MODULE2: GOVERNMENT ENVIRONMEMENT

GovernmentEnvironment

One of the features of modern business is the increasing involvement of thegovernmentinbusinessactivities.Asoftoday,thereisnocountryintheworldwherethe government of the land does not interfere, in one form or the other, in itseconomic activities. Involvement is all the more pervasive in our economy which tillrecently was a planned and regulated one.

Every Government in the world plays a significant role in the economy of theirrespective country. According to World Development Report (1999-2000) captionedenteringthe21stCentury,"Governmentplaysavitalroleindevelopment,butthereisno simple set of rules that tells them what to do." Every country has therefore, todetermine the areas and extent of market and state intervention depending upon itsown stage of economic development, socio-political system and. other historicalfactors.

Although the Government has always played an important role in almostevery national economy of the world, since the Great Depression of the 1930s, therehas been a great appreciation of the role of the government even in the capitalistcountries.

AccordingtoMarshallE.Societytodayare business andgovernment; wherethey meet on common ground- amicably or otherwise-together they determine publicpolicy, both domestic and foreign, for a nation".

Reasonsforstateintervention

1. **To sponsor the growth:** Economic history ones have noted that the latter acountrymovestowardseconomicdevelopmentthegreaterhastobetheroleof the state. Delayed growth has to be sponsored growth and thegovernment has to be the sponsor.
2. **To balance the development of the economy:** The modern economy mustbe a planned economy. In the absence of planning there is no properdirection to theeconomy,wrongprioritiesarechosen,resourcesare wasted,and booms and depressions occur regularly. To ensure speedy and balanceddevelopment of the economy with the least wastage of resources, planningbecomes necessary.
3. **Constitution binds the government:** Ours being a socialist society, thegovernment is compelled to take active part into industrial and commercial activities. The state's role is clearly underlined in the Preamble, theFundamental Rights and the Directive Principles of State Policy. Articles 38to 48 of the Directive Principles; the Right to Equality, the Right to Freedomand the Right against Exploitation of the Fundamental Rights and Justice,Liberty and Equality for all in the Preamble make it mandatory for the stateto participate in economic activities.
4. **Considerations are influenced by the government policy:** Thegovernment must consider what the demand should be, and take steps toinfluence the demand either to build it up or to pare it down or to vary it. Ifthe country is to achieve a certain pace of development, if certain standardsof living are to be attained, certain demands must be created. In order toachieve per capita ratios, it may be necessary to setup, to evolve and tooperate a pattern of prices, subsidies, incentives or disincentivesof differentkinds in order to influence the consumption pattern.
5. **Future development of industry and commerce:** The government mustassume responsibility for the development of core industries and facilitiessuch as power, fuel, iron and steel, transport, atomic energy, machinebuilding, machine, tools, transportation and communication.
6. **Failure of markets:** The failure of markets invites government interventionin an economy. As is well known markets may be monopolistic ofcompetitive. Monopoly leads to the wastage of resources and exploitation ofconsumers. Clearly avoidance of these levels is the main reason for stateintervention.
7. **Raising the total revenues:** Taxation can no longer be solely dependentopen and in fact has proved inadequate for the task of raising the totalrevenues the state now needs or its multifarious activities. By activeparticipation in business, the state has sought to tap the gold mines ofindustry and commerce for the funds needed to discharge the new andheavier burdens it now shoulders.

Typesofstateinterventioninbusiness:

Regulationsare also called as **controls or intervention**. Somesalient features of these roles are as discussed below

1. **Direct and Indirect Controls:** The direct controls are more drastic in nature ascompared to indirect controls. Businessmen generally prefer indirect controls.The reasons being that direct controls are discretionary in nature. These can beapplied selectively on certain firms, certain industries or certain products orservices. A few examples of the direct controls are :

- IndustrialLicensing
- PriceandDistributioncontrolsetc.

As is clearly from the name, indirect controls are not indirectly exercised bythe government but are usually exercised through various fiscal and monetaryincentive or disincentives. Certain business activities may be encouraged ordiscouraged through monetary and fiscal policies of the government. A fewexamples of indirect controls are:

- Variationofcorporateincometaxtoinfluenceeconomicactivity
- Highimportdutymaydiscourageimports
- MonetaryandfiscalincentivesmayencouragethedevelopmentofExportOriented industries etc.

