THE EFFECT OF INDUSTRIAL POLICY TOWARDS THE GROWTH OF PRIVATE SECTORS IN INDIA

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ABSTRACT

During 18th and 19th centuries, private sector units were adopted a Laissez-faire variety. After the industrial policy 1991, the private sector was allowed to participate in some restricted sector like insurance, telecom etc. Private enterprises are actually business organizations that were owned and managed by private partners. There are various forms of business in private organisation, such as Sole Proprietor, Partnership, Limited Companies, Cooperatives, Franchise, etc.. The main aim of this organisation is to earn profit. The private sector plays an important role for the economic development of the country. **The Industrial Policies of India** were also framed to meet the challenges and to obtain economic development and growth through industrialization. This paper presents the changing face of India's Industrial Policies and Economic Development due to boom in private Industries.

***Keywords*:** Private Sectors, Industrial Policy Resolutions (IPR), new economic policy, Employment, Ministry of Corporate Affairs, Registered companies.

INTRODUCTION

When India achieved Independence in 1947, the national consensus was in favour of rapid industrialization which is the key to economic development. For economic development in India top priorities was given for industrial development through **Five Year Plans.** The Indian corporate sector has two main elements namely, the government owned and privately owned companies. When the Indian Constitution was being drafted, the "Laissez Faire" philosophy had become a thing of the past in every **democratic country** [(1)]. The Indian Constitution makers were naturally influenced by contemporary philosophy. This was underlined by Dr. B.R.Ambedkar who, emphasizing economic democracy along with political democracy, pointed out that in a poor country like India, political democracy would not have much meaning without improvement in economic condition of its citizen and the economic conditions of the people were not improved[(1)]. The preamble to the Constitution mentions **"justice, social, economic and political"** for all citizens of India for the achievement of which the Constitution is being established [(2,3)]. This idea has been further reinforced by a few directive principles of state policy, in which one can discern the leanings of the philosophy of welfare state and of economic planning. After independent, Nehru wants to achieve ultimate goal of a **"Socialist pattern of Society"** in the country to ameliorate the socio-economic condition of the Nation[(4,5)]. For economic reforms in India, The **Industries Development and Regulation Act** (IDRA) was passed in 1951 to implement the Industrial Policy Resolution, 1948. Nehru's economic ideas has been playing crucial role in accelerating the pivot of economic development of our country .Still today his economic philosophy is considered as basis for our planned economic development. One of his key economic reform was the introduction of the **Five Year Plan in 1951**. The policies initiated by him have been considered to be socialistic in nature. Nehru always advocated a kind of mixed economy. He gave equal consideration to private and public sector. However, it is said that socialism had played a very important in Nehru's ideological makeup. In 1956 Nehru was considered the most arresting figure in the world political stage since the end of the Churchill, Stalin and Rosevelt era[(4,5)] . Private sector includes all different types of individual or corporate enterprises, both domestic and foreign, engaged in different fields of productive activity. The private sector enterprises are mostly characterized by some common characteristics like private initiative, profit motive and ownership and management in private hands.

Many countries in East Asia achieved high growth and poverty reduction through policies which emphasized greater export orientation and encouragement of the private sector[(6)]. India took some steps in this direction in the year 1980s, but the change of policies i.e. the new economic policy, 1991 can achieved in 1991[(6)].

THE INDIAN ECONOMY

India has a **Mixed Economy** pattern, where *both government and private take part in business.* It is, thus, a mixed form of capitalism and socialism[(7,8)].

Basic features of the Mixed Economy are**:**

i. Private and public sector exist side by side and they are required to function in a properly coordinated manner.
ii. Thus, economic development activities are carried out by individuals as well as the government.
iii. Private and public sectors are Apart from national security, government engages itself in those activities that the private enterprises consider as unprofitable.
iv. All basic and heavy industries like banking, transport, energy etc. are controlled by the government, whereas agriculture, consumer goods and other industries and trade are left for the private sector.

The public sector enterprises cover all those undertakings which are wholly or partly owned to the extent of at least 51% of the share capital by the state. There are three different forms of organization used for the public sector enterprises in India. These are:

(1) Statutory (or Public) Corporation
(2) Departmental Undertaking
(3) Government Company

The Statutory Corporations are the organizations, which are incorporated under the special Acts of the Parliament/State Legislative Assemblies. Though these are autonomous bodies, and are free from government control in respect of their internal management; they are accountable to the parliament and the state legislature. Their capital is wholly funded by the government.

