CHAPTER - V

THE POLITICS OF STRUCTURAL REFORMS

5.1. INTRODUCTION:

In the Directive Principles of the constitution of India it is laid down:
The state shall, in particular, direct its policy towards securing -

a) that citizens, men and women equally, have the right to an adequate means of livelihood;

b) that the ownership and control of the resources of the community are so distributed as best to sub-serve the common good;

c) that the operation of the economic system does not result in the concentration of wealth and means of production at the hands of a microscopic few in the society as the incidence just results in the common detriment. The Directive Principles are an expression of the will of the people for economic growth and consequently, the Government adopted planning as a means of fostering economic development. The Planning Commission set out the following as four major objectives of planning:-

   i) to increase production to the maximum possible extent so as to achieve higher level of national and per capita income;

   ii) to achieve full employment;

   iii) to reduce inequalities of income and wealth ;and

   iv) to set up a socialist society based on equality and justice and absence of exploitation.

B.S. Minhas states: "Securing rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of the values and attitudes of a

free and equal society have been the objectives of all the Five Years Plans of India".

The Indian planners assumed all along that if the country achieved rapid economic progress and increase in production, it would be possible to bring about a better distribution of income and a higher standard of living for all over a period of time. The Fourth Plan document stated: "To some extent income disparities can be reduced through fiscal measures aiming at reduction of income at the top level but for economists it is important to lay far greater stress on positive steps for ameliorating the conditions of poor people through planned economic development. In a rich country, greater equality could be achieved in part by transfer of income through fiscal pricing and other policies. No significant result can be achieved through such measures in a poor country, where whatever surpluses can be mobilized from the higher incomes of rich classes is needed for investment in the economy to lay the basis for larger consumption in the future".(D.R.Gadgil)

For, realizing the objectives mentioned in the Directive Principles of State Policy under Chapter-IV in the constitution of India, the country over the four decades after independence, followed a planned development strategy based on the extensive public ownership of commercial assets. A complex industrial licensing system; substantial protection against imports including some of the world's tariffs on imports of consumer goods; restrictions on exports; virtual prohibition of foreign investment; and extensive regulation of financial intermediaries. In the 1970s and early 1980s, these policies enabled the government to control the most basic business decision down to firm level. Thus, while India's Private Sector has always been important and produced at least two-thirds of GDP its activities were restricted and used for the goals of planned development process.[1]

This development strategy helped the country to escape from the massive illiteracy, recurrent famines, fertility rates of about 7 children per woman, and

secure stagnation prevailing before independence. However, it was also the sources of several financial imbalances which needed to be corrected. It isolated the country from the rest of the world with the result that from 2 percent in the 1950s, India's share of World Trade declined to less than half of one percent in the late 1980's. It forced Indian consumers to pay higher prices for goods of lower quality and deprived the country from the benefits of foreign direct investment and modern technology. It discouraged production for exports, created recurrent shortages of foreign exchange, and made the balance of payments extremely vulnerable to external circumstances. Most important of all it held back the country's growth and thus the pace at which poverty could be reduced. As argued by India's eminent economists, among them Bhagwati (1993), low productivity rather than inadequate savings explains the weak growth performance of past decades.

Throughout most of this period macroeconomic policies were conservative and except for a few episodes associated with unfavorable harvests or external shocks, inflation continued to single digits. External current account deficits were modest and financed primarily by concessional aid flows. During the 1980's however, and driven by unprecedented surge in public investment, fiscal policies became more expansionary. The overall public sector deficit widened from about 9 percent of GDP at the beginning of 1980's to 12 percent of GDP by the end of the decade. Expansionary aggregate demand policies combined with some improvement in productivity in response to the gradual liberalization, produced annual growth of almost 6 percent. This was unsustainable, however. By 1990-91, inflation increased to 10.3 percent, and the external current account deficit reached 3 percent of GDP (US$10 billion) with increasing reliance on short-term capital inflows to finance it.[2]

The fragility of the economic situation was exposed when India was faced with the consequence of the Middle East crisis and a period of frequent changes in government which created political uncertainty and delayed the correction of

the serious internal and external imbalances. As India's credit standing in international capital markets fell sharply, access to external capital borrowing dried up and substantial amounts of private capital left the country. The result was that India had to face one of its most serious foreign exchange crisis. In June 1991, in spite of severe squeeze on imports and emergency financing from the IMF and the World Bank and other bilaterals, particularly Japan, with reserves at less than US $1billion, the country was on the verge of defaulting on its external debt obligations.

