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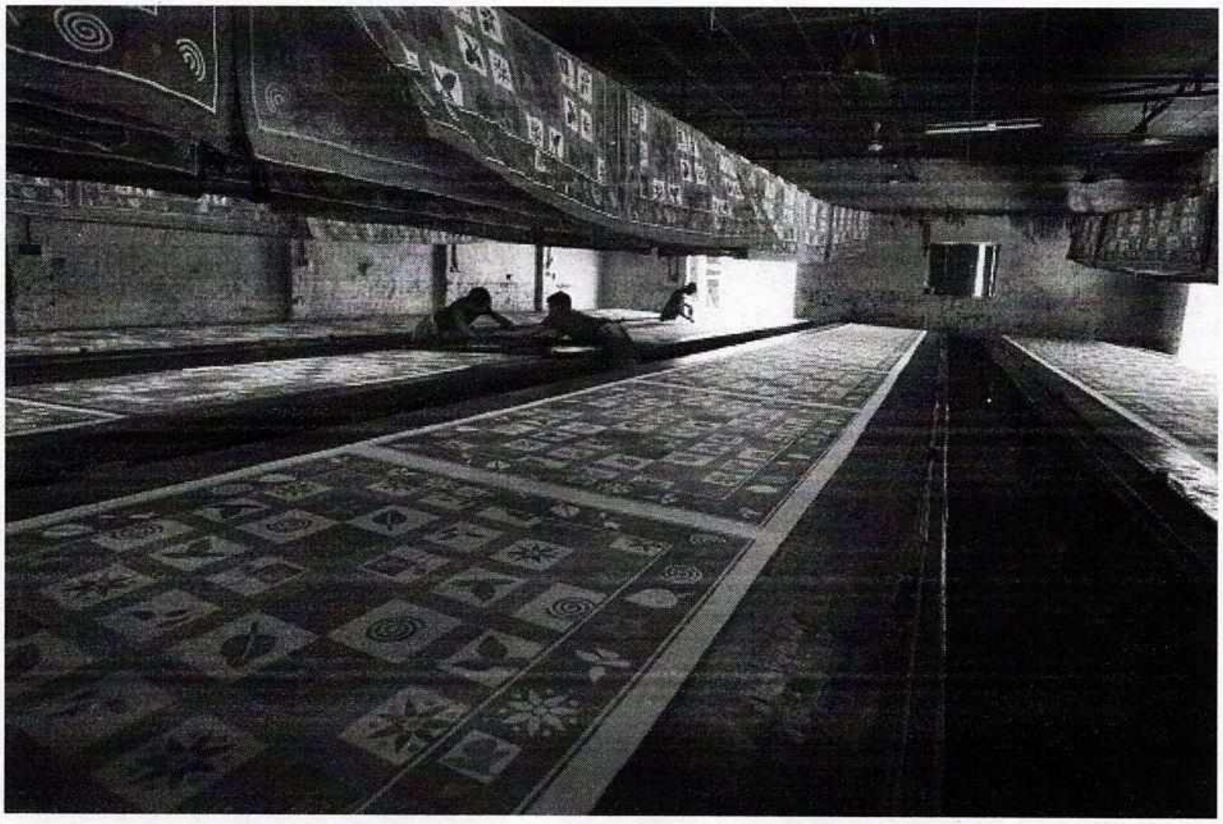
The legend of the Bombay Action Plan and industrial policy resolutions



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t Independence, manufacturing contributed about 9% to the gross domestic product (GDP). It was largely confined to the textile, jute and sugar sectors. Industrial units were concentrated in a few urban centres. This was the economic background in which the industrial policy evolved, as the country embarked on its journey to achieve growth with social justice.

The Bombay Action Plan, 1944-45

In anticipation of Independence, the Bombay Action Plan prepared by a group of industrialists and technocrats in 1944-1945, was a radical plan to industrialise the country. Radical, because it proposed to raise the contribution of industry to GDP from 17% to 35% within 15 years. To achieve this, the national income had to increase three times with a resultant doubling of per capita income. State intervention and planning with a central role for the government was recommended, along with protection for domestic industry to achieve a five-fold increase in industrial output. Basic and core industries were expected to lead the transformation of an agrarian economy to an industrial economy. The first three Five-Year Plans, although much lower in ambition, borrowed liberally from the Bombay Plan. This debt remained unacknowledged for long, as political and business considerations ensured that the Bombay Plan faded out of public memory.

