

Peer Reviewed Journal

ISSN 2319-8648

Impact Factor (SJIF)

Impact Factor - 7.139

Current Global Reviewer

**International Peer Reviewed Refereed Research Journal Registered & Recognized
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**Special Issue 21 Vol. I
on**

Recent Economics Policies and Its Impact on Indian Economy

October 2019

**Chief Editor
Mr. Arun B. Godam**

**Associate Editor
Dr. Mahadev Gavhane**

**Guest Editor
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www.publishjournal.co.in

CURRENT GLOBAL REVIEWER

Special Issue 21, Vol. I
October 2019

Peer Reviewed
SJIF

ISSN : 2319 - 8648
Impact Factor : 7.139

Impact Factor – 7.139 ISSN – 2348-7143

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Peer Reviewed Multidisciplinary International Research Journal
PEER REVIEWED & INDEXED JOURNAL

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36.	Economic Advancement through Skill India Mission Dr. S. V. Mane	144
37.	Backbone of Economy : Make in India and Made in India Sunita Manoharrao Bais	148
38.	Skill Development Mission, and its Impact on Employability. Mrs. Agrawal Nikita Kachrual	151
39.	Challenges and Opportunities of E-Commerce in India With Reference to The New Policy 2019 Dr. Balaji S. Turaikar, Prof. Jasmine P. Gajare	154
40.	Demonetization and Its Impact on Indian Economy Dr. Sujata N. Chavan	158
41.	The Indian Economy since 1991: Economic Reforms and Performance Asst. Prof. Vijaykumar R. Soni	162
42.	Demonetisation and its impact on Indian Economy Prof. Dr. Ramesh P. Joshi	165
43.	"A Study of Small-scale Industries in Maharashtra" Dr. M. B. Biradar	167
44.	"Make In India" And "Made In India" Kalyani Dattatraya Ausekar, Dr. R. S. Pawar	170
45.	Merger of Public Sector Banks and its impact on Banking Sector Asst. Prof. Snehal B. Borade	175
46.	Impact of Online Shopping on Indian Economy Asst. Prof. Ankita A. Parandekar	177
47.	"Green economic policy: Study of 'Green Channel Counter (GCC)' and 'YONO Cash' initiative of State Bank of India for cash withdrawal service" Totare Shailendraprasad Jalbajirao	180
48.	Objective and Strategy behind Economic Planning-A Study of First Three Industrial Policies in India. Dr. Sachin M. Prayag.	184
49.	Recent Economic Policies and its impact on Indian Economy Dr. Gadekar B. P.	190
50.	Role and Importance of Education Sector in Indian Economy Priya Parashramji Varma	195
51.	A study of Skill India Mission as a tool of development Dr. R. S. Pawar & Asst. Prof. Laxmikant N. Soni	198
52.	A study of Make in India Mr. Nikhil R. Vyas	202
53.	Make in India: Impact on Indian Economy Miss. Aakanksha Kashinath Balsaraf	206

Objective and Strategy behind Economic Planning-A Study of First Three Industrial Policies in India.

Dr. Sachin M. Prayag.

(Assistant Professor, Dayanand College of Commerce, Latur.)

Key Words- Economic Planning, Industrial Policy, Infrastructure, Economic Development.

“With Global economy returning to growth path ,India remains committed to and is working for building foundations of strong growth and development with reforms like Goods and Service Tax, bankruptcy code and unique identity”-

Late Shri. Arun Jaitley –(Then Minister of Finance, Government of India)

Introduction

Many attempts were made for nationwide economic planning even before independence of the country. The Indian national congress had setup National Planning Committee (NPC) with the initiation of Pandit Jawaharlal Nehru in 1938. The committee stressed that the government should own and control all those key industries like mineral resource, railways ,waterways, shipping, other public utilities which can otherwise can become monopoly and could exploit common people. Eight leading industrialists had presented a plan of economic development which was also known as Bombay Plan. **Shriman Narayan** had also prepared Gandhian Plan of Economic development. Renowned revolutionary N. M. Roy also formulated peoples’ plan. All these attempts were just remained as paper plan because they were neither accepted nor implemented. But these plans had created the awareness of an economic plan for country wide development.

After Independence in 1950, then Prime Minister Jawaharlal Nehru had formed Indian Planning Commission to evaluate the need of capital and human resource for balance and effective utilization of resources and achieve required economic development. As a result First Five year plan has started its working in 1950-51 which was further followed by a series of another five year plans.