The new government that came to power in June -1991 responded to the crisis by stabilization and reform measures intended not only to correct the unsustainable macroeconomic policies of the 1980s, but also to address long - standing constraints to higher economic growth. Over the last ten years ,changes of the investment exchange rate and trade regimes, the financial sector, and the tax system have ended four decades of development policies based on planning and have initiated a quiet economic revolution .With these reforms, India came closer to the growing group of countries, which in the 1970s and 1980s , have gradually but persistently liberalized their economic policies, increased their integration with the global economy, and reduced the role of government.[3]

India did not have the inflation, external debt, and social inequities as severe as in Latin America and was thus able to stabilize the economy more rapidly and at a lower social cost. Unlike former centrally planned economies in Eastern Europe and elsewhere in Asia, India already had a growing private sector and all the institutions of a free market economy. India was thus able to avoid the costly industrial and financial closures and restructurings, so frequent and so painful in most of the former socialist economies of Europe and Central Asia, and which have considerably delayed the supply response to reforms. On the other hand, because India's macroeconomic crisis was less traumatic than in Latin America it has been much harder to reach political consensus on the need to reduce fiscal imbalances to the levels achieved for instance by Latin American,

East Asian and Western European countries. The fiscal imbalances remained the single most important threat to India's long term growth. Similarly, notwithstanding five rounds of trade reforms, India's trade protection remain among the worlds highest. Like wise and in spite of five years of liberalization (1992-1996) excessive regulation remained a problem in the financial sector, agriculture and agro - industry particularly. In addition, in the financial sector the public sectors continues to be the major shareholders of India's largest banks, insurance companies, and contractual savings institutions raising questions on how truly autonomous these institutions can be .Finally, the development of India's human resources has been slow in comparison with countries in East Asia and East Europe. [4]

In the 1990's there appears to be a growing disjuncture between India's economic and political performances. The economic news since 1992 has been very positive. Yearly economic growth has been 5-8 percent, inflation declined dramatically, and India's modern, private sector (electronics, software, and heavy industrial machinery) is doing very well in international competition. Crop yields have also risen, and, in the process, India has become a major gains exporter. However, the political scene has been far more turbulent and increasingly troubling. Regional and ethnic political parties have proliferated, intimidation and violence are widespread and corruption is pervasive in local state, and national governments.

In May 1996, parliamentary elections, for the first time since independence, a communal party the Hindu nationalist Bharatiya Janata party (BJP), won a plurality. Although the BJP was not successful in forming a lasting majority in parliament, the electoral results sent a tremor through the Indian body politic. Eventually, a compromise was reached to create a complex coalition of thirteen parties, viz. the United Front, headed by H.D.Deve Gowda of Karnataka. Not only was Deve Gowda the first southerner to be prime minister, but he was the first member of a minor regional party to lead the nation. Within

seven months Gowda lost a vote of confidence in the Lok Sabha. The coalition survived, but in tenuous shape, with Inder Kumar Gujral as the new Prime Minister.

If somebody steps back from this barrage of new developments and try to assess the factors shaping economic policy choice in India, one can see both consistent patterns and interesting anomalies. For almost five decades the dominant mode of economic policy in India has been to rely on the central government for macroeconomic direction (monetary, fiscal and exchange rate policy) and for the administration of a vast set of control, subsidies, tariffs, and quotas. Many of these controls were started during World War-II (1938 -1945) under British rule.

The controls were continued and expanded, however, by a sequence of Congress Party regime that justified intervention on the grounds that "government should control the commanding heights of the economy." By the mid- 1960s, the controls were so pervasive and the protection of Indian industry so stifling that a vigorous intellectual debate ensued about the appropriate way to redirect. Indian economic and realistic exchange rates and limiting the role of terminating government control, subsidies, and asserted regulations.

During most of the period between independence and the late 1980s the Indian government followed a relatively conservative monetary policy, stressing low inflation and limited external borrowing. Thus, in the first two liberalization episodes [(Liberal school of thoughts argue that since 1966 to till date the country had span through three liberal episodes), 1966-68 and 1985-87] the principal macro economic adjustment was in exchange rate policy, and the extent of reform was far more limited than in 1991-1994.

After 1987, however, all four consecutive governments followed a more simulative macroeconomic policy and were less cautious about foreign borrowing. Thus, the scale and complexity of liberalization from 1991 to 1994 were greater than in the first two episodes. Nevertheless, on balance," in all the

three episodes the real focus of liberalization was to reduce controls, not worry about macroeconomic stability". [5]

The basic argument of this chapter draws on six propositions :

First, the principal motivation in each of the liberalization episodes is not a mystery. The government sought to accelerate the Indian rate of economic growth, implicitly acknowledging that its macroeconomic management was inhibiting performance.

Second, the intricate web of controls created an interlocking set of powerful groups (businessmen, civil servants and politicians) that each stood to lose if controls were substantially reduced or eliminated.

