could eventually take independent control themselves.

4. Industrial Relations:

The Resolution also rightly pointed out the need for healthy industrial relations. By industrial relations we mean the relation between the management and the employees. It was stressed that fair wages, housing and other facilities for good living and a share in the profits (also known as Bonus) should be provided to the labour class. Only then could the industries take for granted the cooperation of the labour class.

5. Tax System:

The Industrial Policy Resolution, 1948, stressed that such a tax system should be evolved in the country which should encourage saving and investment, ensure growth of new industries and help in reducing inequalities in distribution of income and wealth.

In short, the main thrust of the 1948 Industrial Policy Resolution was to lay the foundation of mixed economy in which both the public and private enterprises would march hand in hand to accelerate the pace of industrial development. Moreover, the industrial programmes of the Five Year Plans were formulated with this concept in view.

**Industrial Policy Resolution, 1956:**

After the announcement of the I.P.R., 1948, three major developments took place in India: (a) enactment of the Constitution that guaranteed certain fundamental rights to all the citizens of India and laid down the Directive Principles of the State Policy; (b) acceptance of the objective of the establishment of a socialistic pattern of society; and (c) successful completion of the First Five Year Plan (April 1951 – March 1956). In the light of these changes, the formulation of a new industrial policy was called for. Hence, the Industrial Policy Resolution was announced on April 30, 1956, replacing the I.P.R., 1948.14

1. **The New Classification of Industries:**

The I.P.R. 1956 was quite comprehensive and specific as compared to the I.P.R., 1948. It classified industries into three categories having regard to the role

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played by the government. It consisted of:

(a) Schedule A. Exclusive Responsibility of the State:

This included seventeen industries, mostly public utilities, basic and strategic industries and essential services requiring heavy investments. All the measures needed for their establishment and development were taken by the State and it could also seek the help of the private sector for setting up new units wherever the national interest so required. The Central Government would have an absolute monopoly over the establishment and development of the railway transport, arms and ammunition and atomic energy. Wherever cooperation with private participation was necessary, the State would ensure the interests of the country either through the capital or otherwise. Thus, the State had the power to guide the policy and control the operations of the undertakings.

(b) Schedule B. Progressively State owned:

It listed twelve industries and included such industries as machine tools, anti-biotics, sea transport, fertilizers, road transport, basic and intermediate products required by chemical industries like manufacture of drugs, dye stuffs and plastics, synthetic rubber and so on. The State would take the initiative to establish new enterprises. The private enterprise would be allowed to supplement the efforts of the State.
(c) Schedule C. Other Industries:

Industries falling outside the schedule A and B were included in this schedule. These industries were left open for the private enterprises, but private enterprises were subject to the control and regulation of the State through industries (Development and Regulation) Act, 1951 and other relevant legislations. Industries under this schedule were mostly consumer goods industries. The policy of the Government would be to facilitate and encourage the private enterprise in the development of industries according to the policy and programmes of successive Five Year Plans by ensuring the development of the transport, power and other services and by appropriate fiscal and other measures. They were also fit into the framework of the social and economic policies of the state.

In spite of this clear cut division of industries into three categories, these were not water-tight compartments and room for exceptions could be made. In appropriate cases, private enterprises might produce an item in schedule A or in schedule B for meeting the industry's own requirements or as by products. The basic objective of the Resolution was to create a mixed economy in India.

15. Ahmad, M. Mushtaque, ; Putting Pep into Industry, Financial Express, New Delhi, October 25, 1990, p. 5.
2. **Role of Cottage and Small Scale Industries**: 

The vital role of these industries was recognized by the Government in the industrial development of the Indian economy for the following reasons: These industries provide immediate employment, opportunities on a large scale, ensure a more equitable distribution of national income, facilitate effective utilization of latent resources of capital and skill and avoid evils of urbanization. The IPR laid down that the State would constantly endeavour to support these industries through measures like restricting the volume of production in the large scale industries, by differential taxation, or by direct subsidies and so on. Financial assistance was also provided for improving and modernizing the techniques of production and thereby improve their competitive strength.  

