CHAPTER - II

2.1 INDUSTRIALIZATION PROCESS AND POLICY IMPLICATIONS IN INDIA

In the previous chapter an attempt has been made to highlight the need for industrialisation in the country. It has also examined the factors and indicators of economic development. The chapter has also attempted to dwell upon the designs to be followed in the process of industrialisation. The present chapter is intended to analyse and highlight the industrialisation process and policy implications in the country.

Vera Anstey, an authority on economies of former British colonies described man, material, market and motive power as pre-requisites of industrialization.¹ She did not find it necessary to emphasize the equally important factor - a responsive and able Government policy which is vital for economic change. India was a glaring example where the apathy of Govt. towards industrialization, despite the availability of all the pre-requisites kept the country industrially far behind the other countries till the dawn of independence in 1947. It was the Government policy which did not allow full and proper exposure of the Indian economy to the

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industrial revolution that took place in the west and the corresponding technological innovations and advancements. It is interesting to note that certain other British colonies like Canada, Australia, New Zealand etc. made rapid industrial advancement during the same period in which Indian economy was forced to stagnate.

As a consequence of Government apathy the indigenous industrial potential in India was adversely affected and it may not be incorrect to say that the agricultural development was retarded to a certain extent. The economic growth implies the development of all the sectors of economy - the primary, the secondary sector and the tertiary sector, appropriate development of all these sectors determines the level of growth and the level of industrialization in a country. In the primary sector the concentration is on agriculture, including food production, animal husbandry, forestry and fishing. The secondary sector deals with mining and manufacturing and hence can also be called 'Industrial Sector'. The 'tertiary sector' covers the infrastructure sector of a nation's economy. In India, the distribution of gainfully occupied persons in these three sectors was estimated to be roughly 71:15:14 as against 13:34:42 in the USA, and 5:55:40 in the United Kingdom. This was a clear evidence of India's dependence on agriculture.

The decade 1851-1860 was historic for India when industrial activity on modern lines was first started, and it was confined mainly to textiles, jute, coal, mining, plantations and railways. The period of early industrialization (1855-1910) may, therefore be called the period of (abortive growth), because only cotton and jute industries, coal mines, plantations and railways, with which industrialization in India was started, grew with more units. The two world wars brought about significant change in the attitude of the Government towards the policy of industrialization in the country on the one hand and phenomenal increase in the demand for consumer goods on the other. In fact the demand grew faster than the production with a changed industrial activity.

Before independence, the influence of Government on the types, scale and location of industries was largely indirect rather than direct. Free market competition was generally considered beneficial and helped produce a more efficient allocation of resources and a more healthy resulted in production alignment. These policies resulted in unbalanced industrial development in relation to the resources of the country.³

Hence, on the eve of independence, the industrial activity in the country was lop-sided and was confined to some mono-nucleated centres. The National Government set the targets and goals for the country's advancement by optimum exploitation of natural resources through a blue print for economic development. Thus, the most significant impact of attaining independence on industry was the radical change in the role of the Government and it opted for 'mixed economy' envisaging a complementary co-existence of the private and public sectors. Initially, the Government worked for building up of infrastructure in terms of sources of power, means of transport and communications and creation of technical know-how. The Government itself came forward by extending its own involvement in the industrial sphere resulting into expansion and development of industrial activity. This gave a self reliant structure consisting of:

a) the basic industries such as power, mineral resources, transport and communications etc.

b) the intermediate level industries comprising machine building, machine tools, heavy engineering, heavy chemicals etc. and

   c) the apex consumer goods industries.
Attainment of independence also created an urge among the people to promote existing industries and set up new industries such as auto and truck assembly, steel pipes, cranes, petrol and water storage tanks, pumps, railway stores, electrical stores, steel wire ropes etc. The most important addition to this list was the emergence of chemical industry - producing sulphuric plants, copper sulphate, sodium hydro-sulphate, calcium chloride etc. With sustained efforts and set programmes of the Government, new industries emerged with improved technology. As a result, new products were introduced to meet the changing consumer demand. Thus, in the post-independence period, the State had emerged as the most influential institution directing and controlling both public and private sectors. In other words, the state, no longer remained a passive observer but played an active role in the economic sphere by creating a congenial atmosphere for the operation of private enterprise as well as in channelising the activities of the private sector along the paths stipulated by the Industrial (Development and Regulation) Act 1951, the MRTP Act 1969, and similar other legislations. This was also done through the launching of the various five year plans.

From the above discussion, it would emerge that the structure of India's industrialization witnessed a rapid change in the post-independence era. After 1956, the industrialization
process ushered in a new era when the emphasis was laid on the establishment of basic and heavy industries for the nation building activities. Hence, after independence industrial development in our country has been quite significant which is due to the industrial policies of the Govt. in the post-independence period. In the following pages an attempt has been made to give an account of various policies of the Government in respect of industrial development. An evaluation and critical review of these policies has also been done in the following paragraphs.