Third, even after thirty years of debate and three attempts at liberalization, the effective rate of protection in India remains very high at 55 percent.

Fourth, the persistence of extreme poverty, widespread illiteracy, distrust of business and a high level of politicization of economic policy in India has made it possible for advocates of controls to present their actions as designed to improve the income distribution.

Fifth, each of the three liberalization episodes was launched by a different combination of factors but ultimately brought to a halt by the same opposing forces.

Finally, economic liberalization and reforms will stall in India without exceptional circumstances although the 1985-87 and 1991-94 episode have each left India less controlled than before, the apparatus of government management is still in place and there is no self-perpetuating momentum toward a more open economy. India's regional diversity and hierarchical society have led to a maze of political and social impediments to change. [6]

5.2. INDIAN POLITICAL ECONOMY: THEORETICAL APPROACHES:

The prevailing literature on the political economy of India has been summarized with great skill and excellence by E. Sridharan. In the study it came out that in the past two decades on the part of the policy makers of the country there has been concentration on the theories of the three distinct schools: liberal - pluralist, Marxist and rational choice. Sridharn's typology of these three schools will be drawn here and it presents a distinctive interpretation that emphasizes the significance of cycles in liberalization and retrenchment. The planning and controls apparatus will be weakened or even discarded when a country moves definitely toward a more open and liberal economy. Notable in this context in the case of India where despite a gradual weakening of their influence the group talking in favour of central control have a history of survival over a period of the thirty years.

Therefore, in the attempt to explain behaviour it is necessary to take into consideration the question of historical legacy. As a result of this fact there is fear for the groups favouring openness in the economic policies when the pendulum swings back towards control. Satisfying behavour is being generated by this fear (that is, cautious, incremental moves when the operating environment is uncertain) that stands in the way of the structural transformation of the economy. The process of further liberalization gets complicated as there is a combination of this history of repeated incomplete liberalizations and the deep distrust over the business community on the part of the common people in the society. In addition to this there is cross pressures of the Bharatiya Janata Party as it argues that India's sovereignty and the viability of the local firms will be hampered to a great extent at the attempt of the invitation of the foreign direct investment into the economy of the country in the name of liberalization. [7]

The elaborate rigidity of the social structure and the manner in which the vested and instant interest seekers politicians reflect this reality are also noted by the pluralist school .Depending upon the orientation of the state governments

and state legislative assemblies the reforms of the economic process can be speeded up or delayed with the help of the provisions laid down in the constitution of India and that is significant too in this context. [8]

Attention to the political power of the influential interest groups (landlords, businessmen, professionals and civil servants) has been drawn by the Marxist. The state apparatus itself can be semi-autonomous and pursue its own interest in the opinion of the Marxists labeled as 'structural'. A few scholars in this context argue that the liberalization episode of 1985-87 was in fact due to the mobility of the central government to raise adequate revenue. For the maintenance of expenditures for the civil service (necessary for central control) the attempt of liberalization was initiated during that phase. Subsidies provided to the state enterprises (unpopular but not a direct challenge to the power of the state) were reduced to great degree for such maintenance of civil service. An even more skeptical view of the state's actions was advocated by the rational choice. This choice takes India's intricate controls system as merely the latest scheme in a long string of exploitative moves against the private enterprises by the government. Most analysts using a rational choice perspective put forward the argument that any particular industry, region or firm will very soon lead to unproductive, rent seeking behaviour if specific benefits are conferred on them although the government argues that the original objectives for them is dependence upon merit.

Using elements of these three theoretical perspectives but in a distinct approach the three liberalization episodes can be discussed and analyzed. In the attempt of explaining stasis and equilibrium in the political system of India the pluralist literature is fit to be good. No doubt it can be argued that by stressing India's particularistic features (caste and plethora of regional and language differences) policy makers of the country have settled into their own comprises and that large scale, intrusive government keeps antagonistic factions in check. Under this circumstance as a specific role to the magnitude of India's problem

the labyrinthine role of government is of importance. But the question of the discontent with the system and the periodic attempts to replace with a more open policy remains unattempted by the pluralists.

At the time of looking at India's persistently high rate of illiteracy and the vast divide in income and wealth the Marxist school is very conservative in giving their expressions. But the rise of the middle class (the sixth largest in the World) has not been taken into consideration by them. This school also does not show their confidence much to the affairs of economic management. With this the collapse of the Soviet Union in 1991 and their retreat from the countries of the East Europe the parties on the far left and their intellectual supporters found it harder to appeal to the world of politics. The reason lies in the fact that they have experienced an abject failure with their benefactor and model.

