INDIAN ECONOMIC ENVIRONMENT,401 MBA, IV semester, TOPIC-Industrial Policy 1980 and 1991.

INDUSTRIAL POLICY OF 1980

The Congress (I) Government led by Mrs. Indira Gandhi came to power in 1980 and announced its Industrial Policy in July 1980. The statement categorically asserted that it intended basically to follow the Industrial Policy of 1956. The Industrial Policy (1980) clearly stated : "In terms of this resolution (1956), the task of raising the Pillars of economic infrastructure in the country was encrusted to the public sector for reasons of this greater reliability, for the very large investments required and the longer gestation periods of the projects crucial for economic development. The 1956 Resolution, therefore, forms the basis of this statement." The principal elements of Industrial Policy of 1980 were:

i) Promoting the concept of Economic Federalism – The Policy statement intended to bring about the integrated development of the small and large sector, thus, promoting economic federalism in the country. It states: "It will be the Government's endeavour to reverse the trends of the last three years towards creating artificial divisions between small and large-scale industry under the misconception that their interests are essentially conflicting. While making all efforts towards integrated industrial development it is proposed to promote the concept of economic federalism with the setting up of a few nucleus plants in each district, identified as industrially backward, to generate as many ancillaries and small and cottage units as possible."

ii) Redefining the small Units – To encourage the development of small units, the government decided:

a) to increase the limit of investment in the case of tiny units from Rs. 1 lakh to Rs. 2 lakhs

b) to increase the investment limit in case of small-scale units from Rs. 10 to Rs. 20 lakhs; and

c) to increase the limit of investment in the case of ancillaries from Rs. 15 lakhs to 25 lakhs.

iii) Promotion of Industries in Rural Area – Industrial Policy of 1980 emphasised tat in order to generate higher employment and higher per capita income in the rural areas, it was necessary to promote rural industries in the country without disturbing the ecological balance. For this purpose, handlooms, handicrafts and Khadi would receive greater attention so that a faster growth of the rural areas is made possible.

iv) Removal of Regional Imbalances – To correct regional imbalances, it is necessary that the state should encourage industrial units in industrially backward areas. Such a process will reduce disparity between different regions.

v) Industrial Sickness – The policy statement outlined early its approach towards sick unit:

a) Management of sick units would be taken over only in exceptional cases on grounds of public interest where other means for the revival of sick undertakings are not considered feasible.

b) Sick units which show adequate potential fro revival, would be encouraged to merge with healthy units capable of managing sick undertakings and restoring their viability. For such

proposals of merger, the existing tax concessions under section 72-A of the Income Tax Act will be made available roe liberally.

vi) Regularisation of Unauthorized Excess Capacity – The procedure for regularizing unauthorized excess capacity in the private sector was further simplified in Industrial Policy of 1980. For this purpose, it was stated: The Normal permissible capacity expansion of upto 25 per cent of the authorised capacity would become automatically available to the overall installed capacity including the regularised excess capacity.

While regularizing unauthorized excess capacities created, FERA and MRTP companies will be considered on a selective basis. This facility will not be given in respect of items reserved for the small sector.

Assessment of Industrial Policy (1980)

The Industrial Policy of 1980 claimed to follow a `pragmatic approach'. It also endorsed the fact that it would follow the 1956 Industrial Policy. Yet, according to critics, it made several statements which are inconsistent with teh1956 Industrial Policy.

Firstly, Industrial Policy Statement of 1980 accused the Janata Party to create artificial divisions between the small and large sector and, therefore, the new dispensation proclaimed that it does not recognise the fact that the interest of the small and large sector is "essentially conflicting". One can understand the fact that Janata Party in its over-enthusiasm to boost the small sector, may have overemphasized in its Industrial Policy the conflict between the small and the large sector. But to say, that the existence of such conflict is based on a misconception is totally untenable. Even in the Industrial Policy of 1956, it was recognised that such conflict exits. The 1956 Resolution specifically tatted: "the State has been following a policy of supporting cottage and village and small-scale industries by restricting the volume of production in the large-scale sector, by differential taxation or by direct subsidies." The very fact that the Congress has been encouraging labour intensive small-scale and cottage and village industries by restricting the volume of production of large-scale industries, is ample poor of the existence of the conflict between the small and the large sector. Obviously, the state intended to maximise employment along with maximizing production with the help of labour-intensive industries in the cottage and small sector. It would have been wiser if the

Industrial Policy of 1980 should have recommended the strengthening of this trend, but to speak of reversing this trend was totally unjustified.

Secondly, the government intended to regularize excess capacities. It also proposed automatic expansion of capacity to all Industries listed in the First schedule of Indian Industries (Development and Regulation) Act. The plea for doing this was the keen desire to make full use of installed capacity to maximise production. This policy was welcomed by big business because liberalisation indicated in the policy was silent endorsement of regularization of unauthorized excess capacity. The critics feel that the government should not have given blanket liberalisation in case of al industries, but it should have acceded to the sanctioning capacitates in case of those industries which were high priorities Ares for the country such as cement, paper, sugar, fertilizer, caustic soda, etc. but should have denied it to low priority areas like chocolates, baby foods, cosmetics, synthetic detergents, etc. To provide an open general licence for big business was not justified.

