Industrial Policy

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Industrial Policy

- Industrial Policy is the set of standards and measures set by the Government to evaluate the progress of the manufacturing sector that ultimately enhances economic growth and development of the country.
- The government takes measures to encourage and improve the competitiveness and capabilities of various firms.

Objectives of Industrial policies

1. To maintain steady growth in productivity.
2. To create more employment opportunities.
3. Utilize the available human resources better.
4. To accelerate the progress of the country through different means
5. To match the level of international standards and competitiveness

Industrial Policy Resolution of 1948

- India has a mixed economy which means that the public and private sector exist together.

- Therefore, it is important that the government declares industrial policies which clearly indicate
  the sphere of the State and the private enterprises.

- On April 30, 1948, the Government of India passed a policy resolution – The Industrial Policy Resolution, 1948 (IPR, 1948)

- It classified industries into four broad areas:

➢ **Strategic Industries (Public Sector):** It included three industries in which Central Government had monopoly.

- These included Arms and ammunition, Atomic energy and Rail transport.

➢ **Basic/Key Industries (Public-cum-Private Sector):** 6 industries viz. coal, iron & steel, aircraft manufacturing, ship-building, manufacture of telephone, telegraph & wireless apparatus, and mineral oil were designated as “Key Industries” or “Basic Industries”.

- These industries were to be set-up by the Central Government.
- However, the existing private sector enterprises were allowed to continue.

- **Important Industries (Controlled Private Sector):**

- It included 18 industries including heavy chemicals, sugar, cotton textile & woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc.
- These industries continue to remain under private sector however, the central government, in consultation with the state government, had general control over them.

- **Other Industries (Private and Cooperative Sector):** All other industries which were not included in the above mentioned three categories were left open for the private sector.

Note: The Industries (Development and Regulation) Act was passed in 1951 to implement the Industrial Policy Resolution, 1948.

Industrial Policy Statement of 1956

- Government revised its first Industrial Policy (i.e.the policy of 1948) through the Industrial Policy
  of 1956.
- It was regarded as the “Economic Constitution of India”.
- The 1956 Policy emphasised the need to expand the public sector, to build up a large and growing cooperative sector and to encourage the separation of ownership and management in private in- dustries and, above all, prevent the rise of private monopolies.
- It provided the basic framework for the government’s policy in regard to industries till June 1991

- IPR, 1956 classified industries into three categories:
- Schedule A consisting of 17 industries was the exclusive responsibility of the State. Out of these 17 industries, four industries, namely arms and ammunition, atomic energy, railways and air transport had Central Government monopolies; new units in the remaining industries were developed by the State Governments.
- Schedule B, consisting of 12 industries, was open to both the private and public sectors; however,
such industries were progressively State-owned.
- Schedule C- All the other industries not included in these two Schedules constituted the third category which was left open to the private sector. However, the State reserved the right to undertake any type of industrial production.

- The IPR 1956, stressed the importance of cottage and small scale industries for expanding employment opportunities and for wider decentralization of economic power and activity.
- **Criticism:** The IPR 1956 came in for sharp criticism from the private sector since this Resolution reduced the scope for the expansion of the private sector significantly.
- The sector was kept under state control through a system of licenses.

❑ **Industrial Licenses**

- In order to open new industry or to expand production, obtaining a license from the government was a prerequisite.
- Opening new industries in economically backward areas was incentivized through easy licensing and subsidization of critical inputs like electricity and water. This was done to counter regional disparities that existed in the country.
- Licenses to increase production were issued only if the government was convinced that the economy required more of the goods.

Industrial Policy Statement, 1977

- In December 1977, the Janata Government announced its New Industrial Policy through a statement in the Parliament.
- The main thrust of this policy was the effective promotion of cottage and small industries widely
  dispersed in rural areas and small towns.
- In this policy the small sector was classified into three groups—cottage and household sector, tiny
  sector and small scale industries.
- The 1977 Industrial Policy prescribed different areas for large scale industrial sector- Basic industries, Capital goods industries, High technology industries and Other industries outside the list of reserved items for the small scale sector.
- The 1977 Industrial Policy restricted the scope of large business houses so that no unit of the
  same business group acquired a dominant and monopolistic position in the market.
- It put emphasis on reducing the occurrence of labour unrest. The Government encouraged the

Industrial Policy 1980

The Congress government announced this policy on July 23rd, 1980. The features of this policy are:

- Promotion of balanced growth.
- Taking over industrial sick units.
- Regulation and control of unauthorized excess production capabilities installed for industrial houses.
- Redefining the role of small-scale units.
- Improving the performance of the public sector.

