

# ECONOMICS (CLASS—12 )

## INDIAN ECONOMY

1950–1990

### Topic----- Industrial Policy

During many decades after independence, India was largely an agrarian economy. But for any economy to be globally successful it must have a robust industrial sector. And so for the first seven five-year plans India actively focussed on industrial development through industrial policy formation. Industrial development is a very important aspect of any economy. It creates employment, promotes research and development, leads to modernization and ultimately makes the economy self-sufficient. In fact, industrial development even boosts other sectors of the economy like the agricultural sector (new farming technology) and the service sector. It is also closely related to the development of trade. But just after independence India's industrial sector was in very poor

**condition. It only contributed about 11.8% to the national GDP. The output and productivity were very low. We were also technologically backward. There were only two established industries cotton and jute. So it became clear that there needed to be an emphasis on industrial development and increasing the variety of industries in our industrial sector. And so the government formed our industrial policies accordingly.**



# **Control of the State**

**One of the biggest hurdles in industrial development was the lack of capital. Private industrialists did not have enough capital to build a new industry. And even if they did, the risk involved was too high. So in 1948, it was decided that state would play the primary role in promoting the industrial sector. So the state would have absolute and complete control over all industries that were vital to the economy and the needs of the public. Coal, petroleum, aviation, steel etc. were all reserved exclusively for the state. The private sector could provide services complementary to those by the state. The public enterprises thus had a monopoly over the markets for many years to come.**

## **Industrial Policy Resolution 1956**

**During the second five-year plan the industrial policy resolution came into action. The aim was to introduce more private capital into the industry but in a systematic manner. So this resolution**

**classified industries into three categories as seen below,**

- i. First Category: Industries exclusively owned only by the State**
- ii. Second Category: Industries for which private sectors could provide supplementary services. These industries would still be mainly the responsibility of the State. And also only the State could start new industries.**
- iii. Third Category: The remaining industries which fell to the Private Sector.**

**While any private company or individual could start an industry falling in the third category it was not that simple. The state still maintained control over these industries via licenses and permits. Every new industry needed a license and many permits from the appropriate ministry. They even needed permissions and permits to expand the present industry. The aim behind such an industrial policy was to keep a check on the quality of the products. It was also an important tool to promote regional equality, i.e.**

**make sure industries were developed in economically backward areas.**

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