

CHAPTER:-3
CONCPET OF INDUSTRIAL POLICY

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CHAPTER:-3
CONCEPT OF INDUSTRIAL POLICY

3.1 INTRODUCTION

As a concept of political science, "Policy" has at least two quite distinct meanings. On the one hand "Policies" are often considered to be ways of doing things. In other words they are the decision rules. For example, it is the policy of a particular office to handle the requests in prescribed manner. In this sense policy would answer the questions "how things are being done?" Policy is therefore called administrative policy. Alternatively, policies are often regarded as substantive programmes, referring specifically to how it is being done. Policies in this sense answer the questions "What is being done and what kinds of problems are handled."

The term 'Industrial Policy' refers to the Government's policy towards the establishment of industries, their working and management. It includes all those principals, regulations, rules etc; which would influence the industrialization of the country and also nationalization of industries. It also incorporates the tariff policy, labour policy and government's attitude not only to external

assistance but to the public and private sector. Thus it is the plan of the Nation ⁴⁸

The present study covers the study of the role of policy analysis in the industry under difference in the industry under difference government's independence.

3.2 NEED OF INDUSTRIAL POLICY OF INDEPENDENT INDIA

When India attained independence, on that time the congress government came into power. Production in India had declined but population was increasing. In view of the need to step up production and to measure inflationary tendencies, it was necessary to announce an industrial policy which could protect to the some extent economic security. On the other hand inflation was worsened by the economic upheaval of participation of the country and the refugee rehabilitation problem. So, for the growth of industrial structure and thus produce a climate for stimulating investment in Industry the implementation of the industrial policy was necessary. Thus promotion of

⁴⁸ See, *Web Definiton of Industrial Policy*, available at www.en.wikipedia.org/wiki/Industrial_policy, last visited on 23/11/09

foreign direct investment forms an integral part of India's overall development.⁴⁹

Earlier, our attitude to foreign investment was also rigid. Foreign technology was permitted if Indian technology was not available, but foreign capital was frowned upon. The changes in policies concerning foreign technology and foreign investment will enable Indian industries to forge ahead with the assistance of foreign investors and suppliers of technology which has not been possible in the past.

It is, however, important here to evaluate our economy in a slightly more focused manner from early post independent period to 1991. The growth performance, though an improvement over the pre-independence period, has been quite lackluster. Therefore, soon after independence, our objectives were directed towards achieving self-reliance, emerging as a strong industrialized nation and, above all, doing this within the framework of social justice.⁵⁰

3.3 ROLE OF INDUSTRIAL POLICY DEVELOPING ECONOMY

The objectives of the plan are not achieve due to lack of proper policy measure require for the implementation. In

⁴⁹ See, *Evolution and development of Industrial Policy*, available at www.dipp.nic.in/evoll.htm

⁵⁰ *Ibid* 49

this case we cannot blame the objective of plan. In fact, the operational counterpart of industrial planning is provided by the industrial policies and the same are to treat as principal official instrument for proper implementation of plan objective for successful and effective implementation of planning the co-ordination and co-operation among the various participant of planning process and particularly between the policy makers and planning expert.

Initially the objectives were to be achieved within the framework of government regulation and protection from foreign competition. The public sector was to provide basic infrastructure and a leadership role for industrial growth while the private sector was expected to play a complementary role in the mixed economy. These policies led to certain adverse consequences. Barriers to entry which limited domestic competition and gave indefinite protection to domestic industry from foreign competition. The proliferation of small scale industries and regional dispersal had adverse effects on economies of scale. Barriers to entry restricted transfer of resources from sick to growing industries. There were few incentives for technological up gradation and administrative hurdles and bureaucratization was inherent in physical controls and the plethora of rules and regulations.

There had been attempts during the 1980's to liberalize the industrial policy framework and the process of reorientation

gained further momentum. The important policy changes were delicensing of a number of industries, broad banding of certain industries for the purpose of expansion and capacity utilization, expanding the role of large houses/enterprises by broadening the list of industries open to them raising the asset threshold to Rs. 100 Crores for Monopoly Restrictive and Trade Practices Act [MRTP] houses, raising the investment limits for small-scale sector and providing fiscal concessions for their promotion; exemption from licensing requirements for increases up to 49 per cent over licensed capacity for purposes of modernization/ renovation/ replacement; making it easier to import foreign technology and capital goods and raw materials for purposes modernization and improvements in quality; fixation of minimum economic size for a number of industries, announcing national policies relating to specific industries such as textiles, sugar, electronics and computers, iron and steel, drugs, petrochemicals and power generation and simplification of rules and procedures.⁵¹

These were supplemented by the

- Long term Fiscal Policy [1985]
- Long term Trade Policy [1985 & 1988]
- Administrative price Policy [1986]

⁵¹ See, Government of India, available at [www. siadipp.nic.in/publicat/nip0791.htm](http://www.siadipp.nic.in/publicat/nip0791.htm), last visited on 12/10/2009

On the whole, the emphasis had been on reducing the reliance on physical controls and increasing the role of financial and fiscal incentives for canalizing investment in the desired lines.

