

ECONOMICS GENERAL SEM 4 (DSC-4 GE Course 4)

Industrial Policy in India during the Plan period

India's post-independence development plans emphasized industrialization as an essential instrument for sustained growth. Before 1980, the key strategy for development was to focus on large and heavy industries under state control and central planning. The strategy also emphasized import substitution, rigid price controls and severe restrictions on private investment. Industrial growth was rapid during the first two decades, especially during the Second Plan and the Third Plan. These plans emphasized heavy industry-oriented strategy of industrialization.

Industrial growth slowed down after the Third Plan. A steady decline in per capita domestic availability of key wage goods and an increase in the number of people below the poverty line was noticed. The structural retrogression took place as i) Growth of basic and capital goods industries was slower than even the meagre average growth in industrial output. ii) The growth rate was moderately high in industries belonging either directly or indirectly to elite-oriented consumption goods sector. The periodic shocks that the economy had received in the form of wars in 1965 and 1971, the oil crisis in 1973, and the droughts in 1965 and 1966 contributed to deceleration during this time.

The factors which contributed towards industrial stagnation:

- i) Slow growth of agricultural income leading to slow growth of demand for industrial output.
- ii) Slowdown in public investment in mid 1960s which adversely affected infrastructural investment.
- iii) Restrictive domestic industrial and trade policies popularly called the permit licence raj were stifling private initiative and wasting

meager public resources. The controls and licensing policy led to widespread inefficiency in resource use, as reflected in poor total factor productivity growth, or rise in incremental capital output ratios in the 1970s.

In the late 1970s, some reforms such as reducing the barriers to entry and expansion, simplifying procedures, and providing easier access to better technology and intermediate material imports started getting introduced. There were some additional reforms during 1980s. However, from 1980 onwards, industrial policy witnessed greater pragmatism with a gradual loosening of controls, and incentives to import technology and foreign private capital to modernise the manufacturing sector. The second half of the 1980s witnessed considerable de-licensing and relaxation of import controls to upgrade the industrial technology.

The Indian Government had undertaken policy reforms since 1980, but the most radical reforms were introduced since 1991, after the severe economic crisis in fiscal year 1990-91. The rupee was depreciated in order to boost exports. Many capital goods were placed in the list of products where imports do not need to be cleared by the government authorities. Moreover, import-licensing restrictions for a wide range of industrial inputs either eased or lifted while the maximum rate of import duties lowered. The canalization system was liberalized too. Finally, foreign investment was liberalized. As a result, foreign direct investment up to 51 per cent equity participation in high priority industries was automatically authorized. Industrial licensing was liberalized or abolished. Moreover, the Monopolies and Restricted Trade Practices (MRTP) Act deregulated. The numbers of activities reserved for the public sector enterprises (PSE) were also reduced. The market generally became more competitive after liberalization policies were enacted. First, the loosening of various domestic restrictions (i.e., industrial licensing, MRTP,

and so on) promoted competition among local enterprises. The deregulation of foreign investment restriction promoted competition between local and foreign enterprises.

The average rate of growth of Indian Industry in the ten years (1981-82 to 1990-91) was 7.8 per cent, the growth of manufacturing sector was 7.6 per cent, mining 8.4 per cent, and electricity was 9.0 per cent.

In the second half of pre reform period (i.e. 1986-87 to 1990-91), industry grew 8.4 per cent per annum, in which growth rate of 1986-87 was 9.1 per cent. There was a mild deceleration in the growth of industrial production in 1989-90. The overall industrial growth, measured by IIP was 8.6 per cent during the year compared with 8.7 per cent in the previous year 1988-89.

The main causes of industrial recovery post 1980s were new industrial policy and liberal fiscal regime, contribution of the agricultural sector, growth of service sector and infrastructure development. The new industrial policy encouraged competition in domestic industry, simplified the procedures and provided easier access to better technology and import of intermediate goods.

References:

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