3. **The Need for Removing Regional Disparities**: 

It was also well recognized that the industrial development in India was lop-sided. So, it was imperative that the economic policy had to aim at progressively reducing the disparities in the levels of development. As the concentration of industries was influenced by a number of factors such as the abundant supply of raw material, power and transport facilities, the Government decided to

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make some of these facilities available through planning in all those areas which were industrially lagging behind and where employment opportunities on large scale were brighter. So from this standpoint, the Resolution stressed the necessity of reducing the regional disparities through the planning process by securing a balanced and coordinated development of the industrial and agricultural economy in every region so that the entire country could attain higher standards of living.

4. **Training of Technical and Managerial Personnel**:

It was also recognized that the programmes of industrial development would ultimately demand technical and managerial personnel on a large scale. So to meet the shortage of these people, the Resolution stressed the development of the technical and managerial cadres and personnel at supervisory levels through such measures as apprenticeship scheme of training, extending training facilities in business management in universities and other institutions.

5. **Amenities for Labour**:

Provision of improved living and working conditions to workers was stressed with a view to raising their efficiency as they were very important to maintain sound industrial relations and industrial peace. In a socialistic democracy, labour is a common partner in the common task of development and should participate in it
with enthusiasm. And that's why, the Resolution provided that there should be joint consultation of workers and technicians, wherever possible and that labour should be associated with management.

6. Decentralization of Authority:

With the active participation of the State in the industrial field, it became very important to distribute the responsibility between the Centre and the State. Hence, the Resolution laid down that there should be decentralization of authority wherever possible and they should pursue on business lines.

In short, the Industrial Policy Resolution, 1956 was a positive improvement over the Industrial Policy Resolution, 1948 with the basic objective of establishing the socialist pattern of society. It was very comprehensive and contained the policies, procedures, rules and regulations which were essential to control industrial undertakings and shape the pattern of industrialization. It incorporated the fiscal, monetary, tariff and labour policies of the Government and its attitude towards public and private sectors. It also envisaged Government's attitude towards foreign assistance. In view of all the above salient features the IPR, 1956 may be described as an 'economic constitution' based upon its political counterpart, the Constitution of
India. However, some people strongly criticised the IPR, 1956. In the words of Mr. H. Venkata Subbaiah, "the Resolution of 1956 superimposed a political philosophy on the economic philosophy of the Resolution of 1948". Mr. Eugen Black, the then President of World Bank was of the opinion that this policy, if rigidly applied, could only result in imposing heavy additional burdens on the already over stained, financial and administrative resources of the public sector and restrict the rate of economic development in these vitally important fields. The Industrial Policy Resolution brought to the fore that unless the State plays an active role in the industrialization of the nation, the evils that would emerge from time to time in a developing economy, could not be removed.


17. The Statesman, Delhi, May 1, 1956, p. 1.
With a view to relax control and encourage the growth of medium sized industries, the expansion limit for obtaining licence under the Industries (Development and Regulation) Act, 1951, was revised in 1964 from Rs. 10 lakhs to Rs. 25 lakhs. Moreover, measures were taken to streamline and expedite the procedures of licensing, import of raw materials and capital goods, issue of capital and approval of foreign collaboration agreements. Industries such as Cement and Paper were exempted from licensing provision of the Industries (Development and Regulation) Act, 1951. In 1991, a number of sections of the IDR Act, 1951 with respect to licensing have been revised vide Government notification no. 477/E of July 25, 1991.

As mentioned above, the industrial development during the Fourth Five Year Plan was guided by the broad principles enunciated under the Industrial Policy Resolution, 1956 which did not provide for a conducive climate for the industries in private sector. A number of measures were taken by the Government to encourage the private sector during the Fourth Five Year Plan period. In order to deal with the problem of sickness in industrial units, the Industrial Reconstruction Corporation (IRC) was established to assist undertakings which had closed or were threatened with closure. In order to remove uncertainties, a modified Industrial Licensing Policy was
announced in February 2, 1973. To expedite decision on applications for licences from the private sector, the Secretariat for Industrial Approvals was constituted in November, 1973 with a time bound schedule for scrutiny of different aspects of such applications.