They are managed by a Board of Directors, which comprises of the individuals who are trained and experienced in business management. These members of the Board of Directors are nominated by the government. Though it is true on papers that the greatest advantage of statutory corporation is its independence and flexibility; in reality, there is excessive government interference in most of the matters. The amendments to their activities and rights can be made

INDUSTRIAL POLICY RESOLUTION 1948

On 6th April, 1948, The Government of India announced its **first Industrial Policy Statement** in which both public and private sectors were involved towards industrial development. As per the IPR, 1948 both the private and public sector was accepted as important components in the development of industrial economy of India. The main historical importance of this policy is of Mixed Economy. The 1948 policy put industries under Central and State List. The coal, power, railways were in Central List and paper, medicines, cycles were in State List. Further the policy divided the industries into four broad categories:

(i) Industries with Exclusive State Monopoly**:** Atomic energy, railways, arms and ammunition are included in this category.

(ii) Industries with Government Control**:** Fertilizers, heavy chemical, heavy machinery and 18 such industries were included under this category

(iii) Industries in the Mixed Sector: Public sector and private sector industries were included in this mixed sector and allowed to operate.

(iv) Industries under Private Sector: Industries not covered by above categories fell in this category.

On 8th May 1952, The Industries (Development and Regulation) Act, (IDRA), came into force under a notification of the Central Government published in the Gazette of India. This Act extends to whole of India with a view to being under Central and regulation of a number of important industries.

INDUSTRIAL POLICY RESOLUTION, IPR, 1956 (13,14,17)

The 1956 industrial policy has been hailed as the **"Economic Constitution"** of India. IPR, 1956 is the next important policy statement which was adopted by the Parliament in April 1956. It provided more powers to the governmental machinery. The Industrial Policy Resolution, 1956 expanded the scope of Public sector. The Public sector was viewed as an instrument for implementing the state policy for the socio economic revolution in the country. The Industrial Policy Resolution - 1956 classified industries into three categories such as Schedule A, Schedule B and Schedule C.

Schedule A Industries: It consisting of 17 industries which were strictly under the Central Government. The main objectives of the Industrial Policy Resolution of 1956 were:

1. To help in the rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development;
2. To generate resources for development;
3. To promote redistribution of national income and wealth;
4. To create employment opportunities for younger generation;
5. To promote balanced regional development;
6. To assist in the development of small-scale and ancillary industries; and
7. To promote import substitutions, save and earn foreign exchange for the economy.

Schedule A industries: The Schedule A had industries with centre's monopoly and later they became Public Sector Undertakings or PSUs. The enterprises of this area were known as CPSE (Central Public Sector Undertakings). These included key industries such as Defense Equipment, Iron & Steel and heavy plants, Atomic Energy, railways and air transport.

Schedule B industries: Schedule B had industries comprised 12 industries that were put to the State Governments to take measures. But the private sector was not denied to set up or expand existing units' e.g. chemical industries, fertilizer, synthetic, rubber, aluminum etc.

Schedule C industries: The industries not mentioned in the above category fell in this category. Thus the IPR, 1956 emphasized the mutual existence of public and private sector industries and the government served the right to undertake any type of industrial production.

The three categories classification of sector did not mean that they were being placed in water-tight compartments. In appropriate cases, the private sector might be allowed to produce an item falling within Schedule A for meeting its own requirements. The IPR 1956, stressed the importance of cottage and small scale industries which provide the employment opportunities and for wider decentralization of economic power and activity. The Resolution also called for efforts to maintain industrial peace; a fair share of the proceeds of production should be given to the toiling mass in keeping with the avowed objectives of democratic socialism. Regional disparities in industrialization should be reduced.

INDUSTRIAL POLICY OF 1973 (17)

One of the most important policies, it introduced the concepts of Core industries for development of other industries. Joint Sector concept was introduced i.e. partnership between Centre, State and the private sector. The Policy Statement of 1973 drew up, large industries that were permitted to start operations in rural and backward areas with a view to developing those areas and enabling the growth of small industries.

INDUSTRIAL POLICY OF 1977

The industrial policy of 1977 focused on rural economy. It advocated the growth on rural economy to solve the problem of unemployment and regional inequalities in industrial development. After the election in 1977, Morarji Desai was Prime Minister and he was influenced by the Gandhian and Socialistic thoughts. He wanted to develop village industries and in order to help for the cottage and small-scale industries, by means of service and support **District Industries Centre** (DIC) to be set up at each district headquarters. It put emphasis on village industries and decentralized industrialization.

