Industrial Policy

[UPSC Notes]

What is Industrial Policy?

Industrial policies are policies, plans, and strategies created by the Government to regulate the industries for higher productivity and huge profits properly. Industrial policy eases the business process and makes it easier for industries to work under that policy for its development. Government intervention affects the industry's ownership, structure, and performance. It takes the form of legislation, the payment of subsidies, or other forms of financial support. Industrial Policy is a policy of government intervention that is sector-specific and is aimed at giving preferential treatment over other sectors.

Objectives of Industrial Policy

The main objectives of the Industrial Policy of Government in India are:

- The industrial policy helps keep the industry on track with growth, leading to improved productivity.
- Better industrial growth leads to more job opportunities and higher economic growth.
- It makes the industries more regulated & productive and improves human resource use.
- It will help accelerate the economic growth of the country.
- Better functioning of the industries will lead to better international standards, enabling the domestic market to compete with the global market.

Evolution of Industrial Policies in India

Industrial Policies in India has evolved significantly since independence.

1948 Industrial Policy Resolution

↓

1956 Industrial Policy Statement

↓

1977 Industrial Policy Statement

(Monopoly and Restrictive Trade Practice Act, 1969)

↓

Industrial Policy of 1980

(Liberalization of Industrial Policy Regime 1980s)

↓

New Industrial Policy 1991.

Five major Industrial policies have been implemented since India's independence, which is discussed below.

Industrial Policy Resolution of 1948

The Industrial (Development and Regulation) Act was issued in 1951 to implement this resolution. The Industrial Policy of 1948 outlined the policy's broad configurations, explaining the state government's role in industrial development on the part of entrepreneurs and authorities. In simple terms, it gave the authority of the state over industries. It also cleared that India will have a Mixed Economic Model.

Additionally, the policy broadly classified industries into four parts:

- **Strategic Industries or Public Sector:** Central Government of India had control over the industries in this sector. The center had a monopoly and supreme authority over these industries and made the final decision. Rail transportation, atomic energy, and weapons & ammunition were three industries in which the center had its monopoly.
- **Basic/Key Industries or Public-cum-Private Sector:** This category comprised industries the Central Government had established, but the other existing private companies were also authorized to continue their business in these industries. Industries included in this category are wireless apparatus, telephone manufacturing, ship-building, aircraft manufacturing, telegraph, steel & iron, and coal. These industries are known as the six "Basic or Key Industries."
- **Important Industries or Controlled Private Sector:** This category describes industries that come under private sectors, but the state and central Government had simple control over them. This sector included 18 industries comprising heavy chemicals, sugar, woollen, cotton textile, cement, paper, rubber, salt, machine tools, motor, tractor, fertilizer, air and sea transport, electricity, and other industries.

- **Other Industries or Private and Cooperative Sector:** This category had all those industries not included in the abovementioned categories. These industries were under the authority of or Private and Cooperative sectors.

1956's Industrial Policy Statement (IPR 1956)

The Government of India amended the industrial policy of 1948 to 1956's Industrial policy statement. It was deemed "The Bible of State Capitalism" and the "Economic Constitution of India." Additionally, the policy provided the fundamental framework for the Government's industrial policies until 1991.

The industrial policy of 1956 emphasized the requirements of magnifying the public sector, developing a more extensive and emergent cooperative sector, and encouraging the division of ownership and management in private sector industries. It also significantly focused on inhibiting the rise of private monopolies in industries. The IPR 1956 emphasized the significance of small-scale or cottage industries for increasing employment breaks and an extensive reorganization of economic supremacy and activities.

The IPR 1956 was additionally entitled to its efforts to maintain industrial harmony. Under this policy and in keeping with the affirmed ideas of democratic socialism, a good share of production profits was given to the laboring mass.

The private sector sharply criticized the IPR 1956 because it drastically diminished the scope for private sector expansion. Moreover, it kept the sector under state government control owing to the practice of licenses.

The Industrial Policy Statement of 1956 categorized industries into three groups:

- **Schedule A:** It includes all industries controlled and headed by the states, which means all the critical responsibility of a company is under the state's control. This category comprises 17 industries that were State Government's responsibility. Four industries – atomic energy, arms and ammunition, air transport, and railways still had Central Government's monopoly. However, only the State Governments fostered the newfound companies in the remaining 13 industries.
- **Schedule B:** Industries in this category were open to the public and private sectors, but the State Governments increasingly owned them. It encompassed 12 industries such as fertilizers, rubber, drug, antibiotics, etc.
- **Schedule C:** Only the private sectors led the industries in this category. It implies that the private sector had complete authority to regulate the functioning of the company from top to bottom with no interference from the Government. However, the State Governments retained the power to take on any industrial production.