Simultaneously, the Monopolies and Restrictive Trade Practices Act 1969 (MRTP Act, 1969) was brought into force from June 1, 1970 with a view to check concentration of economic power and to provide for the control of monopolies. In the name of checking concentration of economic power, the Government simply discouraged the private sector and tightened its grip not only on the public sector undertakings but actually extended it to industries producing consumer goods. In pursuance of the policy of dispersal of industries, backward districts were provided with concessional finance from financial institutions alongwith 15 per cent investment subsidy by the Central Government. A scheme for transport subsidy was initiated for industries located in Jammu & Kashmir. Other States and Union Territories in the North Eastern region, Himachal Pradesh, Hill districts of Uttar Pradesh, and Andaman, Nicobar and Lakshadweep islands.

The Government of India reaffirmed that the Industrial Policy Resolution, 1956 would continue to govern the direction of Industrial Policy during the Fifth Five Year Plan period. Consequently, in the Fifth Five
Year Plan it was laid down that the public sector would also undertake to build industries in such essential consumer industries like paper, drugs and pharmaceuticals and textiles. It was also envisaged that the cooperative sector would be encouraged particularly in the development of additional capacity in agro-based industries and mass consumption goods. The Industrial Licensing Policy for the Five Year Plan was set out in February, 1973.¹⁹

The Government considered it desirable to update the Industrial Licensing Policy, 1970 formulated in the context of the Fourth Five Year Plan, in order to reflect the approach to the Fifth Five Year Plan and taking into account the legal and institutional arrangements that were then available for the effective control of the concentration of economic power.

Industrial Policy Statement, 1973:

Though the Congress Government was not able to develop an efficient public sector, it was going ahead with programmes of progressive nationalization and expansion of the public sector. This created uncertainty in investment climate and thus discouraged the private sector investments, resulting in slow rate of growth of industrial production — the logical consequence of the

inherent contradiction in the mixed economy. Before, the Government, decided to modify its policy and announced its modified industrial policy on February 2, 1973, in the context of the approach to the Fifth Five Year Plan. The press note issued on this matter stated that the Industrial Policy Resolution, 1956 would continue to govern Government's policies for achieving the objectives of growth with social justice and self reliance in the industrial sphere.

The Government was to assure the private sector that no more nationalization of industries was being contemplated. The large houses were assured of greater liberalization in the grant of industrial licences without much interference by the Monopolies and Restrictive Trade Practices Commission (MRTPC). The liberalization was welcomed in the private sector. 20

Industrial Licensing Policy, 1975:

The Government announced major changes in liberalizing industrial licensing policy in October, 1975. It delicensed 21 industries and permitted unlimited expansion of production capacity by monopoly houses and foreign companies provided the excess production is either exported or sold in accordance with the directions of the Government. The medium entrepreneurs, not covered by the

MRTP Act, were not required to obtain a licence upto Re. 1 crore in the case of new units and upto Rs. 5 crores in case of expansion. This delicensing covered heavy investment industries. 21

Industrial Policy Statement, 1977:

The new industrial policy was announced by the Government of India on December 23, 1977 but the Government made it clear that the broad framework of Industrial Policy Resolution, 1956 was still valid. The reasons were that for the last twenty years, the policy of the Government in the sphere of industry had been governed by the Industrial Policy Resolution of 1956 and some of the elements of the Resolution with respect to the desirable pattern of industrial development were still valid. The results of actual policies in the industrial fields had not been upto the exception or declared objectives.