Objective of the Paper:-

1. To study the factors determining the current economic scenario
2. To discuss the basic reasons and ideology behind industrial development process
3. To evaluate the initial strategies shaping the overall economic development
4. To analysis the instrumental industrial policies before LPG.

Research Methodology

The method of data collection for this study is secondary in nature. Various secondary sources related to reports, research paper, government publication, books etc. are used for the study. This is purely a concept paper and the researcher has adopted the method of reviewing different research article, research journals, website and articles and Govt. Gazettes etc.

Objectives of Economic planning in India

The constitution of our country has placed the mindset of common people and stated that it the responsibility of the government to ensure the equal and adequate distribution of livelihood (occupation) with equitable ownership and control of resources in order to avoid concentration of economic power. Hence the government of India has adopted economic planning as tool of strengthen the economic development. The planning commission has considered following four long term objectives

1. To increase production to the maximum possible extent so as to achieve higher level of national and per capita income.
2. To achieve full employment

To reduce inequality of income and wealth

To set up socialist society based on equality and justice and absence of exploitation.

The concept of industrial policy covers many components like policy, procedure, principles rules and regulations which controls industrial undertakings of the nation. It also covers fiscal and administrative policies for the industries in public as well as private sector. After independence government of India had declared its first industrial policy on 6th April 1948. This policy can be considered as rough plan for shorter period as India had neither introduced its constitution nor scheduled any five year plan prior to this policy. The notable importance of this policy is shifting our national economic order towards mixed economy. The industry were divided into four basic categories as follows

A. Industries working under exclusive monopoly under central govt. like industries like arms, ammunition, railways etc.

B. The second category covers coal, iron and steel, aircraft and ship building and other such industries undertaken by state.

C. Third category covers industries of basic importance which central govt. feel necessary to plan and regulate.

D. The fourth category covered all remainder of the industrial field including private enterprises, individual as well as cooperative sector industrial units.

The main purpose of the industrial policy of 1948 policy was to lay foundation of mixed economy where coexistence of public and private sector collectively achieve economic development of the nation.

Industrial policy 1956

After adopting industrial resolution of 1948, many remarkable changes took place on the economic front of our nation. Nationwide and exclusive economic planning has started its execution; the first five year plan has been drafted. The Indian parliament and economic planners had adopted socialist pattern of the society. Such important development has required fresh industrial policy and vision. Therefore the second industrial policy was adopted in the year 1956 also known as '**Economic Constitution of the Nation**'. The planners of industrial policy 1956 were expecting combined role of public and private sector for economic development.

The main objectives of Industrial Policy 1956 were –

1. Rapid industrial development.
2. Development of basic and key industries.
3. Rapid growth of public sector
4. Reduction in inequalities in income and growth.

Important provisions of 1956 resolution were as follows

1. New classification of industries:-

The resolution of 1956 has laid down three categories for industries like 1948 policy but the base of classification of industry in 1956 was more sharply defined and increasing the role of state. The category were as under

I. Schedule A-

Those which were to be exclusively responsible for state /govt. Listed with 17 industries like Arms and ammunition, atomic energy, iron and steel, heavy machinery, mineral oil, coal etc.

II. Schedule B- Those industries which would be state owned and private enterprise would be expected to supplement the efforts of the state. Listed with 12 industries like aluminum, machine tools, drugs chemical fertilizers, road and sea transport, mines and minerals.

III. Schedule C- All the remaining industries left for the private sector which can come under the framework of social and economic policy of the state and work under the industrial act and other related legislation.

2. Fair and nondiscriminatory treatment for private sector: - In order to make private sector feel confident and work efficiently the state was to facilitate and encourage the development of industry by providing facilities like transport power and other facilities. It also provides fiscal and other required help by establishing various financial and operational institutions for private and public sector industries. In case of same kind of industry form both public and private sector the govt. will provide equal and non discriminatory treatment to both units.

3. Encouraging village, cottage and small scale industries: - The industrial policy of 1956 has given special importance to cottage and small scale industries and also encouraged them up to possible extent. As such industries provide immediate employment, equitable distribution of National Income and effective mobilization of natural resources which might otherwise remained unutilized. In order to support cottage and small scale industry the state would restrict volume of production in large scale units and try to increase the competitive strength of small scale producers.

