UNIT IV

INDUSTRIAL DEVELOPMENT

MEANING OF INDUSTRIAL POLICY

It refers to the government's policy towards the establishment of industries, their working and management. It includes all those principles, regulations, rules etc., which would influence the industrialisation of the country and nationalisation of industries.

INDUSTRIAL POLICY RESOLUTION OF 1948

It was formulated and announced by GOI in April 1948. It is the first industrial policy.

OBJECTIVES INDUSTRIAL POLICY 1948

a. The establishment of social order wherein justice and equality of opportunities shall be secured to all the people.
b. Promotion of standard of living of people.
c. Increased production both in agricultural and industrial.
d. The offering of employment opportunities.
e. The establishment of NPC – National Planning Commission.
f. The determination of state responsibility and private enterprise in industrialisation.
g. Regulation of private enterprise.

CLASSIFICATION

a. State monopolies.
b. Basic and key industries.
c. Private industries controlled and regulated by state.
d. Completely private sector industries.

FEATURES OF INDUSTRIAL POLICY 1948

a. Mixed economy – participation of public and private enterprises.
b. Better labour- management relations.
c. Policy regarding foreign capital was also clarified.
d. Sound tariff policy designed.

DEFECTS OF THE POLICY

a. Damage to private enterprise.
b. Lack of co-ordination.
c. Evil of Bureaucracy.

INDUSTRIAL POLICY RESOLUTION OF 1956

The industrial policy was revised in 1956. Because the launching of second plan, which was mainly an industrial plan.

OBJECTIVES INDUSTRIAL POLICY 1956

a. Starting and developing new industries and affording necessary infrastructure.
b. State trading should be increased and more sphere of business activities should be brought in its fold.
c. Cottage and small industries will be supported as they provide immediate employment.
d. More attention will be paid to the organization of industrial co-operatives.

e. Disparities in the level of employment among different region should be reduced.
f. Managerial and technical personnel should be provided to meet the growing needs.
g. Proper and increased incentives will be provided.

CLASSIFICATION OF POLICY 1956

The industries were classified into three categories viz.,

a. Schedule A
b. Schedule B
c. Other industries.

DEFECTS OF POLICY 1956

a. Government participation in industries are increased and reduced in the part of private enterprise.
b. Rapid industrialization could not be had without enlarging the sector.

NEW INDUSTRIAL POLICY 1991 OR NIP OF 1991

The GOI announced the NIP on July 24, 1991. It is known as LPG (Liberalization, Privatization and Globalization) Model of Growth.

OBJECTIVES OF NIP 1991

a. Rejuvenate the dormant industrial sector.
b. Maintain a sustained growth in productivity and gainful employment.
c. To attain international competitiveness.
d. All sectors to grow and operate harmony with each other to realize the broad objectives of industrial development.

AIMS OF NIP OF 1991 OR RADICAL CHANGES IN NIP

The new industrial policy aims at bring out radical changes in the following ways:

a. Industrial licensing.
b. Foreign Investment.
c. Foreign Technology Agreements.
d. Public Sector Management.
e. MRTP Act 1969 – Monopolies and Restrictive Trade Practices Act.
f. New Policy for Small Scale Industry.

CRITICISM OF NIP OF1991

a. Total departure from Nehruvian concept of socialism.
b. Titling towards capitalism and open invitation to multinationals.
c. Opening India’s markets to multinational does not guarantee more export of Indian goods.
d. Labour Unions oppose the NIP.

PUBLIC SECTOR

The public sector in India owes its origin to the 1956 Industrial Policy Resolution of the GOI. This resolution provided for direct assumptions of responsibility by the state in relation to certain vital sectors of the economy. Example: State managed departments like Posts and Telegrams, Port Trusts, Salt and Quinine factories.

PROBLEMS OF PUBLIC SECTOR

a. Pricing policy.
b. Under-Utilization of capacity.
c. Over Capitalisation.
d. Inefficient control over inventory.
e. Delays in the completion of the projects and cost escalation.
f. Political interference and bureaucratic way of functioning.

MERITS AND DEMERITS OF PUBLIC SECTOR

a. Strengthened the Industrial structure of the Economy.
b. Modernized the technological Base.
c. Changed the structure of foreign trade.
d. Promotion of social interest.

