CHAPTER I

SCOPE OF THE STUDY

INTRODUCTION:

As early as 1916, the Indian Industrial Commission was established for conducting a comprehensive survey of Indian resources and potentialities for industrial development. However, it did not lead to any attempt towards formulation of a positive and well coordinated industrial policy for India as the government was interested in keeping India as a primary commodity producing country. During the Second World War, the British Government because of the compulsion of war needs, became very conscious of industrial expansion, research and training consequently the Board of Scientific and Industrial Research was set up in the year 1940. This was followed by the creation of a Department of Planning and Reconstruction at the Centre. The freedom struggle which had slowed down a little during the World War gathered tremendous momentum and the country became independent in 1947. It is to be noted here that during the British regimen no sincere and concrete efforts were made towards industrialization of the country. Whatever steps were taken in this direction were only because of the compulsions of one kind or the other. The Industrial policy of Independent India was first enunciated in 1948.
This was the first concrete attempt to enunciate a comprehensive industrial policy for the country and it has served as the kingpin of planning for industrial development of India.¹

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 policy. The first component of industrial policy is the philosophy which consists of an approach to, and the 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. The following example will make the concept of capitalism more clear. Suppose a person owns a car, it is his private property and he is free to decide how to use it, whether to take it to his office or not. He may oblige his friends by making available the car to them for use or may refuse to do so.

¹ Kothari, C.M.; Kothari's Industrial Dictionary of India, Kothari Enterprises, Madras, 1992, pp.1 29.
He may sell it off and purchase a new one. Similarly, the farm land too that he owns, is his private property. Thus, Fords, Coca Cola, Pepsi Cola, Lever Brothers, Suzuki, Toyota, Honda, Kawasaki, Mazda, Tata, Birla and so on are the private owners of the means of production. Government is not supposed to interfere with their functioning. Such a capitalistic economy (also known as 'Free Market Economy) has been functioning in United States of America (USA), United Kingdom (U.K.), Canada, Japan, South Korea, Hong Kong and Western Europe. After the dismemberment of the USSR in 1989, almost all socialist countries have also switched over from the centrally planned economies to the market oriented economies.

However, there are many limitations associated with this system. Under the system, the society came 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.

The second category is Socialism or Socialistic Economy which regards the 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 house holds and the firms. This type of economic
system was first of all adopted by a group of republics
called the Union of Soviet Socialist Republics (USSR) or
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.

This 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.

As a result, the entire East European countries
including Russia and other newly independent Republics
which have organized themselves into the Commonwealth of
Independent States (CIS) have given up socialism. China, Cuba, Vietnam and North Korea are the only countries which are still continuing with socialism.

However, elsewhere in the world, the need had been felt to evolve a system wherein the private enterprise is allowed to work, make its own decisions and grow and simultaneously, the Government are also empowered to play an important role in promoting economic development of their countries. In doing so, the government owned the mean of production, participated in decision making and gave a general direction to the private enterprises for th overall economic development of their countries. The system came to be known as Mixed Economic System.

The Mixed Economy as already pointed out, is a combination of both the capitalistic economy (i.e. market oriented economy) and the socialist economy (i.e. Government owned economy). This economic system in 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 Tatas, Birlas, Modies, Dalmias and so on are very much of private entrepreneurs or Industrialists while the Government has also actively participated, owned, controlled and managed the various production units in the Indian economy. Steel Authority of India Ltd. (SAIL), National Textiles
Corporation (NTC), air India, State Bank of India (SBI), Delhi Transport Corporation (DTC), DMS, Modern Bakeries and so on are the production units which are owned by the Government and constitute what is known as the public sector of the economy. The public sector and private sector both exist side by side in the system. Under the system, the industries were classified into different categories:

a) Exclusively reserved for the public sector.
b) Left open both for the public sector and the private sector.
c) The Government and the private enterprise may, at times, join hands to set up production units, such production units are jointly owned by the Government and the private enterprise which constitute the joint sector of the economy.