2.2 NEED AND EVOLUTION OF AN INDUSTRIAL POLICY:

The government is supposed to be the 'god-father' of industrialisation without governmental support and patronage, no industrialisation is possible. In order to accelerate the rate of economic development and to promote industrialization in the country, the Government's active help was called for. This was possible through an effective and well thought out Industrial Policy, which should aim at reduction in the inter-regional imbalances and which should see that the fruits of industrialization are evenly spread over the whole economy and that the process of industrialization should not lead to concentration of industries in a few regions and of wealth and economic power in a few hands. In other words, a rational
industrial policy was needed to focus its attention at creating an egalitarian society i.e. doing away with regional imbalances, benefitting the common man and placing restrictions on the undue growth of big business concentrations.

It was thus that the national Government accepted the principle of 'mixed economy' by taking over the overall responsibility for the planned development of industries and sought the development of industries in public interest through the announcement of the industrial Policy in 1948.

The Industrial Policy Statement of 1948 was the most important and positive change in our thinking on the industrial situation in the country. In order to change the structure of the economy from its colonial-capitalist pattern into one where poverty and stagnation were to be removed, the State intervention was inevitable and necessary. The main perspective of this policy statement was to de-limit the scope for development of industries in the private sector while reserving some areas for exclusive development in the public sector. The statement took, as its starting point, the nation's resolve to "establish a social order where justice and equality of opportunity shall be assured to all people...." and

contemplated a mixed economy but encouraged and promoted the 'state participation' in the industrial field in a phased manner.

In order to raise the standard of living, within the shortest possible time, the Statement emphasised the important role of cottage and small-scale industries in the national economy and felt the desirability of decentralising larger industries wherever possible. Defending the Government's resolve to opt for industrialization through this policy, Mr. Nehru's remarks before the Constituent Assembly are worth noting: "..... that brings us to a transitional stage of the economy. Call it whatever you like - mixed economy or something else. It brings us to doing things in such and such way and continually to add to the wealth of the country...."

In order to implement the policy on the preconceived lines, industries were divided into four broad categories. The Statement emphasised the need for increasing production but, in view of distributive and social aspects, it stressed that increased production should not lead towards accumulation of wealth in the hands of a few persons or monopolists. This was sought to be done through the instrument of taxation, and

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6, quoted by Agarwal, A.C.: State Enterprise in India, p. 91.

later on, through other regulatory and control measures. As a result of this policy, some products were manufactured for the first time in heavy chemicals and engineering products while diversification was resorted to in some others which led to manufacture of many other products like the cotton textiles, automobiles, cycle and rubber etc. The steel, engineering, chemicals, sugar, paper, jute and cement industries etc. were also developed.

In line with the Policy objectives, a number of State enterprises* were set up and went into production in fields where private enterprise was not forthcoming or where in the national interest the state alone could initiate the industry.

As to the policy of decentralisation of industries and control of monopolies, the policy could not be a success, as there were no effective legislations to regulate or control then. Since the policy encouraged the role of foreign capital and enterprise for rapid industrialization, new monopolies in oil refineries etc. were created and existing one expanded.

*The Sirkapi Fertilizers, Pencillin, Telephone and Chitranjan Locomotives are outstanding examples in this direction.
In sum, it can be argued that though the policy succeeded in attaining the primary objective of increasing industrial production, it failed to achieve the other and perhaps more important objective of equitable distribution of income and wealth. Hence initially the policy lacked social and distributive aspects, which are attributed to the lack of regulatory and legal support.

In view of the many lacunae left in the Industrial Policy Resolution of 1948 and the changes brought about in the country after the enactment of the constitution in 1950, there was a need to bring about a new Industrial Policy. Consequently, the Industrial Policy Resolution 1956 was brought out with a more detailed industrial programme for the country. And, it has since been regarded as the "Economic Constitution" of India.

In view of the commitments for a new social order, and on the basis of the role the state was given during the Second Five Year Plan in shaping the pattern of investment through the public sector, there was a need to reorient the Industrial Policy of 1948. Industrial Policy Resolution 1956, was therefore necessitated, which shifted the emphasis from the consumer goods industries to heavy and strategic industries.
for the development of the national economy. Among the various reasons which were responsible for such a change, the following may be termed as more compelling:

Firstly, the enactment of the Constitution in 1950, which laid the directive principles and the fundamental objectives for the economic policy;

Secondly, the acceptance by the Indian Parliament in 1954, of the goal of 'Socialistic Pattern of Society' as the objective of the economic policy;

Thirdly, enactment of various legislations affecting the industrial pattern, growth and direction such as the Industries (Development and Regulation) Act 1951, and the Companies Act, 1956 whose effective implementation required the complete reshaping of the Industrial Policy of 1948;

Fourthly, the Government nationalised certain industries and businesses, which were otherwise left open for the private sector in the Industrial Policy of 1948. This move of the Government made the private entrepreneur pessimistic about the nationalisation issue; hence a clearly well defined policy was needed to replace the old one;

Fifthly, in the First Five Year Plan, performances in agriculture and small scale sector were convincing, but it was realised that for rapid economic development and to provide a sound industrial base, the country needed a shift from small scale industries to heavy and strategic industries. It was due to this realization that the Second Five Year Plan laid more emphasis on rapid economic development through the development and growth of heavy and strategic industries. Hence, apparent change in procedure and practice, emphasis and priority, objectives and obligations all demanded a re-statement of the industrial policy befitting to the changed conditions and needs of the time, directing the nationalisation policy and governing the pattern of industrial development in the public and private sectors.

