

# VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

class 12 commerce Sub. ECO/ B Date 21.5.2020

Teacher name – Ajay Kumar Sharma

## INDIAN ECONOMY 1950–1990

### INDUSTRY AND TRADE

Economists have found that poor nations can progress only if they have a good industrial sector. Industry provides employment which is more stable than the employment in agriculture; it promotes modernisation and overall prosperity. It is for this reason that the five year plans placed a lot of emphasis on industrial development. You might have studied in the previous chapter that, at the time of independence, the variety of industries was very narrow — largely confined to cotton textiles and jute. There were two well- managed iron and steel firms — one in Jamshedpur and the other in Kolkata — but, obviously, we needed to expand the industrial base with a variety of industries if the economy was to grow.

**Public and Private Sectors in Indian Industrial Development:** The big question facing the policy makers was— what should be the role of the government and the private sector in industrial development? At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of Indian economy; nor was the market big enough to encourage industrialists to undertake major projects even if they had the capital to do so. It is principally for these reasons that the erstwhile governments had to play an extensive role in promoting the industrial sector. In addition, the decision to develop the Indian economy on socialist lines led to the policy of the government controlling the commanding heights of the economy, as the Second Five Year plan put it. This meant that the government would have complete control of those industries that were vital for the economy. The policies of the private sector would have to be complimentary to those of the public sector, with the public sector leading the way.

**Industrial Policy Resolution 1956 (IPR 1956):** In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. This resolution classified industries into three categories. The first category comprised industries which would be exclusively owned by the government; the second category consisted of industries in which the private sector could supplement the efforts of the public sector, with the government taking the sole responsibility

for starting new units; the third category consisted of the remaining industries which were to be in the private sector. Although there was a category of industries left to the private sector, the sector was kept under state control through a system of licenses. No new industry was allowed unless a license was obtained from the government. This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote regional equality.

Even an existing industry had to obtain a license for expanding output or for diversifying production (producing a new variety of goods). This was meant to ensure that the quantity of goods produced was not more than what the economy required. License to expand production was given only if the government was convinced that the economy required a larger quantity of goods.

**Small-Scale Industry:** In 1955, the Village and Small-Scale Industries Committee, also called the Karve Committee, noted the possibility of using small-scale industries for promoting rural development. A 'small-scale industry' is defined with reference to the maximum investment allowed on the assets of a unit. This limit has changed over a period of time. In 1950 a small - scale industrial unit was one which invested a maximum of rupees five lakh; at present the maximum investment allowed is rupees one crore.

It is believed that small-scale industries are more 'labour intensive' i.e., they use more labour than the large-scale industries and, therefore, generate more employment. But these industries cannot compete with the big industrial firms; it is obvious that development of small-scale industry requires them to be shielded from the large firms. For this purpose, the production of a number of products was reserved for the small-scale industry; the criterion of reservation being the ability of these units to manufacture the goods. They were also given concessions such as lower excise duty and bank loans at lower interest rates