2. **Formal andInformal Controls:**Formalcontrolsare generally imposed throughlegislation. For example the Monopolies and Restrictive Trade Practices Act1969, Consumer Protection Act 1986 etc. There controls are very powerful in nature. If nothing else is mentioned, Government control over business generally implies formal controls.

   On the other hand, informal controls are imposed by the business housesupon themselves outof needand custom.These controlsemanatefrom businessconventions, informal agreements and accepted way of doing things.

3. **Coercive and Inductive Controls**:Certain Governmentregulations require thatthe businessman should perform certain actions or refrain from doing certainactions and if he doesn’t do so, penalties will be imposed by the Government.These are the Coercive controls e.g. taxes must be paid or the penalty will bethere in the form of fine or imprisonment.

   On the other hand some controls promise a reward if the businessmancomplies with a certain line in action. These are inductive controls e.g. grant ofsubsidies if the production exceeds a certain level.

RoleofGovernmentinIndia

TheGovernmentofIndiahasbeenveryactiveinplayingallthefourimportant economic roles as follows:

1. **Regulation:** There has been a tendency on the part of the Government to haveand expand its control over the functioning of the economy. There are quite agood number of industrial and labour laws in the country which regulate:
   - Employer- employee relations, working conditions, wages, bonus, labourwelfare and social security etc.
   - The commercial banking sector has been brought under theeffective controlof the Reserve Bank of India
   - The Banking Companies Act 1949 and the amendment Acts of 1956 and1962, the Banking Laws (Misc. provisions) Act 1963 etc. The IndustriesDevelopment and Regulation Act, the Companies Act, the capital issueControl Act, the Monopolies and Restrictive Trade Practices Act, etc. providethe government with sweeping powers of control over industry, trade andcommerce.

2. **Promotion:** The Government of India has played the promotional role also veryeffectively over the years. Ours beinga mixed economy, the State has to providethe necessary facilities for the growth of the private sector.The Industrial PolicyResolution has made it very clear that the state should facilitate and encouragethe development of industries in the private sector.
   - Revivalofsickunits
   - Encouragementtosmallscaleunits
   - Removalofregionalimbalances
   - Provisionofincentivesandsubsidiesandexportpromotion

3. **Entrepreneurship:** The entrepreneurial role of the Government has been veryimpressive overthe years.Inmanycountries,the governmentalsoplays the roleof an entrepreneur. It means that the business houses are established andoperated by the government and the risk is also taken by the government.
   - Neglectofcertainnon-profitablesectorsbytheprivateentrepreneurs.
   - Monopoliesincertainsectorsandtheexploitationofconsumers.
   - Government nationalized the Imperial Bank of India and named it as StateBank of India.

- NationalizedLifeInsuranceandcreatedtheLifeInsuranceCorporationofIndia.
- In1969nationalizationof14majorcommercialbanksofthecountrywashailed.
- 113 sick mills of the private textile sector were taken over. Took over coalmines and created Coal India Ltd.

4. **Planning:**The Government of Indiahas been playing a major role asa planner.The Planning Commission was set up in 1950 and the First Five Year Plan waslaunched in 1951. Our Five year Plans place special emphasis on improvementsin the living conditions of the poor. The objective of distributivejustice hasbeengiven added emphasis in the later plans. Indian planning has a respect fordemocratic and property rights. Moreover, it balances the various economicelements and combines the public, private and joint sectors, heavy and lightindustries and big, medium, small and cottage industries.

Monetarypolicy:

Monetarypolicyrefers tothe steps takenbythe Reserve BankofIndiato regulate the cost and supply of money and credit in order to achieve the socio-economic objectives of the economy. *Monetary policy influences the supply ofmoney thecost of money or therate of interest and theavailabilityof money. `Oneofthe most important functions of Reserve Bank is to formulate and administer amonetary policy.* Such a policy refers to the use of instruments of credit control bythe Reserve Bank, so as to regulate the amount of credit creation by the banks. *Italso aims at varying the cost and availability of credit with a view to influence thelevel of aggregate demand for goods and services in the economy,*

D.C.RowanhasdefinedMonetaryPolicyas"discretionaryactundertakenbythe authorities designed to influence (a) the supply of money (b) cost ofmoney or rate of interest and (c) the availability of money".

