

Effect of Policies on Industrial Development(1950-1990) (A critical appraisal)



The achievements of India's industrial sector during the first seven plans are impressive indeed.



The proportion of GDP contributed by the industrial sector increased in the period from 11.8 per cent in 1950-51 to 24.6 per cent in 1990-91.

The rise in the industry's share of GDP is an important indicator of development.

The six per cent annual growth rate of the industrial sector during the period is commendable.

No longer was Indian industry restricted largely to cotton textiles and jute; in fact, the industrial sector became well diversified by 1990, largely due to the public sector.

The promotion of small-scale industries gave opportunities to those people who did not have the capital to start large firms to get into business.

Protection from foreign competition enabled the development of indigenous industries in the areas of electronics and automobile sectors which otherwise could not have developed.

Critical aspect of
Industrial growth
(1950-1990)

In spite of the contribution made by the public sector to the growth of the Indian economy, some economists are critical of the performance of many public sector enterprises on the following ground---

MONOPOLIES Are Bad for an Economy

They Can Supply
Inferior Products.



They Lose Any
Incentive to Innovate.



❑ Though initially Public sector was required in a big way. It is now widely held that state enterprises continued to produce certain goods and services (often monopolising them) although this was no longer required.

An example is the provision of telecommunication service. This industry continued to be reserved for the Public Sector even after it was realised that private sector firms could also provide it. Due to the absence of competition, even till the late 1990s, one had to wait for a long time to get a telephone connection.

Another instance could be the establishment of Modern Bread, a bread-manufacturing firm, as if the private sector could not manufacture bread! In 2001 this firm was sold to the private sector.

❑ The point is that after four decades of Planned development of Indian Economy no distinction was made between (i) what the public sector alone can do and (ii) what the private sector can also do.

For example, even now only the public sector supplies national defence. And even though the private sector can manage hotels well, yet, the government also runs hotels.

This has led some scholars to argue that the state should get out of areas which the private sector can manage and the government may concentrate its resources on important services which the private sector cannot provide.

Many public sector firms incurred huge losses but continued to function because it is difficult to close a government undertaking even if it is a drain on the nation's limited resources. This does not mean that private firms are always profitable (indeed, quite a few of the public sector firms were originally private firms which were on the verge of closure due to losses; they were then nationalised to protect the jobs of the workers). However, a loss-making private firm will not waste resources by being kept running despite the losses.

The need to obtain a license to start an industry was misused by industrial houses; a big industrialist would get a license not for starting a new firm but to prevent competitors from starting new firms. The excessive regulation of what came to be called the **permit license raj** -----

- Prevented certain firms from becoming more efficient.
- More time was spent by industrialists in trying to obtain a license or lobby with the concerned ministries rather than on thinking about how to improve their products.

The protection from foreign competition is also being criticised on the ground that it continued even after it proved to do more harm than good. Due to restrictions on imports, the Indian consumers had to purchase whatever the Indian producers produced. The producers were aware that they had a captive market; so they had no incentive to improve the quality of their goods. Why should they think of improving quality when they could sell low quality items at a high price?

A few economists also point out that the public sector is not meant for earning profits but to promote the welfare of the nation. The public sector firms, on this view, should be evaluated on the basis of the extent to which they contribute to the welfare of people and not on the profits they earn. Regarding protection, some economists hold that we should protect our producers from foreign competition as long as the rich nations continue to do so.

Owing to all these conflicts, economists called for a change in our policy. This, along with other problems, led the government to introduce a new economic policy in 1991.



The License Raj in India was a time when, to set up an industry, you needed a license. Which made the government an omnipresent and sort of all-pervasive authority.

Kumar Mangalam Birla

Conclusion:-----

The need for reform of economic policy was widely felt in the context of changing global economic scenario, and the new economic policy was initiated in 1991 to make our economy more efficient.

