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EARLY POST- INDEPENDENCE AND CURRENT INDUSTRIAL POLICIES IN INDIA: A COMPARATIVE ANALYSIS

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ABSTRACT

Since the beginning of the WTO era, the industrial environment across the world has undergone a radical transformation, so much so that there has been a paradigm shift in the rationales behind and the instruments of industrial policy. This 'shift' is particularly significant for the fast developing economies of south-east Asia and Latin America as they face the dual challenge of ensuring fast economic growth along with social justice and overall national development.

In India, post-independence industrial policies, though relevant in the early stages of development, failed to create a vibrant and competitive industrial sector. This shortcoming was identified, and a new policy was introduced in 1991. The Industrial Policy of 1991 differs fundamentally from the Industrial Policy of 1956 which determined the path of our industrial development prior to 1991. They are in sharp contrast to each other from the point of view of both their objectives, and instruments. This paper attempts a comparison between early post-independence and current industrial policies and their overall impact on India, with focus both on their strengths and weaknesses.

KEY WORDS: ***Industrial Policy, national development, rationale, instruments.***

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Since the beginning of the WTO era, the industrial environment across the world has undergone a radical transformation, so much so that there has been a paradigm shift in the rationales behind and the instruments of industrial policy. This 'shift' is particularly significant for the fast developing economies of south-east Asia and Latin America as they face the dual challenge of ensuring fast economic growth along with social justice and overall national development.

INDUSTRIAL POLICY: DEFINITION

Industrial Policy is a formal declaration by the Government whereby it outlines its general policies for industries. Any industrial policy broadly has two parts. The first part generally deals with the ideology of the current political dispensation, while other one provides a framework of certain rules and principles.

The main objective of any industrial policy is to augment industrial production and thereby enhance industrial growth which leads to economic growth by optimal utilization of resources, modernization, balanced industrial development, balanced regional development, balanced development of basic and consumer industry, coordinated development of large as well as small, medium and cottage industries, determination of the area of operation under the private and public sectors, enhancing cordial relations between workers and management, and proper utilization of domestic / foreign capital.

INDUSTRIAL POLICY IN INDIA: A BACKGROUND

At the time of Independence, the Indian economy was facing severe problems such as widespread illiteracy, poverty with very low per capita income, industrial backwardness with a complete lack of basic and heavy industries, massive unemployment, lack of socio-economic infrastructure, glaring regional and personal disparities, poor quality human/manpower resources, capital deficiency with a low rate of capital formation.

After India attained its Independence in 1947, a sincere effort was made to begin an era of industrial development. The government adopted rules and regulations for various industries. This industrial policy introduction proved to be the turning point in Indian Industrial history.

EARLY POST- INDEPENDENCE INDUSTRIAL POLICIES IN INDIA

- The first ever **Industrial Policy Statement of India in 1948** clarified the status of the Indian economy as a mixed economy.
- The Industrial **Development and Regulation Act, 1951 introduced the policy of Industrial Licensing-** to check regional disparities, to ensure safe standards and environmental safety and check concentration of economic power.
- The first Industrial Policy which comprehensively defined the pattern of industrial growth in India over the next three decades and more was the **INDUSTRIAL POLICY of 1956**. It was based on the **Nehru-Mahalanobis Model** of growth and its key features were regulation, controls, reservation, protectionism, and a huge role for the Public Sector particularly to set up heavy, basic and strategic industries and infrastructure.

In India, early post-independence industrial policies, though relevant in the early stages of development, failed to create a vibrant and competitive industrial sector. This shortcoming was identified, and a new policy was introduced in 1991. The Industrial Policy of 1991 differs fundamentally from the Industrial Policy of 1956 which determined the path of our industrial development prior to 1991. They are in sharp contrast to each other from the point of view of both their objectives, and instruments.

AIM AND METHODOLOGY

The aim of this descriptive and exploratory study based on secondary data is to make a comparison between two distinct and almost diametrically opposed industrial growth models in India since 1956.

SALIENT FEATURES OF INDUSTRIAL POLICY, 1956

- New classification of industries with 17 industries exclusively reserved for the Public Sector, 12 to be progressively owned by the state and the remaining left to the Private Sector.

- Fair and non-discriminatory treatment for the Private Sector.
- Reservation and incentives for village and small scale industries.
- Removal of regional disparities.
- Cautious attitude towards foreign capital.
- Commanding heights to the Public Sector as a senior partner in the field of speedy industrialization.
- Self-reliance.

INDUSTRIAL POLICY STATEMENT, 1977

Despite some creditworthy achievements over a 20 year period, the Industrial Policy, 1956 led to some distortions on the fronts of unemployment, rural-urban disparities, the growth of real investment, growth of industrial output and the incidence of industrial sickness. The main thrust of the Industrial Policy, 1977 was thus on the effective promotion of cottage and small industries widespread in rural areas and small towns.