New Industrial Policy During Economic Reforms of 1991

- The long-awaited liberalized industrial policy was announced by the Government of India in 1991
  in the midst of severe economic instability in the country.
- The objective of the policy was to raise efficiency and accelerate economic growth.

Features of New Industrial Policy

- **De-reservation of Public sector:** Sectors that were earlier exclusively reserved for public sector were reduced. However, pre-eminent place of public sector in 5 core areas like arms and ammu- nition, atomic energy, mineral oils, rail transport and mining was continued.
- Presently, only two sectors- Atomic Energy and Railway operations- are reserved exclusively for
  the public sector.
- **De-licensing:**

  Abolition of Industrial Licensing for all projects except for a short list of industries.
- There are only 4 industries at present related to security, strategic and environmental concerns,
  where an industrial license is currently required-
- Electronic aerospace and defense equipment
- Specified hazardous chemicals
- Industrial explosives
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes

- **Disinvestment of Public Sector:** Government stakes in Public Sector Enterprises were reduced to
  enhance their efficiency and competitiveness.
- **Liberalization of Foreign Investment:** This was the first Industrial policy in which foreign companies were allowed to have majority stake in India. In 47 high priority industries, upto 51% FDI was allowed. For export trading houses, FDI up to 74% was allowed.
- Today, there are numerous sectors in the economy where government allows 100% FDI.

Outcomes of New Industrial Policies

- The 1991 policy made ‘Licence, Permit and Quota Raj’ a thing of the past. It attempted to liberalise the economy by removing bureaucratic hurdles in industrial growth.
- Limited role of Public sector reduced the burden of the Government.
- The policy provided easier entry of multinational companies, privatisation, removal of asset limit
  on MRTP companies, liberal licensing.
- All this resulted in increased competition, that led to lower prices in many goods such as electronics prices. This brought domestic as well as foreign investment in almost every sector opened to private sector.

Way Forward

- Industrial policies in India have taken a shift from predominantly **Socialistic pattern in 1956 to Capitalistic since 1991.**
- India now has a much liberalized industrial policy regime focusing on increased foreign investment and lesser regulations.
- **Ease of Doing Business 2020:** India ascended 17 notches, ranked at **63rd position** by The World Bank. Ease of Doing Business 2020 is a report published by The World Bank to 'Compare Business Regulation in 190 Economies'.and the Goods and Services Taxes (GST) are impressive and will result in long-term gains for the industrial sector.

- Campaigns such as Make in India and Start up India have helped to enhance the business ecosystem in the country.
- However, electricity shortages and high prices, credit constraints, high unit labor costs due to labour regulations, political interference and other regulatory burdens continue to remain challenges for firm growth of the industrial sector in India.
- There is a need for a new Industrial Policy to boost the manufacturing sector in the country. Government in December 2018 also felt the need to introduce a new Industrial Policy that would be a road map for all business enterprises in the country.

Sample Question

- In which year, Unorganized Workers Social Security Act was passed?

A. 2006
B. 2008
C. 2010
D. 2012
Answer- B

- Up to what fraction of direct foreign investment facility was allowed in the New Industrial Policy 1991?

A. 26%
B. 49%
C. 51%
D. 60%
Answer- C

- If a company is 'unlimited' in India, it implies that there is no limit on __:

A. Number of shares it can issue in market
B. Liability of its members
C. Amount of investment by its promoters
D. All of the above
Answer- B

- The campaign “Start-up India, Stand up India” aims to:

A. encourage entrepreneurship among the youth of India
B. promote skill development training projects in Eastern states of India
C. build infrastructure, physical and virtual, for divyang people of India
D. provide loans at low rates to microfinance institutions and non-banking financial institutions
Answer- A

- When was the first Industrial policy introduced in Independent India?

A. 1950
B. 1949
C. 1948
D. 1951
Answer- C

- Industrial Licensing was finally abolished in India in which of the following years ?

A. 1990
B. 1991
C. 1992
D. 1995
Answer- B

- If a non profit organization is converted into a profit earning company, the process will be called as:

A. Dematerialization
B. Rematerialization
C. Demutualization
D. Decentralization
Answer- C

- The Sick Industrial Companies Act of 1985 was enacted following the recommendation of which of the following committees?

Tiwari Committee
Gadgil Committee
Hazari Committee
Marathe Committee
Answer- A