INDUSTRIAL POLICY OF 1980

Congress (I) came back to power in 1980 and it thrust in Industrial Policy of 1956 and the new Industrial Policy was announced on July 1980. The government believes that the industrial policy 1956 emphasized that the public sector is the pillar of economic development, because of its high reliability, the large investment is required for Industrial Policy 1980 for its infrastructure and the longer gestation periods of the projects crucial for economic development. After 1948 and 1956 Industrial Policy Resolutions, the economic policy of Industrial Policies of 1973, 1977, 1980, 1982-83 and 1990, came with very minor changes.

NEW INDUSTRIAL POLICY OF 1991 [8-11,16]

India was a latecomer to economic reforms, embarking on the process in earnest only in 1991 when India went through a severe economic crisis triggered by a serious balance of payments situation[18]. The crisis was covered into an opportunity to introduce some fundamental changes in the content and approach to economic policy. The response to the crisis was to put in place a set of policies aimed at stabilization and structural reform. The year 1991 is an important landmark in the economic history of India. Former Finance Minister in 1991, Dr. Manmohan Singh is considered to be the **"Father of New Economic Policy"** of India. Narasimha Rao government in 1991 adopted the New Industrial Policy. The country decided to follow the lines of capitalism. The watchword for the New Industrial Policy thus became liberalization, globalization and privatization and towards this end, the Government introduced three sets of reforms:- first, deregulation, relicensing, decontrol and debureaucratisation of industrial licensing system; two, liberalization of foreign trade and currency transactions and third, institute several measures to facilitate foreign direct investment (FDI) inflows. The new policy therefore throws almost the entire field of industry wide upon for the private investers. It is clear that Public Sector Enterprises formed the backbone of industrial development of the country in Independent India. Of course, its role has been changing with the changing time. Initially its role was to help create the much needed industrial base and infrastructure apart from bringing about price stabilization and socio-economic development.

MAIN OBJECTIVES OF ECONOMIC POLICY, 1991

The main objectives of Economic Policy, 1991 has towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms. The New Economic Policy permitted the private sector to expand. Greater role of private sector was emphasized to utilize fully the capacities, to absorb modern technology and to improve productivity.

KEY TAKEOVER FROM 1991 UNDER INDUSTRIAL POLICY, 1991

- Industrial relicensing policy
- Policy on public sector (reducing number of industries for public sector)
- Abolition of Monopolistic and Trade Practice Act
- Policy on Foreign Investment and Technology sharing
- Abolition of phased manufacturing programmes for new projects
- Removal of mandatory Convertible Clause

RESULT AND DISCUSSION

Growth of Private Sector in India[10,11]:

The rate of growth of public sector companies was much faster than that of private sector companies, during the period from 1957 to 1990 in respect of number of companies [11].. **The growth of both the public sector and private corporate sector over the last three and a half decades is given in Table -1**. The New Economic Policy had started disinvestment in public sector enterprises and put a full stop for the growth of Public Sector Enterprises in India after Economic Reforms in 1991. Again, the non-government companies has increased their number from 29,283 to 5,41,051 during the same period.

Heads	March 1957	March 1971	March 2000
No. of Companies	29,357	30,461	5,42,308
(a)Government	74	314	1,257
(b)Non-Government	29,283	30,147	5,41,051

Paid-up Capital (Rs.Crore) All Companies	1,078 (100.0)	4,423 (100.0)	2,67,898 (100.0)
(a)Government Companies	73 (6.8)	2,074 (46.9)	25,842 (35.8)
(b)Non-Government Companies	1,005 (93.2)	2,349 (53.1)	1,72,056 (64.2)

Table - 1 : Growth of Public and Private Sectors in India

1. Source:www.yourarticlelibrary.com/india-2/private-sector/private-sector-in india/62913[(11)]

The Compound Growth rate:

The Compound growth rate is **calculated** by using the values of table -1 and represented in Table-2 shows the compound growth rate of public sector units in India.

cx	year	No of publlic sector companies	Compound growth
1	1957	74	-
2	1971	314	10.11
3	1991	1170	6.79
4	2000	1257	0.71

Table – 2 : shows growth rate of public sector companies in India

The table-2 shows that the growth of private sector companies between industrial policy 1957 and 1971 was **10.11 percentages (14 years)**. The compound growth rate between industrial policy 1971 and 1991 was **6.79 percentages (20 years)**. The growth of public sector after 1991 and till 2000 was **0.71 percentages (9 years)**. It shows that there was a gradual decline in the growth rate of public sector under taking enterprises in India due to new economic policy.