Analysis of this policy reveals that while there were some really appreciable provisions in this policy like the new thrust in favour of cottage, tiny and small sectors, measures to control growth of monopoly capital, workers' participation in ownership and management, the increasing role to be assigned to the public sector and the steps to tone up their working efficiency etc., it was broadly speaking only an extension of the philosophy contained in the Industrial Policy, 1956.

INDUSTRIAL POLICY OF 1980

The Industrial Policy Statement, 1980 also endorsed the 1956 Industrial Policy but with a more pragmatic approach. It was guided predominantly by considerations of growth. It liberalized licensing for large and big businesses but by blurring the distinction between small scale and large scale industries, it sought to promote the latter at the cost of the former. In overall analysis, this policy chose a more capital intensive path of development and thus underplayed the employment objective.

INDUSTRIAL LICENSING POLICY, 1951

The Industrial Licensing System(ILS) was an instrument for determining the direction and size of industrial development in the country. It owes its legal authority to the Industries (Development and Regulation) Act, 1951. It sought to ensure that new industrial investments were in accordance with the Plan priorities, Directive Principles of State Policy in general, and the operation of the economic system in a manner that did not lead to concentration of wealth and economic power in a few hands.

Three major studies have been conducted to review the efficacy of the Industrial Licensing System in India with respect to its stated objectives. These studies were headed by Prof. R.K. Hazari in 1966, Shri. S. Dutt in 1967 and by Shri. M. Narsimhan in 1985. All the three studies indicated that this system did not ensure efficient resource use in our industrial economy. The overall result was the inefficient expansion of the industrial sector, causing adverse effect on industrial growth, and the stifling of entrepreneurial talent and employment opportunities. On account of this system, India could not take advantage of the tremendous expansion which took place in the world trade in the 1960s and 1970s.

EVALUATION OF INDUSTRIAL POLICY 1956-1991

ACHIEVEMENTS

The above stated model of industrial development created a base for economic activities in India as it led to the growth of basic and core industries such as cement, iron and steel, engineering goods etc, import substitution in the area of capital goods, mineral oil ,drugs & pharmaceuticals etc., export promotion in the field of minerals, metals and light engineering goods which favorably altered the composition of India's exports, indigenization of technology in some areas, reduction of regional disparities as many heavy public sector units were set up in backward and remote areas to propel the process of growth and development, development of village and cottage industries through reservation and strong incentives, growth of all 3 productive sectors, creation of employment opportunities mainly through the public sector, creation of socio-economic infrastructure, growth of real per capita income, and development along socialist lines.

FAILURES

On the flip side, the model of industrial development followed by India from 1956-1991 led to some serious imbalances and distortions in the industrial economy viz: License-Permit Raj, rigidities owing to this system, over bureaucratization, excessive controls, lack of enterprise and economic freedom, dwarf sized companies owing to the provisions of MRTP, breeding inefficiencies due to reservations and protectionism, corruption, huge financial burden on the government , and adverse balance of payments along with inflationary pressures.

BEGINNING OF LIBERALISATION OF INDUSTRIAL POLICY IN INDIA

From 1985 onwards, India started witnessing a liberalization spree involving a wide array of industrial policy initiatives aimed at removing constraints of growth and creating a more dynamic industrial environment. These included well meaning relaxations in Industrial Licensing, Monopoly and Restrictive Trade Practices Act (MRTP), 1969 and Foreign Exchange and Regulations Act (FERA).

FACTORS LEADING TO INDUSTRIAL POLICY 1991- A COMPLETE TURNAROUND- A LIBERALIZED POLICY

India was a latecomer to economic reforms, embarking on the process in earnest only in 1991(Montek S. Ahluwalia, 2002). In the decade of the 1980s, many countries in east Asia had already achieved poverty reduction and a high growth rate through a greater emphasis on export orientation and the private sector. Various factors as outlined below made this path inevitable for India and the New Industrial Policy based on Liberalisation, Privatisation and Globalization was launched in India in July 1991which gave India a new model of growth. (Rao-Manmohan Model).

- Run up to the membership of World Trade Organization (WTO).
- Structural adjustments advised by the World Bank and International Monetary Fund.
- Worst BOP crisis since 1951 with huge current account deficits.
- Foreign exchange reserves at a record low.

- Mounting external debt at 23% in 1991 and internal debt with a sharp fall in Indian Government's credit rating.
- Withdrawal of money by Non-Resident Indians which led to more borrowing from abroad.
- Large and persistent macro economic imbalances- lack of macro management leading to internal imbalance in the fiscal situation with fiscal deficit at 7.8% in 1991 and external imbalance leading to adverse BOP situation.
- Low competitive ability of Indian economy with a meager share in World Trade.
- Inflationary pressures.

OBJECTIVES OF INDUSTRIAL POLICY 1991

- To unshackle the Indian economy from the cobwebs of unnecessary bureaucratic controls.
- To step up the growth rate of the Indian Economy.
- To increase the productive efficiency and competitive ability of industries in India.
- To bring about the optimum utilization of resources for the overall development of India.
- To increase India's share in foreign trade.
- To reduce the ever widening fiscal deficit and financial burden on the Government by redefining the role of the State.
- To increase employment in the Industries and Services sectors.
- To allow more economic activities in the Private sector with increased market orientation.
- To liberalize with a view to integrate the Indian economy with the world economy(Globalization).