In order to give a concrete shape to the adoption of a 'Socialistic Pattern of Society', all industries of basic and strategic importance or public utility services were reserved for the public sector. In this connection the resolution declared, "the adoption of the Socialistic Pattern of Society as the National objective, as well as the need for planned and rapid development, requires 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 the
state in present circumstances would 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 wide area."

The Industrial Policy Resolution 1956, placed emphasis on increasingly expanding the role of public sector. In order to realize this objective, the resolution also emphasized to accelerate the rate of economic growth and to speed up industrialization through the development of heavy and machine making industries. While encouraging industrialization on a mass scale, the resolution also encouraged the widest diffusion of ownership and management in private industry, prevention of monopolies in the private hands, and the non-concentration of economic power in a few hands. Nevertheless, the policy also underlined the need for developing the cottage, village and small scale industries in the growth of national economy. Through decentralisation, the policy stressed the need for balanced regional development.

Having regard to the part the State had to play in the industrial sector, in consultation with the Planning Commission and other relevant agencies the industries were broadly classified

*For full text of the Industrial Policy Resolution 1956 refer to Appendix I.*
into three categories instead of four as in the earlier Policy in 1943. The three broad categories of this resolution* were as follows:

(1) Schedule 'A' Industries: All such industries, the future development of which was deemed to be the exclusive responsibility of the state were classified in this schedule. However, the Government was not contemplating a water tight compartmentalisation, and it was with this spirit that the private sector was assured of full opportunity and the possibility of the state securing the cooperation of private enterprise in the establishment of new units in this sector if and when the national interest so required.

(2) Schedule 'B' Industries: All those industries which were to be progressively state owned and in which the state had, generally, to take the initiative in establishing new undertakings were included in Schedule 'B'. Like in Schedule 'A' industries, here too, the private enterprise was expected to supplement the efforts of the state.

(3) All those industries not included in schedule 'A' and schedule 'B' of the Policy Resolution, were included in the third category. These were left open to the initiative of the private sector; but to maintain the flexibility the state could enter into any of such industries.

Although the policy resolution mentioned the need to support cottage, village and small scale industries, the resolution, as a whole, did not show any distinct bias in favour of this category of industries. With this, the resolution laid stress on and endorsed the principle of complementarity of the public and private sectors on the one hand, and on the other hand re-emphasized the policy of supporting cottage and village and small scale industries through the measures of restricting the volume of production in the large sector, differential taxation and direct subsidies to improve the competitive strength of the small scale producer. This apart, the importance of progressively reducing the disparities in levels of development between different regions was stressed and measures for achieving a balanced industrial development among different regions were indicated.

It is relevant to mention here that though the Industries (Development and Regulation) Act 1951 continued to be the main instrument for implementation, and so many changes to the approach in the industrial development and organisation were contemplated in the Policy Resolution of 1956, no significant amendment to the Act or the procedures under it was made. The only amendment was the addition of those industries to the First Schedule of the Act which were
mentioned in Schedule 'A' and 'B' of the 1956 Industrial Policy and were not included in the Act earlier.

A comparative study of the two resolutions of 1948 and 1956 would reveal that the approach of 1956 policy resolution was more realistic than under 1948 resolution in respect of the role of public sector vis-a-vis private sector. It is claimed that the 1956 resolution charted a fresh course, permitting freedom of development to the private sector but with necessary checks and planned balances to prevent concentration of economic power and wealth detrimental to the social objectives. This policy provided a fresh opportunity and challenge to the private sector to prove that it has sufficient vitality for initiative and growth and to justify its existence in the socialist economy by working in the spirit of public services to meet the social goals.

It is also pertinent to mention here that though the Industrial Policy 1956 was well received, the government has not been dogmatic about the means to achieve the accepted "Socialistic Objective" and has, therefore, always been prepared to vary, change and adjust it to the needs of the time. Taking advantage of it the critics started demanding amendments. In 1970 the Government amended 1956 Industrial Policy Resolution with mainly two-fold objectives of
preventing monopoly and reducing the concentration of economic power on the one hand; and fostering and encouraging industrial activity by all others, particularly to stimulate the emergence of new but small entrepreneurs, on the other.