Objectivesofmonetarypolicy:

1. To accelerate the process of economic growth: one of the twin aims of theeconomic policyisto accelerate theprocess ofeconomicgrowthwith awaveto raise the national income. The Reserve Bank has made the allocation offunds to the various sectors according to the priorities laid down in theplants and requirements of day-to-day development.
2. Controlled expansion: the second objective is to control the prices andreduce the inflationary pressures in the economy. Every economy faces twoconflicting interests :

a. Expansionofmoneysupplytofinancetheprocessofeconomic development.
b. Control of money supply to check inflationary pressure generated in theeconomyasaresultofWestdevelopmentandnondevelopmentexpenditure.

Measuresforcontrollingofcredit

The reserve Bank of India has the responsibility to ensure that moneysupply is within manageable limits as unlimited expansion of money e andcredit results in inflation which ultimately affects the poor. So, the reserveBankhasbeenusingcreditcontrolmeasureswhichcanbeclassifiedintotwocategories:

1. Generalorquantitativemeasures
2. Selectiveorqualitative measures

1. **General of quantitative measures**: these measures are generally adoptedby the Central banks in the countries. These measures affect the totalquantity of credit and the economy in general.

a. *Bankrate*:

- Bankrateistherateatwhich CentralBankchargesontheloansandadvances to the commercial banks.
- Whenthegovernmentwantstoincreasethemoneysupply,itdecreasesthe bank rate.
- Whenthegovernmentwantstodecreasethemoneysupply,itincreasesthe bank rate.

b. OpenMarketOperations(OMO):

- WhentheCentralBankwantstoincreasethemoneysupply,itpurchasesthe government securities.
- WhentheCentralBankwantstodecreasethemoneysupply,itsellsthegovernmentsecurities.
- Buyersofgovernmentbondsincludecommercialbanks,financialcorporation and big business organisation.

c. CashReserveRatio(CRR):

- TheobjectiveofCRRistopreventtheshortageofcashinmeetingthedemand for cash by depositors.
- WhentheRBIwantstoincreasethesupplyofmoney,itdecreasestheCRR
- WhentheRBIwantstodecreasethesupplyofmoney,itincreasestheCRR.

d. StatutoryLiquidityRatio(SLR):

- SLRistheproportionoftotaldepositswhichcommercialbanksarerequiredto maintain with them in the form of liquid assets such as cash reserves, goldand government bonds.
- WhenRBIwantstoincreasethemoneysupply,itdecreasestheSLR.
- WhenRBIwantstodecreasethemoneysupply,itincreasestheSLR.

SELECTIVEORQUALITATIVEMEASURES

1. **RegulationofMarginalRequirementsonloans:**

- Bankfixestheminimummarginalrequirementsonloansforpurchasingorcarryingsecurities.
- Marginisthedifference betweenthemarketvalueofthesecurityandtheamount lent by the banks against these securities.
- Thechangeinthemarginrequirementsregulateandcontrolthedemandforcredit.

2. **RegulationofConsumerCredit:**

- Creditisgenerallygiventotheconsumersforthepurchaseofdurablegoods.
- Certainpercentageoftheconsumerdurablegoodsispaidbytheconsumerincash.
- Thebalanceamountisfinancedbythebankthroughbankcreditwhichisrepayable in monthly installments over a period of time.
- The RBI can control credit by changing the total amount which can beborrowedbytheconsumerforthepurchaseoverwhichtheinstallmentscanbe expected.

3. **RationingofCredit:**

- RBIfixesthequotaformemberbanksaswellastheirlimitsforthe paymentofbills.
- Ifthememberbanksseekmoreloansthanthequotawhichisfixedforthem,they will have to pay higher rate of interest to the RBI.

4. **CreditAuthorizationScheme:**

- TheCommercialBankshadtoseekauthorizationfromtheRBIbeforesanctioning any fresh limit of Rs. 1 crore or more to any single party.
- ThislimitwasraisedtoRs.6crorewitheffectfromApril1986.
- Thisschemewasliberalizedtoallowlargeamountofloanstomeetgenuinedemands of production sector without the prior sanction of RBI.
- Insuchcases,asystemofpostsanctioncalledCreditMonetaryArrangements (CMA) was introduced by RBI.
- ThemainpurposeofCASistokeepclosewatchontheflowofcredittotheborrowers.