The growth of per capita national income during the last ten years had been about 1.5 per cent per annum and was obviously inadequate to meet the needs of a developing economy. During the period, unemployment had increased specially because of rapid increase in the population as compared to the job opportunities, rural and urban disparities had widened and the rate of real investment

had stagnated. The growth of industrial sickness in the last decade had become widespread and some of the major industries were the worse effected. The pattern of industrial costs and prices had tended to be distorted; and dispersal of industrial activity away from the larger urban concentrations had been very slow. The new Industrial Policy must, therefore, be directed towards removing the distortions of the past so that the genuine aspirations of the people could be met within a time bound programme of economic development. The main elements of the Policy statement were as follows:

A. Cottage and Small Scale Industries:

The main thrust of the policy would be an effective promotion of cottage and small scale industries widely dispersed in rural areas and small town as against the large scale industries dominated by big industrial houses and multinationals. It was also suggested that such an encouragement of the cottage and small scale industries would, on the one hand lead to extension of employment and on the other hand, lead to a reduction in concentration of economic power. The small scale sector was further classified into three categories:

a) Cottage and household industries which provide self employment on a large scale;
b) Tiny sector incorporating investment in the industrial units in machinery and equipment upto Rs. 1 lakh and situated in towns with a population of less than 50,000 according to 1971 census;

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

The measures suggested for the promotion of small scale and cottage industries were the following:

(i) The list of items reserved for the small scale sector had been significantly expanded to include 504 items (which was later raised to 807) as against 180 items earlier. According to the Census of Small scale industries conducted in 1973-74; total number of products manufactured by small scale units was 2,400, then why only 807 items were put on the reserved list. This implied that the area of reservation was still very narrow.22

(ii) The Government proposed to give special assistance to the tiny sector as well as to cottage and household industries in the form of margin money assistance.

(iii) It was proposed to set up in each district an agency known as 'District Industries Centre (DIC)' to deal with all the requirements of small and village industries and under the single roof of the DIC, all the services and support required by small and village entrepreneurs would be provided. In order to provide **effective financial support for promotion of small, village and cottage industries**, the IDBI had taken steps to set up a separate wing to deal exclusively with the credit requirements of this sector and also coordinate, guide and monitor the entire range of credit facilities offered by other institutions to this sector.23

(iv) Khadi and Village Industries Commission: In 1977, only 22 villages industries were within the purview of the Khadi and Village Industries Commission. It proposed to revive the commission with a view to enlarge its areas of operation. In the programme of development of village industries, the promotion of khadi was given a special place, whether it was polyester khadi or 'Nai khadi' keeping in view that it would improve the productivity and earnings. Khadi and Village Industries Act was amended to permit the implementation of a large scale programme in "Nai Khadi". The Government was committed to financial and

marketing support that was needed for the promotion of khadi programme. The Government proposed to progressively meet the clothing needs of the masses through the development of handloom sector, which provided employment to the bulk of the people engaged in the production of textiles.\textsuperscript{24}

(v) Appropriate Technology for Small and Village Industries:

Special arrangements would be made to ensure an effective and coordinated approach for the development and widespread application of suitable small and simple machines and devices for improving the productivity and earning capacity workers in small and village industries. It would further be the Government's endeavour to fully integrate such appropriate techniques of production with the broader programme of all round rural development.\textsuperscript{25}

B. Large Scale Industries:

The New Industrial Policy stated that, in addition to the small and village industries, there would be the role of large scale industries related to the programme for meeting the basic minimum needs of the population


through wider dispersal of small scale and village industries and strengthening of the agricultural sector. Therefore, the Policy Statement prescribed the following areas for large scale sector:

(a) basic industries which were essential for providing infrastructure as well as development of small and village industries such as steel, non ferrous metals, cement, oil refineries;

(b) capital goods industries for meeting the machinery requirements of basic industries as well as small scale industries;

(c) high technology industries which require large scale production, and which are related to agricultural and small scale industrial development such as fertilizers, pesticides, and petro-chemicals etc; and

(d) other industries, which were outside the list of reserved items for the small scale sector, and which were considered essential for the development of the economy such as machine tools, organic and inorganic chemicals. 26

Large Business Houses:

The Policy stated that the growth of large houses

had been disproportionate to the size of their internally
generated resources and had been largely based on borrowed
funds from public financial institutions and banks. This
process must be reversed.