In order to achieve this, a somewhat liberalising the process of industrial licensing in this sector was sought. Similarly, in later years of 1973 and 1975, the policy was again given a new shape with the mixed blends of restrictions and liberalisations, controls and concessions. These adjustments were made either as a result of on the spot decisions taken by the government or after seeking expert opinion through appointment of various Committees. Two of these Committees*, need a special mention here because the recommendations of these provided the basis for the modification in the decisions of the Government.

**Hazari and Dutt Committees:**

The Hazari Committee was appointed in 1966 to review the operation of licensing under IDA, including the orderly phasing of licensing with reference to targets of capacity and also to consider and suggest modifications in licensing.

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*Industrial Planning and Licensing Policy Committee (1967) popularly known as Hazari Committee and Industrial Licensing Policy Inquiry Committee (1969), popularly known as Dutt Committee.*
accordingly. The Committee recommended that the Planning Commission should specify in advance the industries in which the setting up of fresh capacity or any expansion in substantial capacity is amenable to regional allocation. But the most important recommendation was that the Government should declare certain traditional industrial activities closed in future to the specified 10 or 15 large industrial houses and their associates. The Committee favoured the discouragement of expansion and diversification of large industrial houses wherever other dependable promoters were available. Since it was in line with the objective of industrial policy to diffuse ownership and management in the private sector and prevention of concentration of economic power in a few hands, the Committee opined that the large houses were to be welcome only in the areas of new technology and where there is economic scope for large exports.

Another observation of the Committee was that the large and medium sized business groups enjoyed a higher ratio of approval in licensing application as compared to others and that their share in the investment applied for and approved had tended to rise over the period. This led to a debate in Parliament and the Government had to appoint a Committee to go into the basic question of the functioning of the licensing system and to enquire into the undue advantages accrued
through it to some of the large industrial houses. The Committee called the "industrial licensing Policy Inquiry Committee" or the Dutt Committee was appointed in 1967 which submitted its report in 1969. This Committee dealt with the problem of monopolies, and pointed out that licensing had only a small role to play in preventing concentration of economic power, both in the sense of the growth of the large industrial houses and their concerns and in the sense of productwise monopolies.

The Committee defined the larger industrial houses as those whose total assets held through various first tier and second tier companies, exceeded Rs. 35 crores. The Committee's suggestion was that these houses should be given licences only for projects involved in 'core' and 'heavy investment' sectors. It also identified industries falling in these sectors, as being those having to do with basic metals, heavy machine building and heavy chemicals. The Committee observed that licences for non-priority industries should not, as a rule, be granted to concerns belonging to these houses.

Before the appointment of Dutt Committee, the Government...
had received the report of monopolies Inquiry Commission in 1965, which had identified 75 business groups as large houses and stated that the "existing powers of the Government have not been able to check the growth of concentration of economic power in private hands".

Among the Hazari Committee's conclusion, the following were more important:

(1) The assumption implicit in the act that growth and allocation of resources should be looked after wholly or mainly by administrative guidance, promotion and control and hardly at all by the market mechanism was justified only up to a point. 9

(2) The industrial licensing has not served to channelise investments into desired directions. 10

(3) The gains in terms of balanced regional development and wider distribution of entrepreneurship were at best moderate. 11

(4) Licensing is only among the first of the many hurdles that has to be crossed by a private entrepreneur so that a

10. Ibid, para 20.1
licence does not automatically provide a package of sanction and clearances.12

(5) There is very little follow up of licensing to see that approved projects fructify in time.13

(6) In attempting to cover almost the whole range of large scale industrial development, licensing inevitably loses sight of relative importance of different projects and for products.14

Thus, on the basis of the above findings and conclusions, many recommendations were made by the Hazari Committee, and among the important recommendations made the following are relevant:-

(1) The Committee recommended that the Planning Commission should lay down the criteria for fixing priorities and suggest from time to time the broad policies on taxation, credit, prices and allocation of foreign exchange required to fulfill the broad targets set in major priority areas.15

(2) Credit planning should assume the role of principal strategic control for guidance of investment.16

(3) The licensing system does not place adequate emphasis

12. Hazari Report, para 20.2
13. Hazari Report, para 20.2
14. Ibid, para 21.4
15. Ibid, para 22.4
16. Ibid, para 32.1
on entrepreneurial home work but favours only chronological precedence. 17

(4) The Committee also recommended that any project with an investment of ₹1 crore and above or having a capital goods import component of ₹2.5 lakhs and above should be supported by a thorough feasibility report certified by a recognised consultant and should be approved by adhoc committees, consisting of persons from JGTID, financial institutions, ministries and approved consultants. 18

(5) Coming to the related objectives which the industrial planning had to sub-serve the Committee identified them as balanced regional development, promotion of small industries and reduction of monopoly and concentration of economic power. The Committee recommended that industrial programmes must specify in advance the industries in which setting up of fresh capacity or substantial expansion in output from existing capacity is amenable to regional allocation. The industries which are not so allocable on grounds of techno-economic feasibility should be developed regardless of regional considerations and the programmes must state it. 19