5. **Directives:**

- TheRBImakesextensiveuseofSelectiveCreditControlsandissuesDirectivesto the Commercial Banks.
- TorestrictadvancesagainstPaddyandRice,commoditiesofcommonusewere also included in this list.
- This method can help a lot in credit regulation and can be quite effective ifproperlyusedandimplementedbythemonetaryauthoritiesofthecountry.

6. **Moral Persuasion:**

- Periodical letters are issued by RBI to banks urging them to exercise controlovercreditingeneraloradvancesagainstparticularcommoditiesorunsecureadvances.

Fiscalpolicy

It is the policy concerning the revenue expenditure and debt of thegovernment for achieving certain objectives like control of inflation publicexpenditure etc. Public expenditure is continuously increasing and thisincreased expenditure is either meet by deficit financing or by borrowings.

According to Prof. D.C. Rowan, *"fiscal policy is defined as the discretionaryaction by the government to change (I) the level of government expenditure ongoods and services and transfer payments (ii) taxation at any given level ofoutput.*

(Or)

Fiscal policy is defined as "the conscious atoms of government to achievecertain micro goals of policy by altering the volume and pattern of its revenueand expenditure and balance between them"

Objectivesoffiscalpolicy

1. **Full employment**: in order to achieve full employment level, governmentincreases public expenditure to raise aggregate demand and tax rate isdecreased. As a result private sector gets incentive to spend more whenaggregate demand increases. Total production increases and as a resultemployment will also increase.
2. **Price stability:** another objective of fiscal policy is price stability when pricerise i.e, inflation exist in an economy, fiscal policy AIMS at decrease in demandand aggregate expenditure and tax rate is also raised. Extra purchasing powerof peoplegoes into the handsof general public anddemanddecreases becauseof excess supply, price of automatically go down because of fear of stocks.

   On the other hand in the case of depression and depression fiscalpolicy is used as a tool to increase publicspendingand tax it is also decreased.

3. **Reduction in economic inequality**: in a democratic country like India theprominent aim of fiscal policy is to remove economic inequality. To removeeconomic inequality progressive direct taxes like income tax, property taxes are atthe high scale because a burden of such taxes generally falls on rich people. Theincome generated fromthese taxesis used forthe welfareof thepoor massesand toraise the standard of living.
4. **Economic development:** economic development is an important feature ofunderdevelopedcountries.Toachieve developmentofa country,fiscal policyacts asa source of capital formation because as capital formation is increased, productionand employment also increases. Appropriate fiscal policy is required fordevelopment of countries like India.

MeasuresormethodsortoolsofFiscalpolicy

1. **Taxation policy:** every government on revenue through taxes. Taxes are the veryimportant and major source of government revenue. The help of taxes demand canbe affected. Texas weather reduces the purchasing power of the people or createsinflation and economy. There are two types of taxes :
   - **a.** Indirecttaxes
   - **b.** Directtaxes
2. **Government expenditure:** public expenditure there's an important effect onaggregate demand.Governmentexpenditure increases, aggregatedemandincreasesand vice versa. Public expenditure is of two types:
   - **a.** For the attainment of goods and services. It affects directly aggregate demand.The extent of its effect depends upon public expenditure.
   - **b.** Expenditureforpension,education,healthetc.Itindirectlyeffectstotaldemand.
3. **Publicdebtpolicy:**publicdebtpolicyalsoaffectsaggregatedemand.Videopublic that's mainlyare oftwotypes:
   - **a. Internal debt:** amount of loan is raised by the government from within thecountry. Government alsoborrowsfora temporary period fromRBI andalso fromcommercialbank.
   - **b.** ***Externaldebt*****:**asinternalthatisinsufficientthegovernmentisalsocollectingloan from external sources. From abroad in the form offoreign capital and CentralGovernment is also borrowing from international financing agencies for financingvarious development projects agencies are World Bank International monetaryfund IMF International development association IDA etc.
4. **Deficit financing:** government lends from Central Bank to cover its deficit inits budget. Issues more currency notes in the time of emergencies. Increase incurrency notes creates extra purchasing power and as a result the totalcirculation of currency is rises demand increases and as a result pricesincreases.