The Compound growth rate is calculated and represented in Table-3 for private sector. Table -3 shows the compound growth rate of private sector units in India.

S.No	Year	No.of Private Sector Companies	Compound Growth Rate
1	1957	29283	-
2	1971	30147	0.19
3	1991	241871	10.97
4	2000	541051	8.38

Table – 3 : shows growth rate of private sector companies in India

The table-3 shows that the growth of private sector companies between industrial policy 1957 and 1971 was **0.19 percentages (14 years)**. The compound growth rate between industrial policy of private sector companies between industrial policy 1971 to 1991 is **10.97 percentage (20 years)**. The growth rate of private sector after 1991 upto 2000 is **8.38 percentage (9 years)**. It shows that there was a increasing trend of growth rate of private sectors in India.

Industrial Development as on 2001 -02[10]:

The policy measures have facilitated to increase private sector participation in key infrastructure sectors such as, telecommunication, roads and ports. The number of private sector companies was 1, 10, 634 in compare to the total number companies of 1,28,549 in 2001-02. In other way 86.1% of the total companies were under the control of private sector in compare to only in 11.67 % companies under public sector. **The Growth of country's industrial development as on 2001-02 is given in the Table – 4**.

Sector	Enterprises Number

Public Sector	14,947 (11.6)
Joint Sector	2,048 (1.6)
Private Sector	1,10,634 (86.1)
Other	920 (0.7)
Total	1,28,549 (100.0)

Table -4 : Growth of industrial development as on 2001-02

Source:www.economicsdiscussion.net/essays/role...private sector...development...india/2116[(10)].

EMPLOYMENT IN PUBLIC AND PRIVATE SECTOR[10]

Private sector plays a dominant role for generating employment opportunities in India for the younger generation. A huge number of large scale, small scale, cottage scale units are under the control of private sector. It proves that small scale and cottage scale industries contribute four times more employment in compare to large scale industries [(10)].

There are two important categories of public sector of employment [(12,13)] :

a) Government administration and defense and other government services like health, education, research and various activities to promote economic development.

b) Public sector proper, i.e. economic enterprises owned by the centre, state and local government. **Table- 5 shows the growth of employment in the organized sector both in Public and Private sectors[12,13]**.

The total number of workers employed in the public sector in 1971 was 111 lakhs, but by March 2006, their number grow to about 182 lakhs. The total number of workers falling to 175 lakhs in 2011[7,8]. Since employment in the public sector in confined to the organized sector, public sector employs 60.5% of the workers employed in organized sector of the Indian economy[13].

YEAR	PUBLIC SECTOR(1)	PRIVATE SECTOR(2)	TOTAL (3)	1 as % of 3 (in lakhs) (4)
1971	111	67	178	62
1981	155	74	229	68
1991	190	77	267	71
2001	191	87	278	69
2005	180	84	264	68
2006	182	88	270	67.4
2007	180	93	273	65.9
2008	177	98	275	64.4
2009	178	103	282	63.1
2010	179	108	287	62.4
2011	175	115	290	60.3

Table – 5 : Public and Private Sector Employment in India (2012-13)[13]

Source: *Compiled from Economy Survey, (2012 - 2013)*

GROWTH OF PRIVATE SECTORS AND TOP 10 GIANT PRIVATE SECTORS[10]

In the post liberalization phase (after introduction of New Industrial Policy, 1991), the working of few private industries became huge. Various private telecom companies as Airtel, Reliance Communications, Tata Indicom etc have been the major investors in Telecom field. The subscriber base has increased as a result which is reflected in their figures: 1.Bharti Airtel - 3,280,658, 2. Reliance Communications 1,232,060 and 3.Tata Teleservices 1, 289, 17 subscriber.

During the year 2004, **the net sales of 10 top giant private sector industries in India during 2004 is shown in Table – 6.**

COMPANY	Net sales (Rs.crore)
1.Reliance Industries Ltd.,	70,196
2.Tata Motor	13,654
3.Tata Steel	11,129
4.Larsen and Turbo	10,849
5.Hindustan Lever	10,837
6.Maruti Udyog	9,426
7.Adani Export	8,921
8.Hindal Co	8,196
9.IPCL	8,070
10.Sterline Industries	8,799

Table -6 : Top Ten Private Sector Companies in 2004 (Net sales)[10].

