INDIAN ECONOMIC ENVIRONMENT,401 MBA, IV semester, TOPIC-Industrial Policy 1948 and 1956.

Summary of industrial policy 1948 and 1956

The Industrial Policy of 1948 was aimed at clearing the foggy and uncertain environment so that investment in industry does not become a casualty.

The 1948 Industrial Policy Resolution envisaged:

i) Mixed economy for India in which the public and private sector can co-exist.

ii) The resolution announced `no nationalization for next 10years'. Later, if nationalization is considered necessary, compensation would be paid.

iii) The Resolution recognised the need for foreign capital but insisted that majority interest in ownership and management will remain in Indian hands.

The basic aim of the Industrial Policy (1948) was to bring economic stability and establish the mixed economy framework in India.

The Industrial Policy of 1956 was motivated by considerations of rapid Industrialisation within the framework of the socialist pattern of society accepted as the goal of economic and social policy.

Industrial were classified into three categories:

1) Schedule A – Exclusive monopoly of the State

2) Schedule B – To be progressively owned by the State and in which new undertakings would generally be set up by the State

3) Schedule C – All the remaining industries left to the private sector.

i) Government undertakes responsibility to set up new undertakings in heavy and basic industries, Private sector, not willing to invest in areas requiring lumpy investment, a congestion period and low profitability.

ii) Classification not water-tight, room for exemptions existed.

iii) State reserved the right to take over industries in Schedule C, if they failed to conform to guidelines issued by the State.

iv) Encouragement to small and village industries to be provided so as tepid employment. This was to be done through differential taxation or by

direct subsidies. Besides this, technology of the SS & I sector to be improved and modernized.

v) Regional disparities to be removed by encouraging balanced regional development.

vi) Improvement in working and living conditions of labour

vii) Foreign capital to be invited as enunciated is 1948 Industrial Policy with majority ownership and control to be in the Indian hands.

The Industrial Policy of 1956 is referred to as the `Economic Constitution' of the country.

Private sector, a junior partner. Public sector to play a leading role as a senior partner to develop heavy and basic industries to play a leading role as a senior partner to develop heavy and basic industries as well as infrastructure.

Private sector worked under the misconception that the Damocles' swear was hung on its head. This was an incorrect perception of IPR 1956. Rather a permanent place was provided for the private sector. By developing heavy industry and infrastructure, the State created a congenial environment for the development of the private sector.

Later development by the Industrial Licensing Policy Inquiry Committee (1969) indicated that under one pretext or another, several areas reserves for the public

sector was opened to the private sector. Private sector investment zoomed forward, along with public sector expansion.

Industrial Policy Statement, 1977 - Policy drafted by the Ghanaians in the Janata Party. The main aim of the policy was to correct the distortions in the implementation of the Industrial Policy (1956). Major distortions:

(a) Unemployment has incre4ased; (b) rural-urban disparities have widened; and (c) rate of real investment has stagnated.

Chief features:

(i) Major thrust on the development of small industries. Small sector classified into three categories: (a) cottage and household industries to provide self-employment; (b) tiny sector having investment in plant and machinery up to Rs. 1 lakh; and (c) small industries with an investment up to Rs. 10 lakhs and ancillaries with an investment up to Rs. 15 lakhs.

Main purpose of the classification was to design measures to specifically helped the three sub-sectors.

Measures undertaken:

i) Reservation list increased from 180 to 807 items.

ii) District Industries Centres to be set up so that the services and support required by SS & Is be availed under one roof.

iii) Khadi and village Industries Commission to be strengthened. Nay Khadi or Polyester Khadi to be introduced.

iv) Appropriate technology to be developed for small and village industries.

Areas for Large Scale Sector – Large sector should be related to minimum basic needs programme via dispersal of small and village industries.

Large industries should strengthen the agricultural sector.

Approach towards Large Business Houses – Large houses to rely on internally generated resources for financing new projects or expanding existing projects. They should not depend on public financial institutions and banks.

Larger role for the Public Sector – Besides producing important and strategic goods, public sector be expanded to act as a stabilizing force for maintaining supplies of essential consumer goods.

Foreign Collaborations – In areas where technological know-how is not needed, existing foreign collaborations will not be renewed.

As a rule, majority interest in ownership and control to remain in Indian hands, though the governmental make exceptions in highly export-oriented and/or sophisticated technology areas.

Sick Units – Sick units to be helped in the interest of protecting employment, but no blanket assurance was given to take-over every sick unit. Units which are non-viable and continue to make losses year after year, may not be helped.

Janata Party Government failed to ban production in the large sector of items which were reserved for the small sector.

On foreign collaborations, if followed IPR (1956).

Janata Party, though it intended to shift the balance in favour of small sector, but due to short period of its rule (about 2 years), it failed to give a practical shape to its policies. The policy failed either to restrict big business or multinationals.

Industrial Policy of 1980 - Congress (I) back to power in 1980 indicated its trust in Industrial Policy of 1956. The IP (1980) had the following elements:

i) Promotion of the concept of economic federalism in which it proposed to set up a few nucleus plants in each district, identified as industrially backward, to generate as many ancillaries and small and cottage industries as possible.

Based on the premise that interest of the small and large industry are not essentially conflicting.

ii) Revised definition of small units

a) Tiny units – limit of investment raised from Rs. 1 to Rs. 2 lakhs

a) Small industries – limit of investment raised from Rs. 10 lakhs to Rs. 20 lakhs.

b) Ancillaries – limit of investment raised from Rs. 15 lakhs to Rs. 25 lakhs.

ii) Promotion of rural industries to generate higher employment and higher per capita income.

iii) To remove regional imbalance, the State should encourage industrial units in backward areas.

iv) Management of sick units would be taken over only in exceptional cases on grounds of public interest.

Sick units with adequate potential for revival would be encouraged to merge with healthy units.

v) Regularisation of unauthorized excess capacity – Capacity expansion up to 25 per cent of installed capacity would be made automatically available to the overall capacity including regularized excess capacity.

FERA and MRTP companies will, however, be considered on a selective basis.

The Industrial Policy of 1980 has been criticised for its internal inconsistency. While swearing by Industrial Policy of 1956, the 1980 policy proclaims that the interest of the small and large sector is not essentially conflicting. This is a totally untenable proposition because the IPR 1956 intended to support small and village industries (a) by restricting the volume of production in the large-scale sector, (b) by differential taxation or (c) by direct subsidies.

Dr. Faiyaz Hussain

visiting Faculty

Department of Management

MMHA&P University, Patna.