17. Ibid, para 34.1
18. Ibid, para 34.3 and 34.5
Conclusions and recommendations of Dutt Committee:

Popularly known as the Industrial Licensing Policy Inquiry Committee (I.L.P.I.C.) under the chairmanship of S. Dutt, this Committee went in detail into the licensing procedures with particular reference to the large industrial houses and submitted its report in July 1969. Among the many conclusions and recommendations the important ones which are relevant to the present study are as follows:

(1) The licensing system as it actually worked could not ensure the development of industries mainly according to plan priorities.20

(2) The Committee observed that licensing failed to prevent the growth of capacity in less essential industries; and it could not be expected directly to ensure the creation of capacity in the more essential ones.21

(3) The Committee concluded that the licensing system had not contributed adequately to the attainment of the social and economic objectives of the Industrial Policy resolution and plans.22

22. Ibid, para 8.08.
(4) The Committee opined that if the industrial development is to take place as a part of an overall development plan and at the same time we have to attempt to achieve the objectives enunciated in the Constitution as spelt out in the Industrial Policy Resolution of 1956, it is essential to have an instrument for industrial planning such as the one forged through the Industries (Development and Regulation) Act 1951.²³

(5) It was observed that with all the possible improvements in the machinery for detailed industrial planning in the Planning Commission, in the Ministries, D.G.T.D., the Development Councils it is not likely that detailed and fully coordinated plans will be formulated in respect of all the industries covered by the I.D.R. 1951. Therefore, the Committee's opinion was that industries that constitute the basic, strategic and critical sectors of economic development should be so planned.²⁴

(6) The Committee found that the Scheme of industrial regulation with a group of core industries on the one side where detailed planning will be done and licensing would be in force and an area of bans on the other relating to products

reserved for small and medium industries and non essential industries not to be developed and certain locations banned for further industrial development leaves a large middle area. It is necessary in the main that the development of industry in this middle area should be left free subject to market forces and fiscal and financial devices while ensuring that larger houses do not dominate this area. For the limited purpose of preventing such development the Committee recommended industrial licensing in this area to continue.25

(7) The committee concluded that licensing, as it has operated during the last ten years, has not been effective except in a very limited way for the attainment of the objective of regional dispersal. The results also revealed that the licensing system as a whole did not do much to reduce regional disparities in industrial development. Astonishingly, the Committee observed that in the more important products the bulk of the licences were concentrated in a few states - e.g. over two thirds of the licences for machine tools, agricultural machinery, railway transport equipment and chemicals were found to be concentrated in four states of Maharashtra, West Bengal, Gujarat and Madras.26

Thus, it was on these findings and recommendations that the Government took steps to prevent monopolies in the industrial field and enacted the Monopolies and Restrictive Trade Practices Act (M.A.T.P.) in 1969, and appointed Monopolies and Restrictive Trade Practices Commission in 1970 to enforce the various legal restraints and checks on the malpractices of monopoly houses. To provide a countervailing power against big monopolies, the establishment of joint sector was also observed as an instrument of "reducing the concentration of economic power". However, the Government made it clear to use it as a promotional instrument to help medium entrepreneurs in developing a priority industry. All these developments led to the revision of the Industrial Licensing Policy in 1970 and a further revision in the Industrial Policy brought about in 1973 most of which is in fact, the basis of even to-days operational policy. In the following paragraphs, these changes have been briefly evaluated to have an idea of the Governments intentions to fulfill the priority needs of the economy and to promote orderly growth of industries:

Review of the Industrial Licensing Policy 1970:

In view of the recommendations made by the Dutt Committee, the Government announced a new Industrial Licensing Policy in February 1970. Under this policy, emphasis was placed on the
expansion of the public sector in new directions as also on rapid growth of the small scale and medium sectors of industry. Besides, any further growth of the larger industrial groups, and foreign companies as also dominant undertakings was sought to be regulated into avenues of heavy investments, Core sector industries and backward areas. The policy reoriented the role of the public sector to cover major production gaps that were likely to develop in the economy particularly in respect of short gestation projects, including consumer industries and intermediates. Another important aspect of the policy was the stress it laid on the development of the small scale sector in order to reduce regional imbalances and ensure greater employment oriented industrial growth. Whereas in the past, reservation of manufactured items for this sector was sought to be effected by placing the items in the "banned" list in so far as other sectors were concerned, this reservation was put on a statutory footing by stipulating that no industrial undertaking with assets of over ₹ 7.5 lakhs and machinery could normally take up or expand manufacture of items reserved for the small scale sector nor diversify into those items without a licence. The number of items reserved for small scale sector was also raised from 47 to 128.

In regard to the 'Middle Sector' i.e. the sector of industries involving the value of investments above that of the
small scale sector but upto Rs. 5 crores in total assets; the Government's policy was that issue of licences would be liberalised to encourage entrepreneurs and promote growth of industry in this range of investment subject to the constraint of foreign exchange. For this purpose, the Government published a list of 123 industries which, in view of their scope and prospects were kept open almost wholly to small and medium entrepreneurs. In other words, large industrial houses and foreign groups were prevented to enter or expand their activities in these areas, except when such expansion was in the interest of greater cost efficiency.