AdvantagesofFiscalPolicy

1. **Capital formation:** fiscal policy has played a very important role in raisingthe rate of capital formation in country in private as well as public sector. Majorpart of budgetary resources has been invested in public sector enterprises whichresulted in increase in gross domestic capital formation.
2. **Resource mobilization:** scan policy to mobilize resources through taxes,savings, public debt etc.. for economic development of the country. Resourcemobilization which was 70% in 1965-66 has increased to 90% in 2001-2002.
3. **Incentives toprivate sector:** privatesectorhasbeen increased under fiscalpolicy for investment and production. Tax concessions cash subsidies exemptionsin taxes as been givenas incentives to private sector set up inbackward areas andexport oriented units. Similarly subsidies and tax concessions have also beengiven to increase imports and as a result it has greatly affected exports andimports of the country
4. **Encourages:**various incentives has beengivento raise the rate ofsavings inhousehold and corporate sector. To increase savings in household sector variousconcessions and tax benefits have been given on fixed deposits, Life insuranceschemes, Kisan Vikas Patra (KVPs), National Saving Certificate (NSCs), providentfunds etc.. Savings have also been increased in corporate sector by offering thentax concessions and tax exemptions.
5. **Poverty elevation and employment generation:** to fulfill one of its majorobjectives of providingfullemployment, allocation of youramount has been madein fiscal policy to eradicate poverty and generate employment. Causes of hugeamount has been spent on direct schemes like 20 Point Programme, integratedrural development program (IRDP), Jawahar Rozgar Yojana (JRY), employmentassurance scheme etc.
6. **Reduction in inequality of income and wealth:** fiscal policy of the countryhas been making constant efforts to reduce inequality of income and wealth.Resources have been organized from which class to for by way of progressivetaxes, wealth tax, Chennai corporation tax and capital gains tax etc.. and thismoney has been utilized for the welfare of the people.

7. **Export promotion:** exports a list by way of providing subsidies, concessions, taxexemptions, cash subsidiesetc.. Import duty on raw materialandcapital goods usedfor production of goods meant for export has also been reduced with a view toencourage exports.

Disadvantagesoffiscalpolicy

1. **Lack of elasticity**: in countries like India tax system is not that elastic as it issupposed to be. Moreover in these economics because of used acceleration it isdifficult to earn revenue from taxes.
2. **Non monitor sector:** although each and every activity is now awarded in terms ofmoney, but still a major part of economy of UDCs like India is non-monetised.
3. **Inadequate statistics:** in the countries like India at it wait and reliable data is notavailable. Because of non-availability of reliable and accurate data, the area of fiscalpolicy is not judged properly
4. **Illiteracy:** most of the population of India is there illiterate or not in a position tounderstand economic policies and its implications, that is why they are not able toevaluate the importance of fiscal policy and also try to evade taxes.
5. **Limited sector:** fiscal policy only a fixed a few sector of the economy. Most of thesectors remain untouched e.g. burden of taxes on salaried person winners withbusiness men hardly pay any taxes in spite of high income levels.
6. **Delay in decision:** fiscal policy decision makes approval by the government. A lotof time is required for approval that is why decisions are not taken at proper time.
7. **Limitations regarding full employment**: increase wage rate results into increasein prices instead of increase in production. Employment decreases and desiredincrease in parliament does not take place.
8. **Defective tax structure:** the country the lion mode on direct, ultimately affectingfor poor persons. Contribution of Direct taxes has being and that of indirect taxesrising.
9. **Inflation:** as a result of increase in public expenditure on non-development headsand deficit financing demand pull inflation has taken place.
10. **Huge investment with negative return in public sector:** use investment inpublic sector and has become money now because of review of public sector.Return on the investment has been very low.

ImpactofFiscalPolicy

1. **Investment opportunities:** business plan see investment opportunity fromgovernment spending as private investment. This commonly happens duringand expansionary policy when more money is flowing into economy from thegovernmentandfromothersources.Whenabalance betweenprice anddemandare net and expect to grow.
2. **Slower growth:**
3. **Taxation changes:** depending on the location business face several levels ofdigestion including local state and federal. Business must contend with howtheir state and local government taxes them.
4. **Unemployment rates:** A major objective of fiscal policy is to minimizeunemployment. Ex: government can lower taxes to put more money back inconsumer's pocket, so company can expect demand. More demands of productsrequires more production and hence the business can respond by creating jobsand higher or more employees.

EXIMPOLICY

Export and import policy are better known as EXIM policy it is a set ofguidelines and instructions related to the import and export of goods.Theexportandimporttradeofaneconomyhasforcedittosetplansandpoliciesinorder to have a balance between the two.