Persuasive behaviour has been there with the rational choice school at the time of explaining the reasons of the persistence of the controls (that is, self-interest of those who design, administer, or benefit from them). The reasons of not forming the coalition that creates sustained momentum for liberalization by the general public and those who have suffered under the system (exporters, small businessmen, and the more innovative competitive firms) has not been dealt adequately by this school of thought. This research finds that businessmen are concerned only about the expected swings back to central direction that they are willing to make only modest commitments (in terms of investment and the re-orientation of the production) towards new markets.

So from this discussion it is clear that on the ongoing debate about the most appropriate role for the state in facilitating economic development all these episodes should also shade light well. Developing 'a strong developmental state' was urged for by many economists and political scientists in the 1960s. Many analysts urged a limited and curtailed role for the state as the evidence grew about the inefficiency and corruption that a highly centrally authority could engender in many ways. Therefore, a sort of balance between markets and state

control is being emphasized by a growing literature. For all these theories the case of India is a key test. [9]

5.3. STRUCTURAL REFORMS OF THE INDIAN ECONOMY:

5.3.1 PROCESS OF STRUCTURAL REFORMS IN INDIA:

With the inception of New Economic Policy (NEP) in 1991 at the end of four decades of centralized planning and a highly regulated economy with an import substitution model of development the country took a concrete step towards a market economy system. Sweeping policy changes were launched by the government with devaluation of the Indian rupee in July 1991 followed by reforms in trade industrial and fiscal policies. A two-prolonged strategy was adopted by the government of India to bring down deficit to three to four percent of GDP following a strong fiscal adjustment and there must be structural reforms in trade, industry, public sector, financial sector and capital market. [10]

A curtailed and reduced role of the government in terms of intervention in the economic sector is sought by this process of liberalization in its basic conceptual formulation. This in fact in the process of development leaves a narrow and reduced role for the bureaucracy. The very validity of the traditional and conventional approach to Indian administrative theory that sought to enhance and expand the capacity of Indian public administration has been questioned by it at one level. The basis of the Indian socio political formulation of a welfare state that had used the socialist approach to understand the relationship between the individual and the state has been confronted and challenged by it at another level.

Alternative approaches to the problems of development would be projected in this era of global change by the efforts being made towards reforming the economy of India in either case. [11]

5.3.1.1. EXPERIENCE OF PAST:

After the attainment of independence, breaking the shackles of the British the country had to go for the adoption of the strategy of the development as the history drove it to do so. Heritage of independence of the country experienced an intense distrust of foreigners, trade and capitalism for about 200 years. The attitudes of many of its educated middle class were shaped by the colonial past of the country. The same is true in case of all types of societies where imperial rulers had colonial invasion. In the classical stages of development since independence India had inward looking strategy to be followed for experiencing the output of development in greater degrees. The future of the economy of India has been planned by the inherited well developed and ever prolifering bureaucracy. Indian economy got separated and isolated from the economy of the World at the application of this approach. The reason lies in the fact that leading to dependence and exploitation is inevitable if interaction of the economy of India is allowed with the economy of the world.

'Development' has been very much predominantly economic when the traditional interpretation is sought for. In this context, as an indicator of modernization and development, industrial growth is taken into consideration. Until the second Five Year Plan, for 1956-1961, command capitalism of India as it later came to be called, was not proposed. Fabian Socialism was blended by P.C. Mahalanobis, the principal author of the plan with the values that had been propounded by the 'father of the nation' Mahatma Gandhi with his contempt for consumer goods and hatred towards luxuries. It was expected that Nehru-Mahalanobis model or blueprint would help India a lot in transforming the economy from agriculture into industry. Under a system of licenses and direct controls, there existed a mixed economy with a massive public sector and a private sector as well. Protected markets worked as a shield to get rid of competition for the private sector. To control costs or innovate the situation of shielded protection left free of any pressure from any corners.

5.3.1.2. ECONOMIC IMPERATIVES OF INTERNATIONAL CHARACTER:

The need to deliver sustained growth coupled with distributive justice was assumed from the beginning of the launching of planning in 1951. But when the question of the consideration of compelling international economic imperatives that severely restricted the former discretion of the leadership to pursue a uniquely Indian development course, it was observed that the country is left with little choice.