4. Removing regional disparities:- The resolution of Industrial policy 1956 has stressed upon the removing the regional dispraises in all developmental efforts and the industrialization may benefit the country as a whole. The resolution supported the idea that only balanced and coordinated development of industrial and agricultural economy can attend high slandered of living of people. It aims at such industrialization which may benefit the economy of the country as a whole. In order to achieve this object the arrangement are made to available facilities like transport power supply and other to the backward sectors.

5. Attitude towards foreign capital :- The overall attitude for foreign capital remain unchanged as like in the policy of 1948. But the government has recognized the importance of foreign participation specially in case of industrial technology and knowledge for industrial and economic development of the nation. At the same time the resolution of 1956 has clearly stated that the major interest in ownership and effective control should always be in Indian hands. Thus govt. insisted upon the progressive *Indianisation* of foreign concern.

6. No rigid compartments in industrial category and functioning: - Even though the industrial policy of 1956 has made clear cut grouping of the industries fewer than three types i.e. schedule A, B, C. These separation was not water tight compartments and room for exception could be made. Private sector might produce any article form A category to meet industry's own requirement and privet sector may sough its requirement form public sector units. The state has also a right to enter in Type C category in case of urgency.

7. Technical and Managerial personnel: - The industrial policy of 1956 has given special impotence to the provisional of managerial and technical personnel in public service in order cover the rapidly growing need of public sector and for the development of cottage and small scale industries. The policy also highlighted the importance of training in business management.

8. Decentralization of power: - The industrial policy of 1956 has recognized that with the growing participation of state owned public sector industries and trade, the management of these enterprises has remarkable importance in their working and success. So policy recommended that there should be decentralization of authority and management of state undertakings and their success should be judged on the basis of total performance.

9. Labor participation in the management:-The policy has based upon the socialist democracy where labor participation is considered important in formulation of management policy of the business unit. Some lows controlling industrial relations has been amended for this provision. The public sector industries are also instructed to follow such rules and abide updated regulations.

Provision of Industrial Policy 1977

In December 1977 the first non congress government has declared the industrial resolutions. Before this period, industrial policies were get framed in accordance with the policy of 1956. Along with some desirable changes this industrial policy lacks on various grounds. Problems like unemployment, rural urban disparities have increased. Industrial sleekness have wide spread during this policy. The major statements of this industrial policy were as follows.

1. Development of small scale sector as core agent: - The central theme of this industrial policy was to give due importance to the small scale village and cottage industries widely spread in rural areas and small towns. As pre the govt. statement, "It is the policy of the government that whatever can be produce by small and cottage industries must only be so produced"

The industries were classified into three types

A] Cottage and household industries providing self employment on wide spread

B] Tiny Industrial units where total capital investment is up to one lakh.

C] Small scale industrial units with an investment up to 10 lakh.

The purpose behind above classification was to design specific measure for each category. The govt. has increased the list of reserve articles manufactured by small and cottage industry from 180 to 807 by the may 1978.

The government also established an agency 'District Industrial centre (DIC) in each district working as a focal point for the development of small scale and cottage industries. It provide all services and support required by village and small industrialist under one roof.

The govt. also redesigned the Khadi and village industry commission in order to improve the productivity and earning of khadi spinners and weavers.

2. Areas for large scale sector :- According to this industrial policy, the role of large scale industry is related to meeting the basic need of the population and widespread small scale and cottage industries. Policy classified large scale industry into four major parts. Basic industry (Steel, Cement, Oil) capital goods industry, high technology industry (fertilizers, petro chemicals) and other industry.

3. Approach towards large business houses:-

According to policy statement the income of large business houses in not in proportion of the size of their internally generated resources and largely based upon the borrowed funds from public financial institution and banks and this condition should be changed. As per the policy of 1977 the fund of public sector financial institution should be largely available to the small and medium sector units. No unit of business or group should acquire a dominant position or create monopoly in the market and large business units have to generate their required funds on their own. All these provisions were made in order to avoid concentration of economic power in the hands of some corporate houses.

4. Expanding Role of public sector:-

The 1977 policy has stated that public sector is not only restricted as the producer of important and strategic goods of basic nature and given extended role in industrial development. Public sector has given responsibility to encourage and develop the ancillary industries and ensure the growth of small scale sector. Public sector has to make available its managerial and technological expertise and participate in consumer goods and cottage industries too.