There was also increase in the economic space available to large or Monopoly Restrictive and Trade Practice Act companies.

So, with the advent of NIP, there is a wave of change in the industrial scenario.⁵²

Reforms in Industrial and Trade Policy

Reforms in Industrial policy were a central focus of much of India's reform effort in the early stages. Industrial policy, prior to the reforms was characterized by multiple controls over private investment which limited the areas in which private investors were allowed to operate, and often also determined the scale of operations, the location of new investment, and even the technology to be used.

The industrial structure that evolved under this regime was highly inefficient and needed to be supported by a highly protective trade policy, often providing tailor-made protection to each sector of industry. The costs imposed by these policies had been extensively studied (for example, Bhagwati and Deasai, 1965, Bhagwati and Srinivasan,

⁵² *Ibid* 51

1971, Ahluwalia, 1985) and by 1991 a broad consensus had emerged on the need for greater liberalization and openness. A great deal has been achieved at the end of ten years of gradualist reforms.

Industrial Policy

Industrial policy has seen the greatest change, with most central government industrial controls being dismantled. The list of industries reserved solely for the public sector – which used to cover 18 industries, including iron and steel, heavy plant and machinery, telecommunications and telecom equipment, minerals, oil, mining, air transport services and electricity generation and distribution – has been drastically reduced to three: defense aircrafts and warships, atomic energy generation, and railway transport. Industrial licensing by the central government has been almost abolished except for a few hazardous and environmentally sensitive industries. The requirement that investments by large industrial houses needed a separate clearance under the Monopolies and Restrictive Trade Practices Act to discourage the concentration of economic power was abolished and the act itself is to be replaced by a new competitive law which will attempt to regulate anticompetitive behavior in other ways.

The main area where action has been inadequate relates to the long standing policy of reserving production of certain

items for the small-scale sector. About 800 items were covered by this policy since the late 1970s, which meant that investment in plant and machinery in any individual unit producing these items could not exceed \$250,000. Many of the reserved items such as garments, shoes, and toys had high export potential and the failure to permit development of production units with more modern equipment and a larger scale of production severely restricted India's export competitiveness.⁵³

The Report of the Committee on Small Scale Enterprise (1997) and the Report of the Prime Minister's Economic Advisory Council (2001) had both pointed to the remarkable success of China in penetrating world markets in these areas and stimulating rapid growth of employment in manufacturing. Both reports recommended that the policy of reservation should be abolished and other measures adopted to help small-scale industry.

While such a radical change in policy was unacceptable, some policy changes have been made very recently: fourteen items were removed from the reserved list in 2001 and another 50 in 2002. The items include garments, shoes, toys and auto components, all of which are potentially important for exports. In addition, the investment ceiling for certain items was increased to \$1 million. However,

⁵³ *Ibid* 51

these changes are very recent and it will take some years before they are reflected in economic performance.

Industrial liberalization by the central government needs to be accompanied by supporting action by state governments.

Private investors require much permission from state governments to start operations like connections to electricity and water supply and environmental clearances. They must also interact with the state bureaucracy in the course of day-to-day operations because of laws governing pollution, sanitation, workers welfare and safety, and such. Complaints of delays, corruption and harassment arising from these interactions are common. Some states have taken initiatives to ease these interactions, but much more needs to be done.

A recently completed joint study by the World Bank and the Confederation of Indian Industry (Stern, 2001) found that the investment climate varies widely across states, and these differences are reflected in a disproportional share of investment, especially foreign investment, being concentrated in what are seen as the more investor-friendly states (Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu) to the disadvantage of other states (like Uttar Pradesh, Bihar and West Bengal). Investors perceived a 30 percent cost advantage in some states over others, on

account of the availability of infrastructure and the quality of governance. These differences across states have led to an increase in the variation in state growth rates, with some of the less favored states actually decelerating compared to the 1980s (Ahluwalia, 2002). Because liberalization has created a more competitive environment, the pay off from pursuing good policies has increased, thereby the importance of state level action. Infrastructure deficiencies will take time and resources to remove but deficiencies in governance could be handled more quickly with sufficient political will.