Under four headings these forces and their implications standing in the ways of pursuing independent policies for the country may best be explained. These are:

1) the technological imperative;
2) the institutional imperative;
3) the size imperative and finally;
4) the communications imperative;

The government policies of the country are shaped to a great extent by the pressures of these global complications since they present the nation with advantages so evident or costs so high that the direction of change is set. Fearing the colonial type dependence that the country had suffered from for nearly 200 years, India was reluctant to approach foreign companies for new technologies. Presence of MNCs in India was doubted and disliked by the millions in the country. By 1990, gaps of technology were visible in the areas such as pharmaceuticals, computers, industrial material and telecommunication during 1950s and 1980s the country absorbed and developed the technology to create a large industrial economy. To catch up in all fields of science and technology, neither the government nor the private sector had the funds required. Advantages can be reaped by India through participation in the

World Trade Organization (W.T.O.) when the concept of institutional imperative is related. To expand her participation in the global trade and investment flows, the country must expand its private business organization as the size imperative would require. Developing telecommunication services such as multiple television channels, telephones and computer networks are targeted by the communication imperative. It is true that cheaper and better means of communication help a lot in the process of the facilitation of business transactions. Domestic and private firms could enter the market as it was been recognized that government enterprises failed to provide the country minimal telecommunication services.

5.3.1.3. RESPONSE TO LIBERALIZATION PROCESS:

The liberalization episode in the country first came into limelight in the periods between 1966 & 1968. Due to an exceptional combination of circumstances Mrs. Indira Gandhi took decision on June 6, 1966 to devalue the rupee by 36.5% and initiated a broad reaching program to decontrol trade and the industrial sector. There was cut off of foreign aid due to 1965 Indo-Pakistan war, a severe drought in the year resulted in a drastic reduction in exports, a balance of payment crisis was looming. All these developments laid the foundation for a massive shift in the policy making. To take the risk Mrs. Gandhi felt pressures from the severe key ministers in her ministry.

Exports got reduced sharply as there was draught in 1965 and on the other side there was curtailed subsized imports because of the cut off in foreign aid. There were only three main options left with the Prime Minister to turn to the left, possibly forfeiting on debt obligations and hoping for increased aid from the Soviet Union (Erstwhile) and Eastern European countries; to tighten import controls and further sell off reserve assets like gold and foreign exchange to pay for imported food and to more in a market-oriented direction and liberalize to provide incentives for exporting and to rationalize decisions on importing.

But the liberalization experiment could not be put to a successful end as the political resistance overpowered the experiments. The share of the vote of congress party declined to 41% in February, 1967 general election and its parliamentary plurality plummeted to minuscule fifteen seats. Change of political strategy by Mrs. Indira Gandhi put the reform process to a halt. By this time Mrs. Gandhi moved farther to the left. Highly publicized efforts in various ways were initiated by the Prime Minister to improve ties with the Soviet Union after she had got rid of Ashok Mehta and Subramaniam in short order. All the donors needless to say, became very disappointed and aid levels began to trend down. Gandhi by 1969 had completely reverse course. She went to opt for a state-centric controls-dominated policy as she nationalized the banks and thereby her populist stance came in the lime light soon. Efficiency in the banking system came down drastically after the nationalization of the bank and as a whole innovation in the financial sector was slowed down. The first episode of liberalization failed in this convoluted fashion.

Again during the Janata Dal regime (1977-80) economic liberalization process was initiated. During the successive governments of Indira Gandhi, Rajiv Gandhi and V.P. Singh the process gathered momentum. Swift movement towards the policy of liberalization, however, was made by P.V. Narashimha Rao. He announced a programme of macro economic stabilization and structural adjustment. Because of the history of the country and the unique politico-economic and socio-cultural conditions prevailing in the country initiative of India towards the liberalization process has been largely belated halting and cautious. At the same time several countries both in the West and in the East have embraced the process of liberalization, privatization and globalization in all respects. Because of heterogeneity prevailing in the society the response of India towards the process of liberalization has been lukewarm. On one hand in the country there are pockets of prosperity, modernity and progressivism and on the other hand there are pockets of backwardness, deprivation and poverty. As a

product of this debate on this change and the context, direction and speed of reform there are a lot who express their concerns about India not going the Mexico way. The school which is showing their concerns put forward the argument that the country should not rely excessively short term private capital flows because there is a fear with this sort of capital in flows that can flow out as easily as it flowed in. Another fear is of the impact of reform which it is going to have on the poor, down trodden and underprivileged in the society. 'Reforms with a human touch' or 'development with human face' is now catching up in India as the new, popular technology. To be cautious about the adverse impact of the change that the reform process will bring about and to reduce the negative effects of the liberalization process these types of arguments appeared before us. By the vision of the economy as a 'human system' all these attempts are to be guided. There should be no doubt among the policy makers of the country that any economic theory applies to 'time' and 'space' and must become a component of the social, economic, cultural and even spiritual continuum of the nation only when the economy is seen in the perspective of a 'human system'. [12]

5.3.1.4. OPERATIVE TECHNIQUES OF ECONOMIC LIBERALIZATION:

Pro-liberalization scholars opine that for the realization of the goals and benefits of the liberalization process subtle techniques are to be operated very smoothly. Under the new economic reforms package the following economic strategies have been aimed:

1. Through fiscal adjustments and economic review greater mobilization of resources;
2. Through better investments and lesser current spending government deficit has to be reduced to the least extent;
3. Through reducing price controls, subsidies etc. greater reliance on market mechanism;
4. In trading, financial and banking sector initiation of the process of reforms;

5. Increasing efficiency of public sector and cutting its flabbiness through privatization and disinvestment;
6. Mitigating trade barriers and protective measures to enable a free flow of capital, technology and services and a more dynamic relationship between domestic and foreign industries in terms of technology and investment;
7. Delicensing of industries;
8. Relaxing the MRTP provisions;
9. Development of an exit policy for sick industries;
10. Rational exchange rate adjustment through devaluation and other methods; and
11. Controlling inflation through the growth of money supply. [13]

5.4. FIRST GENERATION REFORMS:

The program of structural reforms in India has been carefully prepared since June, 1991; the government has appointed several committees of experts to formulate reform proposals in the different reform areas, the investment regime, trade policies, the financial sector, taxation and public enterprises. These committees' work was amply discussed with academic, industrialists and unions, which helped build consensus (except for public enterprises where the political resistance has been considered) around the economic reform program thus reducing the possibility of future reversals which have plagued and some times detained adjustment programme elsewhere in the world. It also enabled the government to assess the extent of political resistance to sensitive reforms (e.g. consumer goods imports and privatization) and thus leave them out of the initial phases to avoid derailing the whole process. This said and while the government has been successful in changing India's economy, major challenges remain, particularly regarding the reform of the financial, agricultural and infrastructure sectors and public enterprises. In addition, India needs to correct

the effects of decades of chronic under spending in health and education and articulate a strategy to address serious urban policies. [14]

The main objectives of the structural reforms initiated in the middle of 1991 were to improve the conditions in the supply and investment (both port folio and direct investment) sides of the country at a great speed. The notable areas of structural reforms are:

Industrial Deregulation, Trade Liberalization, Foreign Investment & Foreign Technology, Reforms in the Public Sector, Financial Deregulation and Liberalization and Reforms in the Agricultural Sectors. Scholars labeled these reforms measures as the first generation of economic reforms.[15]

5.4.1. **Industrial Deregulation:** Reforms in the industrial policy through the Industrial policy (1991) enabled the entry of new firms and the extension of the established firms at large. Private investment can be made without seeking the permission of the government and state intervention will not stand in the way of the investment in any way. The regulatory framework which acted as a barrier to entry and growth by the entrepreneur was sought to be basically changed by the Industrial policy announced on July, 24, 1991. the measures introduced in this area along with other economic reforms were as under :

I) Industrial licensing was abolished for all projects except for a list of 15 industries related to security strategic or environmental concerns (e.g. Defence aircraft and warships etc.) and certain items of luxury consumption that had a high proportion of imported inputs. The exemption from licensing also applied to the expansion of existing units.

II) The Monopolies and Restrictive Trade Practices (MRTP) Act was applied in a manner which eliminated the need to seek prior government approval for expansion of present undertakings and establishment of new undertakings by large

companies. This change also applied to the expansion of existing units.

III) The system of phased manufacturing programmes, which required the progressive reduction of the import content of certain projects over time, was discontinued.

IV)The set of activities henceforth reserved for the public sector was now much narrower than before, and there would be no ban on the remaining reserved areas being opened up to the private sector. [16]

5.4.2. **Trade Liberalization:** As part of the strategy of the structural reforms it was the strategy on the part of the Government of India to promote the integration of our economy it was necessary to phase out the excessive and often indiscriminate protection provided to industry which weakened the incentive to develop a vibrant export sector. An important element of the strategy was the transition from a regime of quantitative restriction to price based system. The medium term objective was to progressively eliminate licenses and quantitative restrictions, especially for capital goods and raw materials so that these items could increasingly be placed on open general license. This shift was proposed to be achieved over a period of three to five years.

Over the years, a number of import and export items had to be exclusively channeled (Canalized) through specific public sector agencies. It was decided to reduce sharply the scope of the public sector monopoly including most export items and a significant number of import items.

