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

- **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.