DEMERITS

a. Public sector units cannot stand on their own legs.
b. Gross inefficiency.

REMEDIAL MEASURES

a. Privatisation.
b. Marketing.
c. Improving efficiency of working in public sectors.
d. Balancing control and autonomy.

GROWTH AND PERFORMANCE OF PUBLIC SECOR

a. Five year plans.

PRIVATE SECTOR

The importance of private sector in Indian economy can be very well understood from the fact that the share of this sector in net national product is around 80 per cent. Example: Cottage and village industries, major proportion of the wholesale and retail trade, consumer goods industries and road transport are in the private sector.

IMPORTANCE OF PRIVATE SECTOR

a. Innovation and Moderisation.
b. Potentialities and incentives of small sector.
c. A big role in national income generation and employment.
d. Regulated markets.

PROBLEMS OF PRIVATE SECTOR

a. Undue delays.
b. Restraints on capacity.
c. Price restrictions.
d. Reservation for small scale.
e. Over – dependence on Public sector.
f. Financing.

MERITS AND DEMERITS OF PRIVATE SECTOR

a. More opportunities for promotion as the company grows.
b. These jobs tend to pay higher.

c. More prestige, and the private sector is supposedly more efficient.
d. Less bureaucracy.

DEMERITS

a. Less job security.
b. Very competitive atmosphere, high pressure environment.
c. Worker's rights are sometimes infringed upon.
d. Fewer benefits than the public sector.

JOINT SECTOR

Joint sector refers to a situation in which the co-partnership of the two for national advantage. Joint ventures are possible only if there are private and public sectors.

MERITS AND DEMERITS OF JOINT SECTOR

a. **New insights and expertise.**
b. Better resources.
c. It is only temporary.
d. Both parties share the risks and costs.
e. Joint ventures can be flexible.
f. There are ways to exit a joint venture.
g. You will know what's yours and will be able to sell it.
h. You are more likely to succeed.
i. You will build relationships and networks.
j. Your potential will virtually be limitless.
k. You get to save money by sharing advertising and marketing costs.
l. International joint venture eradicates the risk of discrimination.

DEMERITS

a. Vague objectives.
b. Flexibility can be restricted.
c. There is no such thing as an equal involvement.
d. Great imbalance.
e. Clash of cultures.
f. Limited outside opportunities.
g. A lot of research and planning are necessary.
h. You might be tempted to leave the joint venture.
i. Lack of clear communication.
j. Unreliable partners.
k. Unclear and unrealistic objectives.

INDUSTRIAL SICKNESS

A sick industrial unit is one which has reported cash loss for the previous year of its operation and in the judgement of the financing bank is likely to incur cash less for the current year as also in the following year.

DEFINITION OF INDUSTRIAL SICKNESS

According to Sick Industrial Companies Act of 1985, "a sick industrial company as an industrial company which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and also suffered cash losses in that financial year and in the financial year immediately preceding it”.

CAUSES OF INDUSTRIAL SICKNESS

The causes are generally classified as

a. Internal causes
b. External causes.

INTERNAL CAUSES

a. Lack of experience of promoters in the line of activity.
b. An improper choice of technology.
c. Improper demand estimation.
d. Non-flexibility of fixed assets.
e. Unsuitability of product mix.
f. Wrong location of industry.
g. Defective capital structure.
h. Inability to raise adequate financial resources to adjust operational losses.
i. Shortage of working capital.
j. Failure to purchase the raw materials at right time.
k. Underutilisation of capacity due to labour problem.
l. Faulty control and financial planning.
m. Managerial inefficiency.

EXTERNAL CAUSES

a. High cost of manufacture.
b. Low sales turnover.
c. Higher prices of raw materials and non-availability of materials and other inputs.
d. Transport bottlenecks.
e. Marketing problems.
f. Poor supply of power.
g. Lack of demand for product.
h. General recession in business.
i. Change in government policy.

MEASURES TO REMOVING INDUSTRIAL SICKNESS

a. Genuine sickness.
b. Sickness at birth.
c. Induced sickness.
d. Board for Industrial and Financial Reconstruction (BIFR) 1987.
e. IRBI Industrial reconstruction Bank of India (IRBI) 1985.
f. Goswami Committee Report 1993.
g. National Company Law Tribunal (NCLT).