Industrial Policy Statement, 1977

Once again, India's Industrial Policy was amended in December 1977 when Janata Government passed a statement in the Parliament to announce its New Industrial Policy. This policy focused on small-scale industries, especially those in rural areas, to give them the support unavailable. As a result, they focused more on low-stage or other rural sector and their functions.

Through this policy, small-scale enterprises tried to increase business productivity by motivating and encouraging employees to participate in decision-making from the top to the ground level. Apart from small-scale industries, the policy also stipulated various areas for large-scale industries. It encompassed the Capital goods industry, Fundamental industries, High technology industry, and other industries that were not recognized as small-scale industries.

Furthermore, it also curbed the opportunity of big business houses to prevent any unit of the same business house from acquiring an overriding and monopolistic place in the market. Above all, it emphasized diminishing the incidence of labor apprehension by encouraging workers' participation in administration from workshop floor to board level.

This Industrial Policy classified the small sector into three categories:

- Cottage and Household Industries
- Small-Scale sectors
- Tiny Industries

Criticism of Industrial Policy Statement, 1977

Industrial Policy, 1977 also faced thoughtful criticism because it did not have any operative measures to limit the dominant places of large-scale enterprises in the market. Also, the policy failed to visualize socioeconomic transformations of the economy to restrain the role of big business units and MNCs.

Industrial Policy of 1980

The Industrial Policy of 1980 emphasized the productivity of the industries and focused on the production aspect of the business and economic federation. It motivated the public sector industries to produce more products for the market. Shortly, it emphasized the production of the products.
It focused on reversing the last three years' industrial production curve and confirmed its reliance on the Monopolies and Restrictive Trade Practices Act and the Foreign Exchange Regulation Act. This policy aimed to slacken the industrial sector to intensify productivity and affordability in the industrial sector.
Additionally, it founded a progressive, competitive export base and encouraged foreign investment in high-technology industries.

New Industrial Policy, 1991

In 1991, the Government of India declared India's long-expected liberalized industrial policy when the nation faced critical economic instability. The New Industrial Policy, 1991 was to hasten economic development and upgrade economic efficiency.

The characteristics of the New Industrial Policy, 1991 are:

- **De-licensing or Liberalized industries:** Under this policy, the company becomes liberalized from licensing system, which means industries do not need any license from the Government to establish their industry or to run industry, but around 18 industries are exempted from this privilege; these industries include those who produce products which are harmful to environment and industries.
- **Foreign investment Liberalization:** This policy allowed the share of foreign investors in the company from 47% to 51% to attract more investors to the Indian and domestic companies; this will influence more investors towards the country. This will lead to significant investment and technological outflow.
- **Agreement on Foreign Technology:** This policy allowed domestic companies to deal with foreign companies to make deals in technology up to 1 crore without government permission. The company does not need government permission to deal with foreign companies.
- **Public sector De-reservation:** This policy liberated many industries that were previously reserved under the public sector. However, the dominant place of the public sector in five core industries like atomic energy, arms and ammunition, railways, mining, and mineral oils was sustained.
- **Public sector Disinvestment:** To enhance productivity and competitiveness, government shares in Public Sector industries were decreased under this industrial policy.
- **Localized Policy:** Any industry was allowed to be established in the cities if its population is less than 1 million, and if the population is high, then industries have to develop their workshops outside the cities with the permission of the Government.
- **Reservation of small-scale industries:** This policy made the center responsible for supporting small rural industries to grow the economy. The central Government was mended to provide adequate resources to support local industries' growth.

New Industrial Policy, 1991: Consequences

The consequences attached to the new Industrial Policy, 1991 were:

- Because of the New Industrial Policy of 1991, a concept like licenses, permits, and quota no longer create hurdles for any industrialist who wish to establish multiple industries. This policy removed all the bureaucratic problems and obstacles in starting new businesses leading to more opportunities for many new entrepreneurs and creating employment.
- This policy reduced the cost of entering the market, which became an advantage for big foreign companies, especially MNCs, that could establish their business without any bureaucratic hurdle. As a result, this will increase the opportunities for the domestic market.
- This revolution increased the competition in the market, consequently reducing the product's price. In addition, domestic and foreign investments support private companies in starting new ventures.