With respect to "Core Sector" and "Heavy Investment Sector" i.e. with investments of over Rs. 5 crores in fixed assets, licensing would be used as a positive instrument for development and achievement of the detailed production plans drawn up for each of these items. In view of the large investments involved in this sector, Government was given to assume larger powers of directions and say in the management of undertakings most of which involve substantial investment by public financial institutions - who would also have the option to convert loans into equity.

Among the other important features of the 1970 policy were that the area of exemption from licensing provisions applicable to industries was raised upto Rs. 1 crores, subject
to certain conditions; larger industrial houses, foreign companies, or branches or subsidiaries of branches of foreign companies were left unexempted and exemption was generally not applicable to them. In respect of agro industries, particularly undertakings processing sugarcane, jute and other agricultural commodities, applicants from the co-operative sector were to be given preference.

In order to regularise and relax excess capacity in priority industries the Government in January 1972 took a major step. Under this, industrial units in certain specified industries licensed for a certain capacity on the shift basis were permitted to increase their licensed capacity on the basis of maximum utilisation of plant and machinery and in other cases the concerned undertakings were allowed to expand up to 100 per cent of the licensed or registered capacity. This relaxation was, however, not applicable to the production of goods which were exclusively reserved for production in the Small Scale Sector.

Evaluation of Industrial Policy Measures of 1973:

In conformity with the approach to the Fifth Plan and with a view to imparting a degree of certainty to investment climate, the Government initiated in February 1973 some changes in the industrial policy as declared in 1970.* The important amendments may be summarised as under:

*The detailed text is given in Appendix III and IV.
(1) This policy envisaged that the investment limit of Rs. 20 crores as well as the definition of interconnected undertakings as provided in the MATP Act 1969 should be adopted for the purpose of industrial licensing policy in respect of undertakings belonging to large industrial houses.

(2) In the modified policy the list of industries which were open to large industrial houses was consolidated and a revised list was brought out. This list included 'core' industries, industries having direct linkage with such 'core' industries and industries with long-term export potential. Larger industrial houses were now allowed to contribute to the establishment of industries included in the revised list, provided the items of manufacture are not reserved for production either in the small scale sector or in the public sector. However, these houses would ordinarily be excluded from these areas, not included in this list except where the production is mainly for exports. Similarly, foreign concerns, and subsidiaries and branches of foreign companies were placed on the same footing as the large industrial houses, subject, however, to the guidelines on the dilution of foreign equity.

(3) While the limit for exemption from licensing provisions (both for substantial expansion and for new undertakings) was to continue to be Rs. 1 crore; licensed or registered undertakings having fixed assets exceeding Rs. 5 crores were to
obtain an industrial licence for expansion or diversification.

(4) In the light of the Government's Socio-economic Objectives, each proposal for setting up a joint sector project had to be judged and decided on merits. The undertakings covered by the MRTP Act would, therefore, not be permitted to use the joint sector as a device for entry into industries from which they are otherwise precluded.

(5) To set up new capacity, small and medium entrepreneurs would be encouraged, in preference to large industrial houses and foreign companies. The policy also contemplated to extend the area of its reservation, if need be.

Consequent on the above policy measures of the February 1973 notification of Industrial Policy, the Government announced a new industrial licensing procedure in October 1973 mainly to ensure issue of various clearances within definite time targets. It was stimulated that letters of intent, foreign collaboration approvals and capital Goods clearances would be issued within 90 days of the receipt of applications in each case. But in the case of applications for licences falling under the MRTP Act, however, the clearance would be given within a period of 150 days. In order to make the licensing system more flexible and production oriented the Government has been trying to removed rigidity wherever it is evident.
It may be argued that despite the Government's best intentions in letter and spirit, confusion, insecurity and a fear psychosis were prominently hovering into the minds of the private entrepreneurs. Although healthy trends were visible in the issuance of industrial licenses during 1972-74. As against a total of 563 licences issued in 1972 the number rose to 1099 in 1974 representing an increase of about 90 per cent over the years. Due to the disturbed economic conditions and the political instability noticed during 1974-77, the private entrepreneurs wanted to have a clear cut, unambiguous and an encouraging policy. As a result in 1977, the Janata Government came into power and it attempted to create conducive conditions for the private entrepreneurs and brought about drastic ideological changes in the Industrial Policy Resolution of 1956 and replaced it with its new statement of 1977. A brief review of it is given in the following paragraphs.

Evaluation of Industrial Policy Statement of 1977

The new Industrial Policy statement is known as the Janata Government Industrial Policy. The immediate objectives of the Janata Government were to set things right on the economic and industrial front by maximising the production of consumer goods, optimising the utilisation of human-and material resources, preventing monopolies and the concentration of economic power and generally to make industry more responsive
to social and economic needs. It was in this background that the Janata Government sought a change in the earlier policies of the Congress Government. Consequently, a new Industrial Policy Statement was brought out on 23rd December, 1977 to lay down the guidelines to enable industrialists and entrepreneurs to understand the change in the direction of industrialisation.