3.4 EVOLUTION OF NEW INDUSTRIAL POLICY OF GOVERNMENT OF INDIA

- 1 Growth of Industrial Policy in India during British Period
- 2 Industrial Policies in India during the Nehru Period
- 3 Industrial Policy during Indira Period

1. GROWTH OF INDUSTRIAL POLICY IN INDIA DURING BRITISH PERIOD

India during the pre-planning period and especially during the British rule, the pace of economic development in India was very slow. Even just before the Britisher came to India, the growth of Indian economy was checked and it was fast settling down to a semi static equilibrium condition. Prior to

the British rule in India, two basic characteristics were most prominent in the Indian economy: a high degree of inequality in Income and conspicuous consumption by the wealthy class.

Following the industrial revolution in Great Britain in the second half of the eighteenth century, power-driven of machines replaced hand work as a result of rapid growth of applied sciences watt interested in India because the Indian economy provided a vast market for British manufactured goods, and a source of food and raw materials for the west. In trying to convert India into a market for British manufactured goods, the British rulers shaped India's own manufacturing industries and gradually converted India into an agricultural hinterland of Great Britain.

In India Britain had mainly two tasks to perform development of India in a manner which would make it complementary to Britain's own economy and the maintenance of political control. Naturally Britain was not keen on applying a magic formula for an all-round economic development in India. The result was that during the British rule. India most conspicuously witnessed and experienced a deteriorating situation amidst semi stagnant conditions. It remained a land of uncertain crops. The revolution

popularly known as green revolution, was however was not however a full success. ⁵⁴

A vast number of people were thrown into a state of appalling poverty. The rate of saving in the economy was hopelessly low and the progress made in the fields of communications, trade commerce and industry was miserably low and scarcely enough to meet the basic needs and minimum demands of the people.

In short, the economic backwardness of Indians may be attributed, in considerable measure, to their political subordinancy to Great Britain. In other words the prevailing political situation in India and the attitudes of the British people were mainly responsible for the slow growth of Indian economy. So, during the British period the growth of industries was very slow as the government never encouraged industrial economy in India.

2. INDUSTRIAL POLICY IN INDIA DURING THE NEHRU PERIOD

Jawaharlal Nehru, an ardent patriot, a brave freedom fighter, a dedicated scholar, a devoted worker of the congress which brought independence for the country, a

⁵⁴ See, *Why Green Revolution*, available at <http://www.indiaonestop.com/Greenrevolution.htm>, last visited on 24/11/09

man of courage, conviction and confidence, guided the dusting of India for about two decades. He had a keen insight into the prevailing conditions in India. He strongly believed that the progress of the country depended upon the development of agriculture and industry. To him, rapid production in the field of industry would certainly bring an all-round development of the country. And during his prime minister ship he tried his best to find a place for India in the industrial map of the world by setting up heavy industries. Not only after independence but also prior to it, had Nehru stressed the importance of industrialization.

More specific achievements of Nehru model development are:

- a. Considerable rise in agricultural productivity per hectare on account of application of seed, fertilizer, technology, making the country self-sufficed in food and also to accumulate huge reserves of food gains.
- b. Impressive industrialization in the capital goods sector through a leading role given to the public sector. This has resulted in the diversification and expansion of India's industrial capacity. India is now self-sufficient in consumer goods and in basic commodities like steel and cement, while the capacity of new industries like fertilizers is rapidly expanding.
- c. Development of economic infrastructure in the form of in irrigation, power, transport and communications,

etc. which provides the base for rapid economic growth.

- d. Growth of science and technology and the development of technological and managerial cadres to run a modern industrial structure. The Nehru model of growth based on heavy industries.

Industrial Policy of 1956

Soon, after its independence, India gave up the policy of laissez faire which was seriously pursued during the British regime. The first policy statement on the subject was made in April 1948. In fact, the 1956 Resolution on Industrial Policy, which has been followed up to now in its essentials, is the product or output of various policy statements made to meet the demands immediately after independence.