5.4.3. **Foreign Investment and Foreign Technology Policy:** The Industrial policy of 1991 also provided in creased opportunities for foreign investment with a view to taking advantage of technology transfer,

marketing expertise and introduction of modern managerial techniques. It was also intended to promote a much needed shift in the composition of external private capital inflows towards equity and away from debt creating flows. The following measures were announced in this regard:

i) Automatic approval would be given for direct foreign investment up to 51 percent foreign equity ownership in a wide range of industries. Earlier all foreign investment was generally limited to 40 percent.

ii) To provide access to international markets majority foreign equity holdings up to 51% equity would be allowed for trading companies primarily engaged in export activities.

iii) Automatic Permission would be given for foreign technology agreements for royalty payments up to 5% of domestic sales or 8% of export sales or for lump sum payments of Rs.10 million. Automatic approval for all other royalty payments will also be given if the projects can generate internally the foreign exchange required. [17]

5.4.4. Reforms in the Public Sector: The Government was of the view that public sector had not generated internal surpluses on a large scale. Because of its inadequate exposure to competition, the public sector was subject to a high cost structure. To provide a solution to the problems of the public sector, Government decided to adopt a new approach, the key elements of which were:

i) the existing port folio of public investment would be reviewed with a greater sense of realism to avoid areas where social considerations were not paramount or where the public sector would be more efficient;

ii) enterprises in areas where continued public sector investment was judged appropriate would be provided a much greater degree of managerial autonomy;

iii) budgetary support to public enterprises would be progressively reduced;

iv) to provide further market discipline for public enterprises, competition from the private sector would be encouraged and part of the equity in selected enterprises would be disinvested; and

v) Chronically sick public enterprises would not be allowed to incur heavy losses.

As a follow up of this Policy, Several Measures were Taken:

1) The number of industries reserved for the public sector was reduced from 17 to 8. Even in these areas private sector participation would be allowed selectively. Joint ventures with foreign companies become possible.

2) Public sector enterprises that were chronically sick and unlikely to be turned around would be referred to the Board for Industrial and Financial Re-construction (BIFR) for rehabilitation and restructuring.

3) The existing system of monitoring public sector enterprises through Memorandum of Understanding (MOU) was strengthened with primary emphasis on profitability and rate of return.

4) Up to 20% of government equity in selected private enterprises was disinvested with mutual funds.

For exit policies an effort was made to protect the workers from the adverse impact of the adjustment process to the maximum possible extent. Schemes of voluntary retirement were initiated to reduce the quantum of surplus workers. A National Renewal Fund was created to provide

assistance for training and redeployment of workers, besides providing voluntary retirement compensation.

5.4.5. **Financial Deregulation and Liberalization:** The major objectives of the reforms in the financial sectors are to increase the profitability of the state owned banks and to improve the quality of services in the areas of capital markets. It is assumed in this regard that the independent workings of the markets will help in improving the quality and discipline of the state owned enterprises. The SLRs and the CRRs of the commercial banks are to be reduced so that the deposits of the state owned banks can be invested in the private sectors in stead of keeping it mortgaged with the Government. Deregulatory process will eliminate the complicated costing interest rates marked with differences. Side by side steps have been initiated so that the interests payable upon the long term debentures can be converted and increased with the interest rates current in the market. In addition to these, steps new directions have been made for the commercial banks in their asset classification capital adequacy income recognition etc. Steps have been encouraged so that all these prudential norms can be put at par with international level over a definite period of time. [18]

5.4.6. **Reforms in the Agricultural Sectors:** Many steps for reforming the agricultural sectors in India have been initiated as a part of strategic structural adjustment program since 1991. It has been argued that the agricultural base in India has to be created at the functioning's of market mechanism so that it can compete at the global level and enter into the ongoing process of globalisation smoothly. Agricultural productions are to be based on trading purpose and above all it must

be market oriented. This requires an over whelming increase in agricultural production. But increase in production will not do the purpose fulfilled. Final aim is to make all these productions profitable. Following programmes have been undertaken for realizing the object.

5.4.6.1 **Reforms in the Internal Market**: Restrictions upon the mobilization of the agricultural products within the country have been withdrawn. The control mechanism exercised upon the fertilizers like DAP, MOP etc. But the subsidy at the rate of Rs1000 per ton has been kept running. All sorts of agricultural products s will cover the 'future' and the 'forward trading' system. Small scale industries engaged in producing machineries used for agricultural production will not get any protection from the government further. Rationing systems will be kept reserved only for the people living below poverty line. Programme for building storehouses to store agricultural products across the country have been initiated.[19]

5.4.6.2. **Reforms in Trade**: Imports and exports of agricultural products through the governmental agencies have been stopped. Private agencies can import all sorts of agricultural products except cereals, oilseeds, edible oils and onion. In addition to these, quantitative restrictions upon the import- export of agricultural products have been relaxed. Government has taken steps for the preservation of the agricultural goods with a view to exchanging it with the rest of the world. Reforms have been made with the 'Forward Market Commission' and agricultural products have been made free with a view to having future exchange.

5.4.6.3. **Reforms in Administered Prices**: Administered prices of 22 items which is 90 of the total production and cultivated lands have been fixed. But differences in the level of prices are there. Auxiliary

prices of many agricultural items have been increased since 1990-91.