To sum up, the Industrial Policy of 1980 favoured a more capital-intensive pattern of development and thus it attempted various measures of liberalisation or helping the large sector. It underplayed the employment objective.

The New Industrial Policy of 1991.

The New Industrial Policy of 1991 comes at the centre of economic reforms that launched during the early 1990s. All the later reform measures were derived out of the new industrial policy. The Policy has brought comprehensive changes in economic regulation in the country. As the name suggests, these reform measures were made in different areas related to the industrial sector.

As part of the policy, the role of public sector has been redefined. A dedicated reform policy for the public sector including the disinvestment programme were launched under the NIP 1991. Private sector has given welcome in major industries that were previously reserved for the public sector.

Similarly, foreign investment has given welcome under the policy. But the most important reform measure of the new industrial policy was that it ended the practice of industrial licensing in India. Industrial licensing represented red tapism.

Because of the large-scale changes, the Industrial Policy of 1991 or the new industrial policy represents a major change from the early policy of 1956.

The new policy contained policy directions for reforms and thus for LPG (Liberalisation, Privatisation and Globalisation). It enlarged the scope of private sector participation to almost all industrial sectors except three (modified). Simultaneously, the policy has given welcome to foreign investment and foreign technology. Since 1991, the country's policy on foreign investment is gradually evolving through the introduction of liberalization measures in a phase wise manner.

Perhaps, the most welcome change under the new industrial policy was the abolition of the practice of industrial licensing. The1991 policy has limited industrial licensing to less than fifteen sectors. It means that to start an industry, one has to go for license and waiting only in the case of these few selected industries. This has ended the era of license raj or red tapism in the country. The 1991 industrial policy contained the root of the liberalization, privatization and globalization drive made in the country in the later period. The policy has brought changes in the following aspects of industrial regulation:

1. Industrial delicensing

2. Deregulation of the industrial sector

3. Public sector policy (no reservation and reform of PSEs)

4. Abolition of MRTP Act

5. Foreign investment policy and foreign technology policy.

1. Industrial delicensing policy or the end of red tapism: the most important part of the new industrial policy of 1991 was the end of the industrial licensing or the license raj or red tapism. Under the industrial licensing policies, private sector firms have to secure licenses to start an industry. This has created long delays in the start up of industries. The industrial policy of 1991 has almost abandoned the industrial licensing system. It has reduced industrial licensing to fifteen sectors. Now only 13 sector need license for starting an industrial operation.

2. Dereservation of the industrial sector– Previously, the public sector has given reservation especially in the capital goods and key industries. Under industrial deregulation, most of the industrial sectors was opened to the private sector as well. Previously, most of the industrial sectors were reserved to the public sector. Under the new industrial policy, only three sectors- atomic energy, mining and railways will continue as reserved for public sector. All other sectors have been opened for private sector participation.

3. Reforms related to the Public sector enterprises: reforms in the public sector were aimed at enhancing efficiency and competitiveness of the sector. The government identified strategic and priority areas for the public sector to concentrate. Similarly, loss making PSUs were sold to the private sector. The government has adopted disinvestment policy for the restructuring of the public sector in the country. at the same time autonomy has been given to PSU boards for efficient functioning.

4. Foreign investment policy: another major feature of the economic reform measure was it has given welcome to foreign investment and foreign technology. This measure has enhanced the industrial competition and improved business environment in the country. Foreign investment including FDI and FPI were allowed. Similarly, loan capital has also introduced in the country to attract foreign capital.

5. Abolition of MRTP Act: The New Industrial Policy of 1991 has abolished the Monopoly and Restricted Trade Practice Act. In 2010, the Competition Commission has emerged as the watchdog in monitoring competitive practices in the economy.

The industrial policy of 1991 is the big reform introduced in Indian economy since independence. The policy caused big changes including emergence of a strong and competitive private sector and a sizable number of foreign companies in India.

Objectives of new industrial policy 1991

The new industrial policy 1991 aimed to improve industrial growth as the previous licensing policies and regulations were responsible for lower growth rate and balance of payment crisis.

The new industrial policy resolution 1991 aimed at liberalizing the regulations and license controls of the industrial sector to improve economic growth rate.

- It aimed to increase the support to Micro Small and Medium Enterprises (MSMEs).
- To reduce the losses of public sector enterprises and make them profitable.
- To ensure Rapid industrial development by increasing the competitiveness of industries and to ensure inclusive economic development.
- To provide incentives for setting industries in the backward areas.
- To reduce the inflation rate and remove the imbalances in payment.
- It also aimed to build sufficient Foreign Exchange Reserves.
- The policy aimed to permit the international flow of goods services capital technology and human resources with fewer restrictions
- It wanted to increase the share of private sector in the economy, and hence the number of reserved industries were reduced.

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