The framing of a policy to establish an egalitarian and socialistic society in the country necessitated a detailed and systematic adoption of an industrial policy espousing the mixed-economy pattern. This pattern was first propounded in 1948. This policy statement also included the regulation and control of the private sector which was, of course, latter adopted in the Industries (Development & regulation) Act, 1951. The necessity of foreign capital and know-how was also envisaged in the 1948 policy with the implication that Indian capital and personnel would replace them ultimately. Thus during the interim period the then Prime

Minister Nehru created great resources and opportunities for Industrial Revolution. ⁵⁵

Objectives of Policy Resolution 1956

Though the 1948 policy statement served some purpose for about eight years, it proved insufficient in view of the various developments within the political system that took place as natural development after independence. The framing and adoption of a constitution which guaranteed the fundamental rights of the citizen of the country and which included a chapter on directive principles of state policy, imbibing the objectives of a socialist system of society; completion of the First Five Year Plan; and the realization that the progress of the country lay in according highest priority to capital goods industries, these and still more other developments put pressure on the policy makers to take into account the aforesaid factors.

Through this resolution the decision makers wanted to fulfill the following objectives.

- i. Accelerating the rate of industrialization, particularly of heavy industries.
- ii. Expanding the public sector in the field of infrastructure and capital and basic industries, while

⁵⁵ See, *Constraints and Opportunities*, available at www.ias.org/Constraints_Opportunities.html, last visited on 28/11/09

preventing monopolies and concentration of economic power.

- iii. Ensuring balanced industrial development and,
- iv. Expanding cottage, village and small-scale industries.

3. INDUSTRIAL POLICY DURING INDIRA PERIOD

Indira Gandhi's career as a prime minister is easily divided into two periods. The first is the period from her accession till the defeat at the hands of Janta Party in 1977. The second is the period from her return to power in 1980 till her death. The most obvious division is also the objective division, the line drawn by the objective historical process. In the first period, it was the economic crisis and disaffection of the masses that were the main problems. The disaffection of the propertied classes was as yet very much incipient. Indeed, it was the green revolution and the further industrialization of the economy which were undertaken in this period with imperialist aid and advice as an answer to the economic crisis that would intensify and bring out the disaffection, even as they gave the polity the pigmentation of an industrial economy.

But that was as yet in the future. The launching of various anti-monopoly legislations like FERA and MRTP Acts are to be understood both from the angle of populism and the need to preserve the specific structure of the policy against

the incubatory disaffection of the rich who wanted a different alignment of the structure.

Industrial Policy of 1973

The 1973 policy statement elaborate the controversial concept of "Joint Sector" and makes it clear this will not be used to allow larger houses, dominant undertakings and foreign companies to enter fields from which they are otherwise precluded. The concept of joint sector emphasizes the point that public sector financial assistance for private sector firms should be supplemented by a proper representation of the state in its management.

Industrial Policy of 1980

While sticking to the sprit of the 1956 industrial policy resolution, the new congress government announced on July 23, 1980, the new industrial policy which included major relaxation and concessions benefiting the small medium as well as large scale sector with the triple object of modernization, expansion and spread to backward areas.

The following are the main highlights of the Industrial Policy of 1980

- i. In order to promote the development of small-scale industries and ensure their rapid growth, the

government has decided to increase the limits of investments in the case of tiny units.

- ii. The government has decided to launch a drive to revive the efficiency of public sector undertaking
- iii. As regards automatic growth the government feels that no avoidable restrictions should be placed on the fullest utilization of the existing industrial capacities.
- iv. The "district industrial centre" idea, which was introduced by the Janta government, has not received full support from the new industrial policy statement.
- v. The new policy refers to considerable simplification and streamlining of licensing procedures.
- vi. The government would endeavor to ensure that the process of modernization percolated down to small units and the villages.

The Industrial Policy Resolution made following observations on industrial workers and industrial relations:

"It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy, labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach

has developed with the growing recognition of the obligations of both management and labour. There should be joint consultation and workers and technicians should, wherever possible, be associated progressively in management. Enterprises in the public sector have to set an example in this respect."

With a view to inducting an element of dynamism in Indian economy, a new industrial policy was announced by the government in 1991. The said policy has brought about a drastic change in the organization and working of industrial system of the country that in turn considerably influenced its labour policy. With a view to safeguarding the interest of labour the industrial policy has stated that the "Government will fully protect the interests of labour, enhance their welfare and equip them in all respects to deal with the inevitability of technological change."⁵⁶

Government believes that no small section of society can corner the gains of growth, leaving workers to bear its pains. Labour will be made an equal partner in progress and prosperity. Workers' participation in management will be promoted. Workers cooperatives will be encouraged to participate in packages designed to turn around sick

⁵⁶ See, Government of India, available at [www. siadipp.nic.in/publicat/nip0791.htm](http://www.siadipp.nic.in/publicat/nip0791.htm), last visited on 12/10/2009

companies. Intensive training skill development and upgradation programmes will be launched.