The future expansion of large business houses would be guided by the following principles:

(a) The expansion of existing undertakings and establishments of new undertakings would continue to be subject to the provisions of the MRTP Act.

(b) Except in the case of industries eligible for automatic growth of capacity, the expansion of existing undertakings into new lines and establishment of new undertakings by Large Houses would require specific approval of Government;

(c) Large Houses would have to rely on their own internally generated resources for financing projects or expansion of the existing ones.

**Public Sector** :

The New Industrial Policy specified that the public sector would not only be the producer of important and strategic goods of basic nature, but it would also be used
effectively as a establishing force for maintaining essential supplies for the consumer. The public sector would be charged with the responsibility of encouraging the development of a wide range of ancillary industries, and contributing to the growth of decentralized production by making available its expertise in technology and management to small scale and cottage industry sectors.

**Indigenous and Foreign Technology**:

In order to promote technological self reliance, the government recognized the necessity for continued inflow of foreign technology in sophisticated and high priority areas where Indian skills and technology were not adequately developed. In such areas, Government's preference would be for outright purchase of the best available foreign technology and then adopting such foreign technology to the needs of the nation.

**Foreign Investment**:

The Policy Statement laid down that in areas where foreign technology know how was not needed, existing collaborations would not be renewed and foreign companies operating with their investment upto 40 per cent in such fields would have to modify their character and activities in conformity with national priorities within the framework of the Foreign Exchange Regulation Act,
(FERA) 1973. The Statement further pointed out that as a rule, majority interest in ownership and effective control would be in Indian Hands, though the Government might make exceptions in highly export oriented and/or sophisticated technology areas. In hundred percent export oriented cases, the Government might consider even a fully owned foreign company.

**Workers' Participation in Management:**

The Government decided to examine the possibilities of encouraging workers' participation in the equity of industrial units, without in any way adversely affecting their interests. Such equity participation together with an active association of workers in decision making from the shop floor level to the Board level would provide the necessary environment for a meaningful participation by workers in the management of the industry.

**Sickness in Industry:**

The Industrial Policy Statement proposed to impose certain punitive restrictions on those who were considered responsible for sickness. In order to protect employment, government considered measures whereby managers or owners who were responsible for mismanaging and turning their units sick were not permitted to play any further part in the management of other units.
In short, industrial development is a complex process requiring the effective interaction and cooperation of all sections of society. If the objectives of the Industrial Policy Statement of 1977 could accelerate the pace of Industrial growth, then rapid increase in levels of employment, productivity and income of industrial workers and wide dispersal of small and village industries would have been achieved to a large extent. As a matter of fact, willing cooperation of industrial workers, trade unions, managers, entrepreneurs, financial institutions and various government authorities responsible for implementing schemes of assistance are pre-requisites of speedy industrial development. The main thrust of the policy was to be born by the industrial workers and managers who were second to none in their skills and efficiency. They should work together in a spirit of dedication to the national cause.

The year 1977 had been the year of historical changes and people's expectations in the political and economic fields were high. The Congress Government, which ruled the country for three decades, had been dethroned for the first time. The concept of Rolling Plans was introduced along with a new direction to the industrial policy with the hope of shaping a just and equitable society in which benefits of industrial development would
be shared by all the people. Though the Janta Government was short lived in the sense that it remained in power for about three years, it introduced certain good changes in its industrial policy. Re-classification of industries raising of foreign investment limit and allowing ownership by foreigners in cases of hundred per cent export oriented industries were some of the good steps the government took. It not only created a sort of awakening among the masses but also paved the way for the subsequent Congress Government, which again came to power in 1980, to include some of its measures in the Industrial Policy Statement of 1980. It has been discussed in the following chapter.

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