Although, the households and firms were free to take their own decisions, the Government used to influence their decisions through various instruments and controls such as industries (Development and Regulation) Act, 1951 and the tools of economic planning. The Government can undertake those works and projects which are essential for social welfare and require very huge investments as the private enterprise are generally not interested in such activities because of low profit margins. Moreover
there are certain projects which are beyond the financial capability of private enterprise and as such the Government itself can undertake such projects.²

Usually, objectives of industrial policy are very much specific to the countries concerned and they are formulated keeping in view the aspirations of the people, their limitations, level of technology and other natural resources. In a capitalistic economy, the pace and pattern of industrial development are, by and large, governed by the market forces. In a socialist economy, plans embody the goals set by the government while in a mixed economy, objectives of development are set by the planning body in consultation with the Country's Development Council. In India, the objectives are set by the Government Body known as the Planning Commission in consultation with the National Development Council keeping in view the social priorities and the capabilities of the private sector.

The second component of industrial policy is to provide the manners of its implementation which gives the practical shape to the philosophy of the policy. In the context of Mixed Economy, the industrial policy is expected to include such features as principles, procedures, rules and regulations which are intended to

² Dhingra, I.C. & Garg, V.K.; An Introduction to our Economy, Sultan Chand & Sons Ltd., New Delhi, 1992, pp. 5-11.
control and regulate industrial undertakings both large scale and small scale; policies relating to the division of industries into public, private, joint and cooperative sectors; participation of foreign enterprises, their management, their investment and the like.³

Licensing and regulation of important industries are the main instruments of the industrial policy in India. Industrial licensing regulation has its legislative sanction in the Industries (Development and Regulation) Act, 1951. The main provisions of the IDR Act, 1951 are as follows:

1. that all scheduled undertakings should have a compulsory registration with the Government within a specified period;

2. that licences should be obtained from the central Government by all new undertakings to be established and by the existing undertakings for their substantial expansion;

3. that the Government may fix the prices of the products, the pattern of share distribution of an industrial unit etc.

4. that the Government could order an investigation in respect of any scheduled industry, or undertaking if

³ Datt, Ruddar, and Sundaram, KPM; Indian Economy, Sultan Chand & Company Ltd., New Delhi, 1992, p. 123.
it so needed;

5. that in the case of failure to carry out the
directions issued after such investigation, the
Government could take over the management of such
industries or undertakings.

The IDR Act provided five types of licences:
(i) new undertakings; (ii) substantial expansion, (iii)
the production of new articles; (iv) change in the
location — either part or whole of the undertakings, (v)
carrying on business.

The IDR Act further provided for the
establishment of the licensing Committee, the Central
Advisory Council and the Development Councils.
The Licensing Committee has representatives of the
Ministries concerned and the Planning Commission. It is an
advisory body and is expected to make such investigation
in respect of any application and make a report to the
Government. There is the Central Advisory Council set up
for industries for consultation in regard to problems
relating to the administration of the Act and other
matters pertaining to the development of industry. The
Development Councils for individual industries consist of
representatives from industrial undertakings, issued under
the forementioned Act employees and consumers. The main
objective of these councils is to act as a liaison between
the public and the public sectors and to ensure that the
private industry conforms more and more to the planned pattern of development.4

However, the licensing provisions under Sections 10, 11, 11A and 13 of the IDR Act, 1951 were very cumbersome for the industrial growth of the country. As such, the government of India vide its notification no. 477/E of July 25, 1991 has set aside the operation of these sections. The press Note sets out the changes in the existing system and procedures for industrial approvals arising out of the aforesaid notification.