Although some of the elements of the Industrial Policy Resolution of 1956 in regard to the desirable pattern of industrial development remained valid, but some important changes were made and new directions of industrial growth were determined. Effective promotion of cottage and small scale industries; dispersal of industries in rural areas and in small towns; highest priority for generation of power; expansion of the role of public sector; recognition of the crucial role of the basic industries as the main prop of industrial activity and of high technology; taking effective steps towards the rehabilitation and renovation of sick units and to ensure professional management of such units on a continuing basis were some of the highlighting objectives of the Industrial Policy Statement 1977. 27

In conforming to its election manifesto for bringing about a basic change in priorities of planning, providing more

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jobs, and improving the lot of the rural poor, the Janata Government's Industrial Policy gave more weightage to cottage to cottage and Small Scale Sector. The list of reserved items was enlarged from 180 items to 504 items (later to more than 800 items) for the exclusive development in the Small Scale Sector. This was in sharp contrast to 1956 Industrial Policy and other relevant policies where the emphasis had been mainly on large/heavy industries (neglecting or relegating a minor role to the small and cottage industries). The 1977 Policy had, therefore, specific points for the promotion of small and village industries which were considered to generate more employment and provide a fillip to the overall growth of the village economy. While placing curbs on the setting up of new industrial units around large metropolitan and urban areas, the policy envisaged creation of focal points at district level for development of small and cottage industries. For the first time a new category within the small and cottage sector was added viz., 'Tiny Sector'. This 'tiny sector' was considered to be in the undeveloped stage and found to be neglected. It was therefore that the Policy offered more liberalisation and facilities for the development of this sector and special attention was paid on its development.

*A tiny sector was defined to be an individual unit with investment in machinery and equipment upto Rs. 1 lakh and situated in towns with a population of less than 50,000 according to 1971 census or in villages.
In order to bring the large industrial houses in line with the country's socio-economic goals, the Government emphasised to regulate their activities through the effective use of licensing. In this connection the Policy statement clarified - "... where large scale units, whether belonging to large houses or not, are already engaged in the manufacture of items since reserved for the small scale units, whether belonging to large houses or not, are already engaged in the manufacture of items since reserved for the small/sector, there will be no expansion in their capacity. On the other hand, the share of these units in the total capacity for these items will be steadily reduced and that of small scale and cottage sector increased. In licensing other activities of large scale industry, particularly of units belonging to large houses, the Government stipulated to pay due regard to the existing share of these units in the total domestic production of these items. As a matter of policy the government wanted to ensure that no unit or business group would acquire a dominant or monopolistic position in the market. The present industrial activities of the large houses will be scrutinised so that unfair practices arising out of manufacturing inter-linkages are avoided. 28

A general review of this policy would reveal that though the strategy outlined through this policy was commended for its clarity and comprehensiveness, but it could do little good and therefore cannot be complimented without limitations.

Among the many criticisms, the important ones were on making the large industrial houses to rely on their own internally generated resources for financing new or expansion projects; denying them the provision of funds by financial institutions; leaving the definition of small scale industry unchanged; restricting the equity participation by Indian industrialists in joint ventures abroad etc. The policy was also criticised for too much compartmentalisation and subcompartmentalisations.

In brief, the Janata Government's Policy was weighted in favour of small units and rural areas.

After the re-emergence of the Congress rule at the Centre the Industrial Policy was once again drastically overhauled and a new Policy was announced in July 1980.

While announcing its Industrial Policy in July 1980, the minister for Industry outlined its philosophy by stating that "the Industrial Policy announcement of 1956 in fact reflects the value system of our country and has shown conclusively the merit of constructive flexibility. In terms of this 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 for the longer gestation periods required of the projects crucial for economic development. The 1956 resolution therefore forms the basis of this statement. 29

Taking cognizance of the 1956 policy, the Industrial Policy statement of 1980 puts forward a thesis that "industrialization is the sine qua non of economic progress" and that rapid, and balanced industrialization is necessary to improve the lot of the common man in the shape of increasing availability of goods at fair prices. It is envisaged that industrialization is also essential to provide support for agriculture and for the development of infrastructural facilities like energy and transport. The primary task of the Government was identified to be the removal of emerging constraints on industrial production and alongside this, stimulating the faster growth in the coming decades.

The main features of the policy may be summarised as follows:

(1) In order to boost the development of small-scale industries, and considering the increase in the cost of machinery and plant, investment limits for definition purposes were raised as under:
(a) for small scale units from ₹10 lakh to ₹20 lakh;
(b) for 'tiny' units from ₹1 lakh to ₹2 lakh;
(c) for ancillaries from ₹15 lakh to ₹25 lakh.