COMPANIES REGISTRATION IN INDIA[19,20]

After the new economic policy, the increase in the private sector's share is largely due to Foreign Direct Investment (FDI) over the last decade. Due to the liberalization of the economic policies, India has been able to achieve higher investment from the private sector. In India as on 31st December, 2017 a total of 17,20,682 companies were registered out of which 11,43,772 companies were active (Comprising of 10,70,383 private companies and 73,389 public companies). About 72.5% companies were active covered under four broad heads, namely, "Business Service, Manufacturing, Trading and Construction[(20)]". **Table – 7 shows the economic sector – wise distribution of active companies as on 31st December, 2017, along with their authorized capitals.** In India as on 31st December, 2017 a total number of foreign companies registered[(20)] was 4,625 out of which 3,380 foreign companies were active. During 1st January, 2017 to 31st December, 2017 (one year) a total of 151 foreign companies were registered under the Company Act, 2013. During the same one year period a total of 107,487 companies were registered with collective authorized capital of Rs.26,220.17 crores.

S.No	Economic activity	Private		Public		Total	
		Number	Authorized Capital	Number	Authorized Capital	Number	Authorized Capital
I	**Agriculture and allied activities**	**29,941**	**22,134.14**	**3,036**	**33,668.19**	**32,977**	**55,802.33**
II	**Industry**	**3,33,381**	**9,48,277.20**	**27,619**	**22,50,264.93**	**3,61,000**	**31,98,542.13**
1.	Manufacturing	2,11,441	5,39,321.02	19,915	8,43,610.15	2,31,356	13,82,931.17
2.	Construction	98,960	2,14,125.48	5,078	2,50,840.06	1,04,038	4,64,965.53
3.	Electricity, gas & water companies	11,972	1,56,382.59	1,824	10,95,984.69	13,796	12,52,367.27
4.	Mining and quarrying	11,008	38,448.12	802	59,830.04	11,810	98,278.15
III	**Services**	**6,90,848**	**9,71,418.26**	**39,483**	**15,34,767.49**	**7,30,331**	**25,06,180.74**
1.	Business services	3,31,052	3,61,288.95	11,092	5,60,040.57	3,42,144	9,21,329.52

2.	Trading	1,44,527	2,05,214.27	6,770	1,11,818.89	1,51,297	3,17,033.16
3.	Real estate & Renting	70,728	88,835.59	3,713	38,237.38	74,441	1,27,072.97
4.	Community personal & social services	63,246	77,637.05	4,105	1,36,777.99	67,351	2,14,415.03
5.	Finance	47,861	1,70,946.84	12,051	3,43,145.09	59,912	5,14,091.93
6.	Transport, storage & communications	32,738	64,922.23	1,582	2,96,138.21	34,320	3,61,060.44
7.	Insurance	696	2,573.33	170	48,604.36	866	51,177.69
IV	**Others**	**16,213**	**41,865.06**	**3,251**	**1,37,759.79**	**19,464**	**1,79,624.86**
GRAND TOTAL (I+II+III+IV)		**10,70,383**	**19,83,694.66**	**73,389**	**39,56,455.40**	**11,43,772**	**59,40,150.06**

Table – 7 : Economic Activity-wise Active Companies as on 31st December, 2017

Source: Govt. of India, Ministry of Corporate Affair, Annual Report 2017-08.

CONCLUSION

Indian economy is called a mixed economy because it is neither completely socialist nor capitalist. In India private and public sector both operate in the market. Public sector started as the dominant form of providing goods and services to the Indian consumers sometimes even through rationing but now it competencies in many sectors with private entities. After India liberalization and globalization in 1991, the private sector was for long the fastest growing part of the economy, contributing significantly to GDP, economic growth, international trade and investment. The economic reforms encourage the private investment for the growth of private sectors and foreign companies results in growth of Indian economy, after adaptation of the policy of LPG i.e. Liberalisation, Privatisation and Globalisation in 1991. Because of these reforms many good thing are happened like increase in the India's GDP growth rate and economy. Also, the growth of private sector and foreign companies will boost the capitalist approach will lead market economy.

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