Ifexportsarelesserthantheimports,ourforeigndebitwouldincrease.

It is necessary to have more exports than imports in order to build foreignreserve.ThegovernmentofIndianotifiedtheEXIMpolicyforaperiodof5yearsunder section 5 of foreign trade.

ObjectivesofEXIMpolicy:

1. **To accelerate the economyfrom low level of economic activities to a highlevelofeconomicactivities**bymakingitagloballyorientedvibranteconomyand to derive maximum benefits fromexpanding global market opportunities.
2. **Tomotivatesustainedeconomicgrowth**byprovidingaccesstoessentialrawmaterials intermediate components consumable and capital good required forproduction.
3. **Toimprovethetechnicalstrengthandefficiency**ofIndianagricultureindustry and services thereby improving the competitiveness.
4. **Tocreatenewemploymentopportunityandencourage**theattainmentofinternationally accepted standards of quality.
5. **Togivequalityconsumerproductsatparticular prices**

HighlightsoftheEXIMpolicy:

1. **PeriodoftheEXIMpolicy:**
   - This policyis validfor5years insteadof3 yearsas inthe case ofEXIMpolicyitiseffective from 1st April 1997 to 31st March 2002.
2. **Import liberalization:**
   - A very important feature of the policy is liberalization. It has substantiallyeliminated licensing, quantitative restrictions and other regulatory anddiscretionarycontrols.
   - Out of 542 items from the restricted list 150 items have been transferred tospecial import license (SIL) list and remaining 392 items have been transferredto open general license (OGL) list.
3. **Exportpromotioncapitalgoods(EPCG):**
   - The duty on imported capital goods under EPCG scheme has beenreduced from15% - 10%
   - Under thezero dutyEPCG scheme,the threshold limithasbeen reduced from RS20 Cr – Rs 5 Cr for agricultural and allied sectors.
4. **Advancelicensescheme:**
   - Under Advance license scheme, the period for export obligation has beenextended from 12 months to 18 months.
   - A further extension for 6 months can be given on payment of 1% of the value ofunfulfilledexports.

ImpactofEXIMpolicy1997-2002:

1. **GlobalizationofIndianeconomy:**
   - The EXIM policy 1997-02 proposed with an aim to prepare a framework forglobalization of Indian economy.
   - This is evident from the very first objective of the policy, which states. “Toaccelerate the economy from low level of economic activities to a high level ofeconomic activities by making it a globally oriented vibrant economy and toderive maximum benefits from expanding global market opportunities.”
2. **ImpactontheIndianIndustry:**
   - In the EXIM policy 1997-02, a serious of reform measures have been introducedin order to give boost to India’s industrial growth and generate employmentopportunities in non-agricultural sector.
   - These include the reduction of duty from 15% - 10% under EPCG scheme thatenable Indian firms to import capital goods and is an important step inimproving the quality .and productivity of the Indian industry.
3. **Impactonagriculture:**
   - Many encouragingsteps have been taken in the EXIM policy 1997-02 in order togive a boost to Indian agriculture sector.
   - These steps includes provision of additional SIL of 1 % for export of agroproducts, allowing EOU’s and other units in EPZs in agriculture sectors to 50 %of their output in the domestic tariff area (DTA) on payment of duty.
4. **Impactonforeigninvestment:**
   - In order to encourage foreign investment in India, the EXIM policy 1997-02 haspermitted 100 % foreign equity participation in the case of 100% EOUs, andunits set up in EPZs.
5. **Impactonqualityupgradation:**
   - The SIL entitlement of exporters holding ISO 9000 certification has beenincreased from 2% to 5% of the FOB value of exports, which has encouragedIndian industries to undertake research and development programmers andupgrade the quality of their products.

6Impacton self-reliance:
- TheEXIMpolicy1997-02successfullyfulfillsoneoftheIndia’slongterm objectivesofself-reliance.
- The EXIM policy has achieved this by encouraging domestic sourcing of rawmaterials, in order to build up a strong domestic production base.
- New incentives added in the EXIM policy have also added benefits to theexporters

INDUSTRIALPOLICY

Industrial policy covers all those procedures, principles, policies, rules andregulations which control such industrial enterprises and share the pattern ofindustrialization. It consist of fiscal policy, monetary policy, tariff policy,labourpolicyect.