The Industrial Policy Resolution, 1948

Partition which accompanied Independence upset the industrial economy of India, mainly by disrupting the supply of raw materials. The Industrial Policy Resolution, 1948 (IPR48) has to be seen in this light. The trauma and wounds of partition were still fresh. India had been independent for less than a year. The 'planning' era was three years in the future.

IPR48 stressed on growth with distributive justice. It recognised that redistribution of existing wealth would mean only distribution of poverty. The extent of state's responsibilities in industrialisation and the limits to private enterprise were moot issues. The principles of a mixed economy were enunciated which envisaged active state intervention and the conditions under which the private sector would be allowed to operate. Atomic energy, arms and ammunition and railways were to be state monopolies, a position which continues till date for atomic energy and railways. Six basic industries were identified in which new units would be set up by the state and a decision to acquire any private unit was be taken up after 10 years. A non-exhaustive list of 18 basic industries of importance was prepared, which while remaining in private hands would be regulated by the government. All other private industries were open to private enterprise. Stress was laid on the expansion of cottage and small industries, given their employment potential and ability to satisfy local demand by utilising local resources. Industrialisation on co-operative basis was considered desirable. Foreign capital, though welcome without strings, was to be subject to case by case scrutiny with ownership and control, as a rule, remaining in Indian hands. Measures for reducing industrial disputes were prioritised. The use of tariff policy to prevent unfair foreign competition and taxation to encourage savings and productive investment and prevent undue concentration of wealth were some of the other policy interventions enunciated in this policy resolution.

The Industrial Policy Resolution, 1956

The political changes in the first decade after Independence necessitated a new Industrial Policy Resolution in 1956 (IPR56), the most important being acceptance of a socialist pattern of society as the objective of social and economic policy. Industrialisation, and in particular, developing the heavy and machine making industries, expanding the public sector, enlarging the co-operative sector and state trading on an increasing scale were considered necessary for achieving this objective.

IPR56 divided industries into three categories based on the role of the state. In the first category were 17 industries (listed in schedule A of IPR56), whose future development was to be the exclusive responsibility of the state. All new units were to be set up by the state, with the exception of the already approved private sector units. In the second category were 12 industries (listed in schedule B of IPR 56) to be progressively owned by the state, with the private sector supplementing the efforts of the state. All the other industries were expected to be developed ordinarily through the initiative and enterprise of the private sector.

IPR56 reiterated state support to cottage, village and small-scale industries while concentrating on measures to improve their competitive strength. Removal of regional disparities, prevention of monopolies and concentration of economic power, improving the working conditions of labour, establishment of proper technical and managerial cadres in the public sector and largest possible measure of freedom to public enterprises were some other salient features of this resolution.

Plan targets were set to achieve the policy objectives. The primary instrument for implementation was a system of licencing, provided in the Industrial (Development and Regulation) Act, 1951. This Act shifted the locus of control and regulation of industries to the central government. Soon it became evident that licencing was not delivering. The Mahalanobis Committee, the Hazari Committee, the Dutt Committee and the Monopolies Inquiry Commission were set up in quick succession in the 1960s to examine different aspects of the working of the industrial licencing system. They all came to similar conclusions such as less than expected industrial growth, no substantial increase in per capita income, increased concentration of wealth, persistence of regional disparities, envisaged benefits not flowing to small and medium units while the big business got a disproportionately large share of the licences leading to pre-emption and foreclosure of capacity.

Not unexpectedly, these reports caused a great deal of consternation in the political and bureaucratic circles. The government had to be seen to be acting.

The first response came with the enactment of the Monopolies and Restrictive Trade Practices Act, 1969. Its objectives were prevention of concentration of economic power, control of monopolies and unfair trade practices.

It was followed by the New Industrial Licensing Policy, 1970 and the Industrial Policy Statement, 1973—further efforts to reduce the concentration of economic power.

This is the first column of a three-part commentary on India's industrialisation since Independence.

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