This measure was expected to facilitate long overdue modernization in the case of any existing small scale units as also to help their growth. In addition to these, the Government also strengthened the existing arrangements for financing small units and facilitated the availability of credit to this sector.

(2) In the interest of generating more employment in villages, the policy encouraged the village industries. Handlooms, handicrafts, khadi and other village industries were therefore to receive greater attention to achieve faster rate of growth in villages.

(3) It was observed that in many large scale units installed capacities exceeded the licensed capacities. In the interest of maximising production, it was proposed to regularise such excess capacities on a selective basis, especially in industries which were important from the point of view of the national economy or those engaged in producing articles of mass consumptions.

(4) In view of constraints on resources in the country and in view of the increase in the prices of capital goods,
the Govt. felt it necessary to ensure that no avoidable restrictions were placed on the fullest utilisation of industrial capacities, especially in core industries of strategic importance for the growth of the economy. The new policy therefore, provided that the large units could expand 5 percent per annum or 25 percent in a five year period. This expansion was in addition to the normal facility to produce upto 25 percent in excess of licensed capacity. It was to assist the units which were unable to achieve full capacity production due to licensing restrictions.

(5) As in 1956 Policy, the policy of 1980 also laid emphasis on the development of public sector. It recognised the poor performance of the public sector over the years and realized to improve the efficiency of public sector units. In order to rehabilitate the faith in this sector and evolve effective operational systems of management in these undertakings, the Government proposed to make a unit by unit study and to find the remedial measures to revive the inefficient units. In this exercise, priority was to be accorded to convert losing concerns into viable ones through broad restructuring of the system and by providing dynamic and competent management.

(6) It was observed that the problem of industrial sickness largely stands in the way of rapid industrial
development of India, and the policy showed concern for the increasing industrial sickness. For the prevention of this, the policy proposed an early warning system to find out symptoms of sickness and to initiate timely remedial action. Mismanagement being the leading factor to industrial sickness, it was stressed to be rooted out. However, takeover of sick units by the Government was to be done as a last resort, and additional financial incentives were to be liberally offered to sick units voluntarily merging with healthy ones.

(7) On the complementarity of large and small units, the policy promoted the concept of economic federalism with setting up of a few nucleus plants in each district identified as industrially backward to develop small and ancillary units. It was for the first time that the policy stressed that the nucleus plant would assemble the products of ancillary units, make marketing arrangements, ensure a widely spread pattern of investment and employment and also work for upgrading of technology of small units. In respect of the development of backward districts the policy recognised that in the past, even substantial investment did not have effective linkages with local resources and therefore proposed that in future the Government would encourage investment that could meet the criterion of having adequate linkages with local resources and promote a network of ancillaries.
(3) In this policy, the importance of reviving the economic infrastructure was recognised and it was observed that the failure of it had put the economy into a vicious circle of shortage of major inputs like energy, transport and coal. It also noted that little efforts had been made in the past to dovetail industry and energy policies, or to cope with the ecological effects of industrial growth. The policy therefore stressed that industrial processes and technologies should aim at the optimum utilization of energy or the exploitation of alternative sources of energy. Furthermore, this policy offers incentives to the industrial activities which have direct impact on improved environment.

(9) Under the new policy, exports, have regained their importance. Special facilities for export-oriented units are offered such as liberal import of technology, creation of capacity large enough to make the unit competitive in world markets and so on.

From the above it would emerge that it has become customary to bring about changes in policies and programmes wherever there has been a change in the political party in power, and the same is true for the industrial policy statement. Though the nomenclature has changed but the basic

structure of Industrial Policy Resolution of 1956 has still been retained in this policy statement. The decision to enhance the capital ceiling in respect of tiny, small scale and ancillary units, was a welcome move. While the new policy was guided by considerations of growth, its liberalisation in licensing etc. gave way for the growth of large and big businesses. The policy seems to have advocated a more capital-intensive path of development and underplaying the objective of employment. However, with many criticisms on the weaknesses of the policy, the overall response has been conducive and the Government has tried to overcome many of its shortcomings by announcing modification and changes from time to time. Recently the Government has announced to bring about drastic changes in the policy again. The industry Ministry is busy reviewing the important policy measures in the present socio-economic context. Even the Prime Minister Rajiv Gandhi* vehemently criticised some control measures like the MRTP ACT which have not been able to fulfill the avowed objectives of our Constitution in preventing the growth of monopolies and regional imbalances. He has advocated 'liberalisation' on the industrial front which would require a purposeful overhall of all the existing control and regulatory measures in line with the economic policy changes to suit the present atmosphere of the country, vis-a-vis the international scenario.

*In his recent speeches delivered in December at various places, he has made an open reference to it.
In the next chapter, therefore, an attempt will be made to trace out the historical perspective of industrialisation process before and after independence. The chapter will also trace the advent of modern enterprise in India and the emergence of State's directives for industrial growth. In the later part of the chapter an assessment will be made of the impact of such an intervention through the five year plans.