PREFACE

In a capitalist economy, allocation of resources is left to the 'free' market forces. Any governmental intervention with such a market mechanism would be marginal. But, in a developing country like India, this process of resource allocation becomes ineffective and governmental intervention is a must. Sometimes governmental direction and regulation of economic activities become an important force for achieving the stipulated industrial development, which could be accomplished either through an expanding public sector or through adequate control and direction of the private sector or through a combination of both. The private sector can, however, be controlled and regulated in different ways and to varying degrees. One of the important methods in this connection is industrial licensing - which comprises, among other things, the issuance of permission to start a new industrial undertaking and/or to expand an existing one. This would imply the assurance of adequate supplies of scarce resources - domestic or foreign. In view of the shortages and bottlenecks identified with underdevelopment, this assumes great importance not only in influencing the pattern of industrial growth, but also in ensuring the optimality of location, size and other aspects.

In view of the above, the national Government has been
directing and monitoring the growth of industries through an industrial licensing policy since 1951. In India, the industrial licensing policy has been playing its important role in achieving certain vital socio-economic objectives such as the acceleration of the rate of economic growth, speedy industrialisation, development of heavy and machine building industries, providing increasing opportunities for gainful employment etc. To complement the efforts, the Government has adopted economic planning as the primary means of achieving economic development. Consistent with its overall social and economic objectives, we have been trying to industrialise along the pre-determined lines through a succession of Five Year Plans. Although important modifications and revisions have been initiated in various policies and plans from time to time, the main objective of laying an industrial base on an equitable basis through the development of heavy and basic industries has been kept intact. So also, various policy modifications have been introduced from time to time in our industrial policies, but the guiding principles for industrial structure are still accepted as embodied in the Industrial Policy Resolution 1956— which is in fact considered as the 'Economic Constitution' of our country. Within the framework laid down by the various provisions of the industrial policy, the Government has taken various regulatory measures to promote and regulate the industrial development on sound lines.
Objectives and Hypothesis: The present work attempts to examine the role of industrial licensing in creating conducive environment for attaining the above-cited objectives. The area of industrial controls and regulations and particularly of industrial licensing policy and its impact on the industrial and economic development of the country has not been researched satisfactorily in recent years. The Government's claim that such controls and regulatory measures have helped in bringing about the desired results of balanced industrial growth and is leaving a good impact on the economy by attracting more industrial licence applications while that of the private entrepreneurs' and others' criticism of it on the ground that it has led to many distortions and concentrations and has slowed down the process of stipulated industrialisation in the country inspired me to take up this work. The questions as to what extent the policy and process of industrial licensing succeeded in promoting the desired industrial pattern in the country and to what extent it has led to promote distortions in the allocation of resources and whether it has resulted in undue favour and growth of some regions or sectors. Also the oft repeated question as to what extent the Constitutional objective of bringing about economic equality and justice in the issuance of licences has been successfully implemented and how has it affected the growth of backward regions and so on were responsible for developing the
hypothesis for the present work. Based on the findings of Industrial Planning and Licensing Policy Committee (Hazari Committee) and Industrial Licensing Policy Inquiry Committee (Dutt Committee) and the Pande Committee that Industrial licensing was responsible for the slow and uneven growth of industrialisation in the country and that it has led to concentration of economic power in a few hands, I developed the hypothesis that the regional inequalities and imbalances in industrial growth of the country and also other economic distortions in the economic development of the country are the result of a cumbersome, confused and weak industrial control and regulatory policies and procedures - particularly the industrial licensing.

Framework: The present study was initially undertaken under the supervision of Dr. S.M. Bijli, who left for a U.N. assignment and the work was suspended for a number of years.

In order to study the Industrial Licensing Policy in India and its impact on economic growth the period selected is from 1956. However, to avoid repetition on the former studies conducted earlier by Hazari (1967) and Dutt (1969) and to base the premise on the various drastic changes initiated in 1970 - like the announcement of a new licensing policy and establishment of MRTP Commission etc - the present study emphasises more on the impact of licensing after 1970. Since the need for industrial licensing or industrial controls and regulations stems from the evolutionary process of the overall economic system in general, and of industrialisation in particular, the present study is divided into seven chapters.
Chapter I dwells on the introductory premise and examines the factors and indicators of economic development and also analyses the issues of choice of strategy to be followed i.e. free market economy Vs. controlled economy. After developing a premise that in a developing country like India, Industrialisation is more emphatically needed along with the development of agriculture, the next Chapter II is devoted to highlight the evolution of industrial policy and its implications in relation to industrialisation of the country.

Chapter III attempts to analyse the growth of modern industry in India before and after independence with special emphasis on the thrust for industrialisation through the Five year Plans. The role of industrial licensing has also been examined in this chapter.

Chapter IV is devoted to draw an evolutionary account of licensing process and compares it with some other countries. Chapter V examines the licensing administration and the concerned licensing machinery for granting industrial licences, and also examines the legislative framework of licensing as provided under Industries (Development & Regulation) Act 1951.

Chapter VI makes a detailed analysis of the impact of licensing on the growth of industries and on backward areas. Since our thrust has been more on the growth of industries in
a balanced and equitable pattern, it has been observed that the Government has been making concerted efforts to achieve balanced regional industrial development - so that the wide gap between the developed and underdeveloped areas in the country could be progressively reduced. This chapter therefore examines in detail the impact of licensing on the growth of backward regions. The analysis is however, only a broad indication of the extent the Government's policy of decentralisation has yielded the desired results, because it is not certain that a licence issued has actually resulted in establishing or expanding a unit in a particular area.

Chapter VII, which is a concluding chapter, summarises the conclusions, drawbacks and offers some suggestions to overcome the problems and make licensing more pragmatic and development oriented.

Methodology and Sources of Data: In drawing conclusions in this work the author has drawn heavily from the data supplied by the Ministry of Industry's Annual Reports, and also, by the very nature of the problem, the other main sources of statistical data have been the Government departments and agencies concerned with the implementation of the industrial policy. Another important source which could provide a check on the government source of data are the concerned industrial units receiving these licences, but due to financial and other constraints, the
author could not succeed in obtaining them. However, the Federation of Indian Chamber of Commerce and Industry (FICCI) was very helpful. A random and limited field work aimed at eliciting opinions of concerned people - Government officials, industrialists, scholars and researchers - on the pros and cons of the licensing policy at various time periods was also undertaken.

It is hoped that the study will help us evaluate the industrial licensing policy of the Government and would also guide in the effective formulation of such a policy which would serve the Constitutional objective of bringing balanced regional development on the one hand, and all round industrial development and self-reliance on the other.

Though every care has been taken to maintain the statistical consistencies and accuracies and citing the references, but if any error is left unnoticed the responsibility of it shall be mine. The author is aware of its deficiencies and limitations. Despite best efforts the study does not incorporate data on many areas - which is due to the vastness of the field of the study. It is hoped that other relevant areas which have not been comprehensively covered in the present work shall be undertaken at some later stage.
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