INDUSTRY

Industrial Policy

- **Industrial Policy Resolution, 1948**
  - It declared Indian economy as Mixed Economy
  - Small scale industries and cottage industries were given importance
  - Government imposed restriction on foreign investments

- **Industrial Policy Resolution, 1956 (IPR 1956)**
  - This policy laid down the basic framework of Industrial Policy
  - This policy is also known as Economic Constitution of India
  - It is classified into three sectors
    - Schedule A – which covers Public Sector (17 Industries)
    - Schedule B – covering Mixed Sector (i.e. Public & Private) (12 Industries)
    - Schedule C – only Private Industries
  - Public Sector
  - Small Scale Industry
  - Foreign Investment

> This Policy holds importance in the economy as it was pursued till the Economic Reforms in 1991.

- **Industrial Policy Statement, 1977**
  - Focused on Decentralisation
    - It gave priority to small scale Industries
    - It created a new unit called "Tiny Unit"
    - Restrictions on Multinational Companies (MNC) were imposed

- **Industrial Policy Statement, 1980**
  - Focus of this was on selective Liberalization
  - MRTP Act (Monopolies Restrictive Trade Practices), FERA Act (Foreign Exchange Regulation Act, 1973 were introduced.
  - The objective was to liberalize industrial sector to increase industrial productivity and competitiveness of the industrial sector

- **New Industrial Policy,, 1991**
  - Its Objective was to provide larger role to market forces and to increase efficiency
  - Larger roles were provided by
    - L – Liberalization (Reduction of government control)
    - P – Privatization (Increasing the role & scope of private sector)
    - G – Globalisation (Integration of the Indian economy with the world economy)
  - Because of LPG, old domestic firms have to compete with New Domestic firms, MNC's and imported items
  - Government allowed Domestic firms to import better technology so as to improve efficiency and to have access to better technology
  - Foreign Direct Investment ceiling was increased from 40% to 51% in selected sectors.
  - Maximum FDI limit is 100% in selected sectors like infrastructure sectors.
  - Foreign Investment promotion board was established. It is a single window FDI clearance agency.
  - Technology transfer agreement was allowed under automatic route.

- Phased Manufacturing Programme was a condition on foreign firms to reduce imported inputs and use domestic inputs, it was abolished in 1991.
- Under Mandatory convertibility clause, while giving loans to firms, part of loan will/can be converted to equity of the company if the banks want the loan in a specified time period. This was also abolished.
- Industrial licensing was abolished except for 18 industries.
- Monopolies and Restrictive Trade Practices Act – Under his MRTP commission was established. MRTP Act was introduced to check monopolies. MRTP Act was relaxed in 1991.
- On the recommendation of SVS Raghavan committee, Competition Act 2000 was passed. It objectives were to promote competition by creating enabling environment.
- Public Sector to be Diluted
    - Disinvestment
    - De-reservations – Industries reserved exclusively for public sector were reduced
    - Professionalization of Management of PSUs
    - Sick PSUs to be referred to Board for Industrial and financial restructuring. (BIFR)
    - Scope of MoUs was strengthened. MoU is an agreement between a PSU and concerned ministry.

> Only 3 industries namely:-
> 1. Rail Transport
> 2. Atomic Energy
> 3. Minerals
>
> are reserved exclusively for Public Sector.

Public Sector

- It can be classified into:-
    - Departmental Undertaking – Directly managed by concerned ministry or department. (e.g. Railways, Posts etc.)
    - Non Departmental Undertaking – PSU (e.g. HPCL, IOCL etc.)
    - Financial Institution (e.g. SBI, UTI, LIC etc.)
- Rationale behind establishment of PSU's was Industrialisation and establishment of Capital Goods Industries and Basic Industries.
- Private industry during the Industrialisation period neither had Finance nor technology.
- Objectives of setting up PSU were:-
    - To create industrial base in the country
    - To generate better quality of employment
    - To develop basic infrastructure in the country
    - To provide resource to the government
    - To promote exports and reduce imports
    - To reduce inequalities
- Assessment of PSUs
    - Most of the objectives were achieved but efficiency and profitability of PSUs was very low.
- Problems of PSUs
    - Inappropriate investment decisions
    - Pricing Policy
    - Excessive overhead cost
    - Lack of Autonomy & Accountability
    - Overstaffing
    - Trade Unionism
    - Under Utilization of capacity
- PSU Reforms
    - New Industrial Policy 1991

- Voluntary Retirement Scheme, 1988 (Golden Handshake)
- Administered Price Mechanism
- Policy of Navratnas (Best performing PSUs were called Navaratnas)
  - Government gave them significant degree of autonomy so they can perform better.
- Policy of Mini Ratnas (Presently 60 PSUs have been granted this status)
- Policy of Maharatnas (category created in 2010)
  - Net profit should be 2500 crore
  - Net worth should be 10000 crore
  - Turnover should be 20000 crore
  - PSU must be a Navratna and must be listed in Stock Exchange
  - PSU also must have a significant global presence.
  - In 2010 Govt granted 4 Navratnas Maharatnas status to ONGC, IOCL, SAIL, and NTPC. After sometime Govt granted this status to CIL.
- Profitability of PSUs has increased significantly.