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A study of Industrial Policy Resolution

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Abstract

In order to reduce widespread and persistent poverty in developing countries, we have to develop labor-intensive industries to provide ample employment opportunities for the poor. Yet the term "industrial policy" is synonymous with "undesirable policy" for many economists and policymakers, as the policies implemented to support industrialization in the 1960s and 1970s were so unsuccessful. Such policies were highly interventionist without carefully considering market failure. In contemplating appropriate policies, it is critically important to recognize that there are many types of market failures in industrial sectors because of (1) the high transaction costs arising from imperfect contract enforcement and information asymmetry about the quality of final products, raw materials, and parts, as well as the quality and work attitude of employees, (2) spillovers of technological and managerial information from innovators to imitators, (3) underinvestment in human capital due to credit constraints and uncertainty, (4) underinvestment in public goods, such as roads, electricity, and communication systems, and (5) imperfect credit markets due to adverse selection, moral hazard, and incomplete contracts. We believe that the heart of the question is how we can reduce such market failures so as to stimulate the development of industries. The ultimate purpose of this book is to formulate effective policies to promote industrial development – we call this "industrial development policy," as distinct from "industrial policy."

Keywords: Industrial Policy

Meaning of Industrial Policy:

Any government action aimed at affecting industry may be considered to be part of industrial policy, which makes it a limitless field.

It usually means government action to influence the ownership and structure of industry and its performance and it takes the form of paying subsidies or providing finance in other ways, or of regulation.

It excludes macroeconomic policies affecting industry, but it may be viewed as supporting macroeconomic policy by improving the performance of an important part of the supply side of the economy as a whole. The concept is, thus, a comprehensive one. It includes procedures, principles (i.e., the philosophy of a given economy), policies, rules and regulations, incentives and punishments, the tariff policy, the labour policy, government's attitude towards foreign capital, etc.

A country must formulate industrial policy as an instrument of industrialization. The public sector may be invited to implement industrial policy. In a country like India, where private sector is allowed to coexist in business, its control and regulation is necessary. Industrial policy is a necessary step in this direction.

Industrial Policy Resolution of 1948:

In a mixed economy of our sort, the government should declare its industrial policy clearly indicating what should be the sphere of the State and of the private enterprise. A mixed economy means co-existence of the two sectors public and private. This the Government of India did by a policy resolution on 30 April 1948 called the first Industrial Policy Resolution of 1948, which made it clear that India was going to have a mixed economy.

The Industrial Policy Resolution, 1948, drawn in the context of our objectives of Democratic Socialism through mixed economic structure, divided the industrial structure into four groups:

1. Basic and strategic industries such as arms and ammunition, atomic energy, railways, etc., shall be the exclusive monopoly of the State.
2. The second group consisted of key industries like coal, iron and steel, ship-build-in, manufacture of telegraph, telephone, wireless apparatus, mineral oils, etc. In such cases the State took over the exclusive responsibility of all future development and the existing industries were allowed to function for ten years after which the State would review the situation and explore the necessity of nationalization.
3. In the third group, 18 industries including automobiles, tractors, machine tools, etc., were allowed to be in the private sector subject to government regulation and supervision.
4. All other industries were left open to the private sector. However, the State might participate and/or intervene if circumstances so demanded.

To ensure the supply of capital goods and modern technology, the 1PR1948, encouraged the free flow of foreign capital. The Government ensured that there would be no discrimination between Indian and foreign undertakings; facilities would be given for remittance of profit and due compensation would be paid in case a foreign undertaking was nationalized. The IPR also emphasized the importance of small-scale and cottage industries in the Indian economy.

The Industries (Development and Regulation) Act was passed in 1951 to implement the Industrial Policy Resolution, 1948.

The features of the new policy that distinguishes it from the previous one are:

1. Expansion of the role of the State:

This was in keeping with the Mahalanobis Strategy of large-scale industrialization embodied in the Second Five Year Plan.

2. Reduced threat of nationalization:

The apprehensions of nationalization contained in the previous policy were reduced to the bare minimum.

3. More meaningful approach to our concept of a 'mixed economy': Various complementariness of the public and private sectors were made clear.

Industrial Policy of 1991:

The long-awaited liberalised industrial policy was announced by the Government of India on 24 July 1991. There are several important departures in the latest policy. The New In¬dustrial Policy has scrapped the asset limit for MRTP companies and abolished industrial li¬censing of all projects, except for 18 (now 5) specific groups. It has raised the limit for foreign participation of foreign capital in the country's industrial landscape.

The new policy has dismantled all needless irksome bureaucratic controls on industrial growth. The new policy has re-defined the role of the public sector and has asked the private sector to operate even in those areas which were hitherto reserved for the public sector.

Thus, the new policy considers that big and monopoly business houses and foreign capital and multinational corporations (MNCs) are no longer "fearsome" and, in fact, they are benign to the country's industrial growth. Anyway, the new policy has decided to take a series of initiatives in respect of the policies relating to the following areas: (a) industrial licensing, (b) MRTP Act, (c) public sector policy, (d) foreign investment, and (e) foreign technology agreements.

The highlights of the new policy are:

1. Industrial licensing will be abolished for all projects except for a short list of industries (18 selected sectors mentioned in Annexure II). The exemption from licensing will apply to all substantial expansion of existing units. The existing and new industrial units will be provided with a broad banding facility to enable them to produce any article so long as no additional investment in plant and machinery is involved.
2. However, the small-scale industries taking up manufacture of those products reserved for small sector will not be subjected to compulsory licensing procedures.

As a result, all existing registration schemes (like relicensed registration, exempted industries registration, DGTD registration) will be abolished. Now, entrepreneurs are required to fill an information memorandum of new projects and substantial expansion.

3. The policy provides for automatic clearance for import of capital goods in cases where the foreign exchange availability is ensured through foreign equity.
4. As for the MRTP Act, the policy states that the pre-entry scrutiny of investment decisions by the so-called MRTP companies will no longer be required.
5. The policy intends to scrap the asset limit of the MRTP companies.
6. The policy envisages disinvestment of government equity in public sector to mutual funds, financial institutions, general public and workers. For the first time, sick public units has come under the purview of the Board of Industrial and Financial Reconstruction (BIFR) for their revival. A social security mechanism to protect workers' interests in such affected public sectors has been proposed in this policy. Pre-eminent place of public sector in 5 core areas like arms and ammunition, atomic energy, mineral oils, rail transport and mining will, however, continue.

   Reservation for the public sector, as on 2008, is very limited (just 2)—covering only manufacturing involving certain substances relevant for atomic energy (as well as production of atomic energy) and provision of railway transport.
7. In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment up to 51 p.c. foreign equity in such industries.

8. In a departure from the present vocational policy for industries, the policy provides that in locations other than cities of population of more than one million, there will be no requirement for obtaining industrial approvals except for industries subject to compulsory licensing.

Conclusion

The default policy recommendation is still the market. The emphasis of reform has switched to institutions that will allow the market to perform more efficiently. Given the weakening theoretical and empirical foundations for market-based solutions, the assumption that state failure is always worse than market failure needs to be reconsidered.

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