5. Approach towards foreign collaboration

Industrial policy has stated that "In areas where foreign technological knowhow is not needed existing collaboration will not be renewed" It further stated that "As a rule, majority interest in ownership and effective control should be in Indian hands, though government make exception in highly export oriented and sophisticated technology areas. In 100% export oriented business government may consider even fully owned foreign company.

6. Approach towards sick units:-

The industrial policy of 1977 has fixed stand on the sick industrial units. It mentions that government cannot ignore the need of protecting existing employment and the cost of maintaining such employment also has to be considered. In many cases a large amount of public funds have been invested into sick industrial units and unfortunately they continue to make losses which cannot be continuing indefinitely and needs urgent monitoring.

General evaluation of the industrial policy 1977

In real sense, the policy of 1977 was just an extension of industrial policy of 1956 trying to remove certain distortions. The notable feature of the policy was to encourage small scale and cottage industries against large scale industries dominated by big business houses. But the policy failed to impose ban on large business houses from producing common articles (Bread, biscuits, footwear) which were reserved for small business units. It also could not implement its decision for large business houses about generating own fund for their business expansion, instead they keep on exploiting public financial units to build their industrial empire. On the other hand many proposals of 1977 industrial policy were welcomed by the critics for encouraging small and cottage industries.

Industrial policy of 1980

The Congress party announced its industrial policy on 23rd July 1980. At the time of announcing the policy the minister of Industry has endorsed the philosophy of the 1956 policy. He also presented certain major concessions to small, medium and large business units for modernization, expansion and development of backward areas. According to the policy of 1980 the task of economic development is specially entrusted to the public sector because of its greater reliability and ability to handle projects crucial for economic development. The policy also proposed to promote the concept of economic federalism with setting up of new plants and tried to follow the pattern of promoting capital intensive pattern of development.

The policy of 1980 had suggested following measures

- 1. Effective Operational Management of Public Sector:** - In 1980 policy government had accepted that the faith in public sector is reducing day by day and public sector units were working below the optimum level. For this purpose government decided to launch an attempt to check the efficiency of public sector undertakings and avail the effective development of management in finance production and marketing.
- 2. Industrial development through private sector with economic federalism:** - (Achieving Industrial development with the help of private sector by granting them with some operational freedom) - The policy proposed to promote the concept of economic federalism with setting up few nucleus plants in each district especially in backward areas and generate small and cottage units as possible. Thus policy gave greatest importance to balanced regional development.

The assigned responsibility of the nucleus plant is to ensure effective utilization of ancillary units within its operational area and secure employment, make available the benefits of industrialization to maximum possible level. It also has to work for upgrading the technology of small units.

- 3. Redefining Small Units:** - In order to speed up the development of small scale industries this policy has re defined the small scale units on its financial terms. The government decides to

1. Increase the limit of investment in case of tiny units from 1 Lakh to 2 lakh.
2. Increase the limit of investment in case of small units from 10 lakh to 20 Lakhs
3. Investment in case of Ancillaries investment limit increased from 15 lakh to 25 lakh.

The policy also wants to remove the artificial difference between small and large scale industry by Janata Party through Industrial policy of 1977.

4. Regulation of Unauthorized Excess Capacities:-

This industrial policy has simplified the procedure for regularization for unauthorized excess capacity or installed capacity in excess of licensed capacity for modernization and replacement. This facility will not

be given for articles reserved for small sector. FERA and MRTP business units will be handles on selective basis.

5. **Automatic Expansion:** - Another important concessional provision for large scale units is to extend and simplification of facility for automatic expansion to all industries specified in first schedule of 1951 Industrial Development and Regulation Act.

6. **Industrial Sickness:**-In case of existing sick undertakings with adequate potential for revival the government would encourage their merger with healthy units which were capable of managing and restoring the strength of sick units. Such merger is allowed only in case of public interest where other means of revival of sick units are not available.

Evaluation of Industrial policy of 1980

The Industrial policy of 1980 can be evaluated with the help of following points

1. This industrial policy endorsed the policy of 1956 and followed more pragmatic (reasonable) approach.
2. The major importance is given to regularize the excess capacity installed over the licensed capacity.
3. The government has extended the provision of automatic expansion of capacity of all industries.
4. All such benefits are provided in the name of full utilization of capacity and maximization of production
5. Big business houses naturally has welcomed such liberalization of capacities proposed in this policy
6. The clear difference between large and small industries has got blurred where large business houses get more benefits in overall comparison.
7. This industrial policy has followed more capital intensive path by ignoring employment objectives for economic development.

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