Industrial Harmony:

While industrial peace calls for both a negative and positive approach, the attainment of industrial harmony necessarily calls for a positive and constructive approach to the solution of industrial disputes. Therefore, the Commission laid emphasis on the freedom of industrial relations machinery from 'political partisan' influence. This was necessary in view of the multi-party governments that were emerging in the country. The Commission has referred to certain weaknesses in the working of the existing industrial relations machinery, namely, the delays involved, the expenditure, the largely ad hoc nature of the machinery and the discretion vested in the government in matters of reference for disputes. Therefore, to make the industrial machinery more effective and more acceptable, suitable re- edification in the existing machinery should be made.

Industrial Relations Commission (IRC):

The Commission has recommended:

"The constitution of an Industrial Relations Commission, on a permanent basis, both at the rate level and the Centre.

"The state IRC will deal with disputes in respect of industries for which the state government is the appropriate authority, while national IRC will deal with disputes involving questions of national importance or those likely to affect or interest establishments situated in more than one state. One of the principal reasons for suggesting these commissions is the desire to eliminate the possibility of political influence disturbing or distorting industrial peace in the country.

"The Commission will have both judicial and non-judicial members. The judicial member as well as the president of the national/state IRC, are to be appointed from among persons eligible for appointment as judges of high courts. Non-judicial members need not have qualifications to hold judicial posts, but should be otherwise eminent in the field of industry, labour or management.⁵⁷

"The IRCs will be high-powered bodies independent of the executive. The main functions of these IRCs will be

- (a) Adjudication in industrial disputes
- (b) Conciliation
- (c) Certification of unions as representative unions.

"The conciliation wing will consist of a Conciliation Officer with the prescribed qualification; and status.

⁵⁷ See, Contents-Govt. of India, Ministry of Labour Welfare, available at www.labour.nic.in/lcomm2/2nrc-pdfs/contents.pdf, last visited on 4/11/09

"The functions relating to certification of unions will rest with a separate wing of the nations state IRC.

"The commission may provide arbitrators from among its members/officers, in case parte; agree to avail of such services.

"All collective agreements should be registered with the IRC.

"An award made, by the IRC in respect of a dispute raised by recognised union should be binding on all workers in the establishment(s) and the employer(s)."

Labour Courts: The Commission recommended for:

- (i) The setting up of Labour Courts in each state. The strength and location of such courts is to be decided by the appropriate government.
- In) Members of the Labour Court will be appointed by the government on the recommendation of the High Court.
- (iii) Labour Courts will deal with the disputes relating to rights, obligations, interpretation and implementation of awards and claims arising under the relevant provisions of laws or agreements, as well as with disputes relating to unfair labour practices.

- (iv) Labour Courts will thus be courts where all the disputes specified above will be tried and their decision implemented. Proceedings instituted by parties asking for the enforcement of rights falling under the aforesaid categories will be entertained in that behalf.
- (v) Appeals over the decisions of the Labour Court in certain clearly defined matters may be with the High Court within whose jurisdiction/area the Court is located.

FINDINGS OF STUDY GROUPS ON INDUSTRIAL RELATIONS

The Indian Labour Conference set up many Study Groups to suggest measures for improving industrial relations. The findings of some of the groups are given below.

Madras Study Group

This group, which surveyed the labour conditions in Tamil Nadu, was of the opinion that industrial disputes had been on the increase, and their nature had changed from that of nonviolence to assault on the managerial personnel, damage to company property and go-slow tactics and other acts of indiscipline. The reasons for this state of affairs were failure of the police to control the situation; support of political parties; even interference and pressurization by the

government of employers; inefficient working of the conciliation machinery and the violation of the Code of Discipline by the employees.

The group, therefore, recommended that:

- (i) The enactments of legislation by the government should be reduced to the minimum so as to give a chance to the negotiation and collective bargaining machinery to settle industrial disputes;
- (ii) The practice of frequent intervention by the state and the reference of disputes to adjudication should be avoided;
- (iii) Either the works committees should be abolished or the procedure for the nomination of workers' representatives should be changed, so that only the recognised unions may have the right to send their representatives to this body;
- (iv) Since the joint management councils have failed in the southern states, such councils need not be forced upon the employers;
- (v) An independent machinery should be used to verify the membership of the union so as to give recognition to it as a representative union for dealing with matters for consultation
- (vi) Trade union office should be closed to all those workers who are found to be guilty of a breach of the Code of Discipline.