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Chapter-4

Strategy of Industrial Growth (1947-1990)

Importance of Industry

(i) Source of Employment- Industry is an important source of employment as the labour force is rising rapidly & agriculture is already overburdened.

(ii) Source of mechanised means of farming- Industry play a crucial role in mechanisation of farming. Use of machines in farming has caused an exponential rise in productivity & this has become possible only becoz ~~of~~ the growth of Industries.

(iii) Imparts dynamism to Growth Process- Industry imparts dynamism to growth process. In the absence of Industry, Growth process would have been restricted to production of food survival. Industrialisation has added new dimensions to human life.

(iv) Growth of Civilisation- Urbanisation in the wake of industrialisation has led to the growth civilisation. People become consious about quality of life. They work hard to achieve higher level of education & skills.

(v) Infrastructural Growth- Industrialisation has led to infrastructural growth in the economy. Industry tends its spread across different parts of country & as it spreads there is an expansion of infrastructural facilities such as transport, banking, communication, insurance, power etc.

(necessity)

(V) Industrialisation a Sine-qua-non of Growth- Growth process & industrialisation are absolutely related to each other. The relation is often taken as Sine-qua-non of growth. Implying that growth occurs as & when industrialisation spread.

Ques- Why there is a need of Public sector participation in Industrial development?

Ans- ▼ Lack of Capital – Industrial development in India needed a big push implying a large amount of capital expenditure. At the time of Independe, tata & Birla were the only established houses in India. & the requirement of ~~capital~~ ~~[illegible]~~ capital Industries growth was beyond the capacity of them. Hence it became essential for the state to achieve industrial growth through public sector undertakings

▼ Low inducement to invest-

(1) low income → (2) low demand → (3) low inducement
↓
(4) low investment → low income

The private investors lack inducement because of limited size of market.
Limited size of market was due to low level of demand & level of demand becoz of low level of income. Therefore a sort of vicious circle was seen in the economy and only a big push of ~~econ~~ public investment could break this vicious circle.

▼ Growth with Social Justice – Government realised that the objective could be achieve only through direct participation of state in the industrialisation becoz it requires investment that generate income rather than the investment that maximise the profits.

IPR (1956) - Industrial Policy Resolution.

~~The~~ IPR was a clear declaration of the govt. on the leading role of govt. in the process of Industrialisation. The main aim was to achieve the growth with social justice. The resolution laid a road map of 2nd ~~the~~ five year plan.

Principle Elements of IPR (1956)-

(i) Three fold Classification of Industries - Industries were classified into three categories-

a. Those which would be establish & develop exclusively as a public sector enterprise.

b. Those which could be establish as both Private & Public sector enterprises but the private sector was to play only a secondary role.

c. All industries other than in category I & II were left to the Private sector.

Thus IPR 1956 clearly implied that the state was to sponsor the process of Industrialisation.

(ii) Industrial Licensing - Industries in the private sector could be establish only through a license from the government. A license was needed not only for establishing a new enterprise but also for expanding production capacity

of the existing ones.
The basic idea was to encourage industry in backward regions of the country so that regional equality could be promoted.

(iii) <u>Industrial Concessions</u> - The private entrepreneurs were offered many types of concessions for establishing industry in the backward regions of the country.
These concessions include-
(a) Tax holiday - Freedom from payment of tax for some time.
(b) Subsidised Power supply - ~~This policy~~
This policy was expected to promote to regional equality.

Small Scale Industries -

Industries

Large scale	Small scale
→ Generate infrastructural facilities	→ generate employment opportunities beside social justice.
→ eg - Iron, steel, Transport, Communication etc.	→ village cottage industries

Small scale Industries are those whose investment does not exceed five crore.
At the beginning of Planning (1951), it was defined as the one whose investment did not exceed ₹ 5 lakhs.

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Characteristics

(i) SSI is labour intensive & thus eco friendly - SSI generally considered to be labour intensive, where as large scale industry is capital intensive.
We inherited an economy from the british which was a capital defficient economy & a labour surplus economy accordingly our planners thoughts of achieving full employment by focusing on small scale industry.

(ii) SSI shows locational flexibility & hence equality oriented (Inter regional equality) - Large scale Industries are often establish close to the source of raw material. This is becoz of huge raw material requirement by the large scale industry.
It's transportation from a distant place leads to high cost of transportation. On the other hand, small scale Industry shows locational flexibility. It is therefore equality oriented.

(iii) SSI needs small Investments & is therefore equity oriented - SSI needs smaller investment compare to large scale industry. accordingly it does not lead to concentration of economic power. rather it promotes equality among different sections of the society.

Good Effects of Strategy of Industrial Growth

- During the period 40 1950 40 1990

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(i) Economic Growth got a big push. (ii) Industrial output recorded a significant rise

(iii) There was a marked diversification in the industrial sector.

(iv) Growth of large scale industry projected & infrastructural in the indian economy.

(v) Growth of small scale industry made a substantial contribution in achieving the objectives of growth

Bad Effects -

(i) Public sector monopolies gradually turned out to be dead social weight.

(ii) Inefficiency, corruption, leakage, & pilferage emerged as their principal characteristic

(ii) Protection of domestic industry stimulate its growth but it failed to achieve international standard of quality. This is becoz of lack of competition

(iii) Saving foreign exchange through Import substitution proved to be inefficient policy instrument.

Our foreign exchange reserves shrinking & by the end of 1990 stocks reached their bottom.

(iv) These draw backs lead to the emergence of New economic Policies.