Besides, the industrial policy is to produce the wherewithal (necessary funds and resources) for working out the plans. In a capitalist market economy, intervention is necessary because fluctuations or movements in market prices and profits act as signals for the resources to increase or decrease and get allocated or reallocated to different uses. Sometimes, the Government has to intervene to correct market distortions through monetary measures like changes in interest rates, quantity of money, etc. and fiscal measures like taxes, subsidies, etc. In a socialist economy, the plan lays down the rate and shape of industrial set up. It also uses the instruments of monetary and non-monetary incentives and

praise or punishments for the promotion of its goals. In a mixed and capitalist economy, state interventions are made use of. Market prices and profits determine the volume of production and consumption in the economy. At the same time, state intervention becomes necessary for demarcation of spheres between the public and the private sectors and for the regulation and control of private sector to ensure the implementation of plan priorities.5

In its wider perspective, the concept of industrial policy is comprehensive and it covers all those procedures, principles, policies, rules and regulations which control the industrial undertakings of a nation and shape its pattern of industrialization. It incorporates fiscal and monetary policies, tariff policy, labour policy and Government’s attitude not only towards external assistance but towards the public and private sectors also. In short, Industrial Policy provides guidelines for the effective coordination and integration of the activities of various sectors of the economy with a view to achieve a balanced and self-reliant pattern of development that can ensure rapid growth of output and employment.6


Industrial Policy in Developing Countries

In third world countries, it has now been realized by almost all that an appropriate Industrial Policy of State intervention is a must for the development of an underdeveloped economy. It is all the more true in case of countries supporting large population with limited resources. In such countries, a well designed industrial policy is important for several reasons:

Firstly, a policy is necessary as the task of industrialization is enormous and requires participation of the Governments in a big way. The private sector, own its own, cannot find and often is not willing to invest enough resources to undertake the task, specially providing infrastructure where investments are huge and returns are comparatively very low or negligible. Hence, the government will have to earmark areas of economic activity for itself, while leaving certain areas for private enterprise, and listing areas where both public and private enterprises can pool their resources. The government, generally, concernes itself with the provision of such things as economic and social overheads like roads, railways, basic and heavy industries like steel, electricity etc. Private sector is usually assigned the consumer goods industries which require small finance, promise quick return and face uncertainties of market
demand. In the fields where goods are of mass consumption, of standard quality and figure in the consumption of poor people, Government may have to undertake production of such goods for considerations of social welfare. The government and the private sector may join hands in certain projects where the state largely provides finance and private enterprises largely provide managemerial skills and organizational efficiency.

Secondly, regulation of private sector is of considerable importance where development is programmed through planning. In such a context where priorities for the use of limited resources are laid down in the plan, the planning authority cannot permit deviations or use of scarce resources for non priority industries. Therefore, to make private sector fall in line with the programmes of plans, control and regulation are necessary.

Thirdly, any programme of industrial development, in initial stages, necessitates an economic policy that depends on foreign aid to enhance resources, provides protection to domestic industries from foreign competition etc. Such policies have very close bearing on domestic economic activity. Thus, in order to make the two sectors—domestic and foreign function in the manner desired by the programmes of development, an overall industrial policy to coordinate the activities of different sectors becomes essential.
The foregoing reasons for an industrial policy in the context of developing nations boil down to modification of the market economy to the extent of its regulations and replacement, in part, by the public sector. Such an approach popularly called mixed economy, became the hallmarks of industrial policy of a number of governments of many developing countries over the last four or five decades. The philosophy implicit in it appeared to go well with the economic conditions of many third world countries in the past. However, the approach has undergone vast changes, especially after the disintegration of the U.S.S.R., and replacement of centrally planned economies by the market oriented economies in many East European countries. Even in peoples Republic of China, the Government has initiated market orientation of its economy.

In fine, it must, therefore, be mentioned that the late Eighties have witnessed changes of far reaching consequences which have brought to the surface that however fast the developments may be such improvements cannot be sustained if they are against the wishes of the masses. Any policy, if it is to serve the interests of the people at large, must conform to the changing values of time. How the industrial policy of India has fared over the last four decades or so forms the subject matter of the next chapter.