IndustrialPolicyResolution 1948

- The 1st PM of India Jawaharlal Nehru declared the industrial policy ofgovernment of India on April 6 1948
- Main aim is to accelerate the development of industries in india that includeboth the private and public.

- *4broadcategoriesare:*

a. Theindustriesweretobetheexecutivemonopolyofcentralgovernment. Eg : manufactures ofarms, production andcontrol ofatomic energyand theownership and management of railway transport.

b. Thatcoverstheindustriesrelatedto coal,ironand steel etc. runbyprivateindustries

c. Industriesofsalt,automobiles,tractors,chemical fertilizers etc.,ownershipwas in private hand but central government regulation.

d. Openforprivatesectorsbothindividualaswellco-operativeweregivenpermission to take part in this industrial policy.

Industrialpolicyresolution1956:

The second industrial policy resolution was adopted in April 19565replacing the resolution of 1948. The industrial policy resolution, 1956 wasknown as the economic constitution of India. The resolution had the followingobjectives:

Themainobjectivesare:

1. Itstrivedhardforthedevelopmentofheavyandmachinemakingindustries.
2. Alsogavemoreimportanceintheexpansionofpublicsectors
3. Fortheestablishmentof;largeandgrowingco-operativesectors.(i
4. Encouragementtothediffusionofownershipandmanagementoftheprivate sector.

FeaturesoftheIndustrialPolicy:

1. **Fairandnon-discriminatorytreatmentfortheprivatesectors:**
   - In order that the private sector may feel confident and function efficiently, thestate would ensure infrastructure facilities like power, transport and otherservices to this sector.
   - The state may also grant financial assistance to the private sector especially whenthe amount involved is substantial.
   - The state would continue to provide fair and non-discriminatory treatment toboth public and private enterprises when both exist side by side in a particularindustry.
2. **Encouragingcottageandsmallscaleindustries:**
   - The state would continue to support village, cottage and small scale industries byrestricting the volume of production in the large scale industrial unit bydifferential taxation or by direct subsidies.
   - The state would try to improve and modernize the techniques of production ofthis sector ,also thought of giving incentives,facilities of raw materials,marketingfacilities, cheap electricity etc.,
3. **Removingregionaldisparities:**
   - The resolutionsupportedthe ideaofbalancedandco-ordinate developmentoftheindustrial sector in each region for attaining higher standards of living.
   - To achieve this aim, transport, power supply and other facilities were to be madeavailable to the backward sectors.
4. **Labour welfare:**
   - The resolution stressed that in a socialistic democracy the importance of labourmust be recognized and labour must be recognized and labour must be given ashare in management in the form of participation and joint consultations.
   - The resolution stressed the need for improving the living and working conditionsof workers and also to raise their standards of efficiency.
5. **Technicalandmanagerialpersonnel:**
   - The resolution of 1956bstressed the need for technical and managerial personnelin the public sector units and for the development of the cottage and small scaleunits.
   - For imparting training at the supervisory level and for organizing apprenticeshiptrainings on a large scale, technical staff cell were to be opened in the Publicsectors.
6. **Decentralizationofpower:**
   - In this resolution, emphasis was placed on the importance of decentralization ofthe management of the public enterprises
   - In their working, publicenterprises were to be given maximum freedom and theirsuccess was to be determined on the basis of total performance.

IndustrialPolicy1980Objectives

- Promotingcompetitioninthedomesticmarket.
- Technologyupgradationandmodernization.
- Encouragingforeigninvestmentinhightechnologicalareas.
- Tomaximizeproduction.
- TostrengthenagriculturalbasebygivingprioritytoAgrobasedindustries.

Consumerprotectionagainsthighpricesandbadqualitygoods.

IndustrialPolicy1991Ob

jectives:

- EncouragementtoIndianentrepreneurship,promotionofproductivityandemploymentgen eration.
- Removingtheregulatorysystemandotherweakness.
- Increasingthecompetitivenessofindustriesforthebenefitsofthecommonman.
- Enhancedsupporttosmallscale sectors.
- Incentivesfortheindustrializationofbackwardareas.
- Ensurerunningofpublicsectorundertakingsonbusinesslinesandcuttheirlosses.

Impactofindustrialpolicy:

1. Changes intechnology.
2. Productdiversity.
3. Marketconcentration.
4. Geographicaldispersion
5. Export–amatterofsurvival
6. Allroundcompetition.
7. Buyer’smarket.