To remove restrictions on Foreign Direct Investment(FDI) and to free domestic enterprises from the MRTP Act and the Industrial Licensing policy.

SALIENT FEATURES OF INDUSTRIAL POLICY 1991- A U-TURN (RAO-MANMOHAN MODEL OF INDUSTRIAL DEVELOPMENT)

- Dereservation of industries(From 17 to 3).
- Delicensing of industries (Except 5).
- Relaxation of MRTP Act.
- Foreign Direct Investment.
- New Public Sector Policy- Disinvestment, Revival of sick PSUs, Exit Policy and Professional Autonomy with MOUs.
- Opening of the economy to foreign markets.

This Industrial Policy laid the foundation of the New Economic Policy of Liberalization, Privatization and Globalization in India.

EARLY POST-INDEPENDENCE (1956-91) AND CURRENT INDUSTRIAL POLICY(1991 ONWARDS) IN INDIA: A COMPARATIVE ANALYSIS

India's economic performance in the post reform period has shown many positive results. India's growth rate picked up placing it among the fastest growing developing countries in the 1990s. Moreover, the growth in the era of economic reforms since 1991 has been marked with remarkable external stability despite two major global financial crises. Tables 1& 2 below show a comparative evaluation of the performance of the two Industrial policy ideologies in India: Industrial Policy 1956 (covering the period 1956-1991) and Industrial Policy 1991(covering the period 1991-2011).

TABLE 1 : COMPARATIVE PERFORMANCE ON KEY INDICATORS I

COMPARITIVE PERFORMANCE- KEY INDICATORS I

BASIS	INDUSTRIAL POLICY 1956 (1956-1991)	INDUSTRIAL POLICY 1991 (1991-2011)
GROWTH RATE OF GDP	4.1%	6.9%
MAJOR DRIVER OF GROWTH	Industrial Sector	Services Sector
GROWTH OF PER CAPITA INCOME	Real PCI doubled in 40 years	Real PCI rose by two and a half times in 20 years
SECTORAL GROWTH RATES	Agriculture: 2.3% Industry: 5.2% Services: 4.4%	Agriculture: 3.1% Industry: 6.4% Services: 7.8%
SECTORAL COMPOSITION OF NATIONAL INCOME	Agriculture: 29.6% Industry: 27.7% Services: 42.7%	Agriculture: 14% Industry: 27% Services: 59%

TABLE 2 : COMPARATIVE PERFORMANCE ON KEY INDICATORS II

COMPARATIVE PERFORMANCE- KEY INDICATORS II

BASIS	INDUSTRIAL POLICY 1956 (1956-1991)	INDUSTRIAL POLICY 1991 (1991-2011)
SHARE IN WORLD GDP	1.5%	2.6%
SHARE IN WORLD COMMODITY EXPORTS	0.5%	1.5%
FOREX RESERVES	6 Billion US Dollars in 1990	259.72 Billion US Dollars on 29 March, 2013

AREAS OF CONCERN UNDER INDUSTRIAL POLICY 1991

Even though the New Industrial Policy has some striking achievements to its credit as shown by the key indicators, it is not free from its flaws as it has raised the following areas of concern:

- Share of India in FDI has been very low as compared to China, Brazil and Mexico despite rolling out the red carpet to foreign investors.
- Technology transfer through MNCs only in quick profit giving consumer goods areas- that too technology that had been dumped and outdated in the western world.
- Conflicts between wholly owned subsidiaries of MNCs and their affiliates with Indian partners.
- Big MNCs swallowing up small domestic firms.
- Nearly 40.2% of foreign investment is in the nature of Portfolio investment- which is speculative in nature and cannot be relied upon for long term and can lead to wild fluctuations in the stock market.
- Loss of economic freedom leading to some hard measures in some hitherto protected areas like agriculture.
- Foreign investors catering to the needs of upper midle and affluent classes only (approx. 180 million consumers) leading to complete neglect of the basic and wage goods sectors.
- Large inflow of FDI can fuel inflationary pressures.
- Fast growth of NBFCs and intermediaries can render monetary management by the RBI ineffective.
- Capital intensive pattern of growth is raising concerns on the employment front, particularly in the informal and unorganized sector.
- Failure on the front of poverty alleviation.
- Setback to the objective of self reliance.

CONCLUSION

At both the times, India had no option but to adopt the best fit model of the industrial policies in the given economic circumstances, even though the two models of industrial development were diametrically opposite to each other. At best, one can conclude that the IP 1956 prepared the ground for launching the liberal age IP 1991 successfully. However, a readjustment process has been necessitated due to this U turn, which calls for selective State intervention along with major reforms in certain key sectors to decide the final course of industrial development.

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