5.4.6.4. **Reforms in Technology**: New technology applied in the agricultural sectors has accelerated the reform process in India. At the root of the infusion of these new technologies in the agricultural fields is the initiative of the private enterprises. Encouragements have been made for the application of bio-technology in the agricultural sectors of the country. [20]

Among the first generation of economic reforms as a part of the structural, adjustment programme a few more are to be discussed in addition to those mentioned above. These are as follows:

5.4.7. FISCAL POLICY REFORM :

The medium term objective of the country was to reduce progressively over all public sector deficits from an estimated 12.5 percent of GDP about to 7 percent of GDP in the mid 1990s. In line with this objective the Union Government deficit would be brought down from 9 percent of GDP in 1990-91 to 6.5 percent in 1991-92 and 5 percent in 1992-93.

For achieving this target, the Government intended strictly to control public expenditures and aimed at higher tax and non tax revenues. The Government intended to impose fiscal discipline both on the central government and the state governments. Reduction of subsidies initiated in budget would be furthered by a movement to a more objective system of administered prices taking into account market developments and domestic supply conditions. The Government would make a determined effort for developing a more efficient expenditure system.

Besides, the central Government would encourage the state Governments to streamline the working of their enterprises more especially State Electricity Boards and Road Transport corporations. The budgetary support to central

public enterprises would also be withdrawn and they would be strengthened to improve efficiency and profitability. [21]

5.4.8. MONETARY POLICY REFORM :

A restrictive monetary policy would be pursued to reduce inflationary pressures and support the targeted balance of payments improvement. For 1991-92, broad money (M_3) growth of 13 percent was targeted, consistent with output and inflation targets. Taking account of the impact of new incremental cash reserve requirement, reserve money was targeted to rise by 5.5 percent. A further slowdown in the growth of broad and reserve will be sought.

5.4.9. PRICE POLICY REFORM :

With a view to reducing budgetary subsidies and promoting a more flexible price structure the government announced increases in a number of administered prices including important inputs (like petroleum products and fertilizer) for savings (such as railway fares, bus transport) and for agricultural commodities (such as sugar). Beyond this, the pricing policies would aim at imparting greater flexibility in all areas and public enterprises would be given greater freedom in setting prices according to market forces.

5.4.10. EXTERNAL POLICY REFORM :

The government's stabilization and import compression measures were expected to reduce the external account deficit to 2.1 percent of GDP in 1991-92. The deficit was to be kept around of 2% of GDP during 1992-93 nearly the same level as for 1991-92.

5.4.11. SOCIAL POLICY REFORM :

The Government was of the view that whereas the process of macro-economic adjustment was bound to be painful, it was committed to adjustment

with a human face, and therefore, a steadfast adherence to the objective of poverty alleviation was an integral part of the conception of adjustment provided for higher outlays on elementary education, rural drinking water supply, assistance to small and marginal farmers, programmes for women and children, programs for the welfare of scheduled castes and scheduled tribes and other weaker sections of the society as well as increased spending on infrastructure and employment creation projects in the rural areas. [22]

5.5. SECOND GENERATION REFORMS:

Sebastian Edwards was the first among the scholars to coin the term 'Second Generation Reforms' in 1996. A few more reform measures were necessitated in the beginning of the new millennium. In brief these measures are termed as 'Operation 2G'. The important areas of second generation of reforms are establishment of justice, area and field wise distribution system, developed administration, institutional changes etc. Some harsh decisions relating to the principle of competition, labour policy, disinvestment, privatization etc. are also to be taken into consideration in this context.

There fundamental objectives of the second generation reforms are:

i) annual growth of GDP at the rate of 6% to 6.5% ;

ii) more emphasis upon the development of human resources; increase at the rate of literacy, reduction at the rate of infant death;

iii) reduction of the differences between the highest SDP oriented states and the lowest SDP oriented states. Emphasis has been given upon the reduction of despair among states in the process of the development of the infrastructure.

The main areas of 'second generation of reforms' can best be presented in the following manner:

5.5.1. FISCAL REFORMS :

At the base of the reform process is the recovery of the fiscal conditions of the country.

i) Through the introduction of the fiscal liability act the amount of the deficit of the budget and the revenue is to be limited to a point. Attempts are to be initiated for the protection of the economy from the trap of the debt.

ii) The amount of investment and the services provided in the fields of electricity, water and communication are to be increased through the accumulation of additional resources by increasing the prices of those services both at the central and state levels. This will increase private investment in these fields and the competitive spirit will help the recipients in getting the access to these services at much lower prices.

iii) The volume of the governmental administration has to be downsized and there must be both qualitative and quantitative changes in the role of the government through the introduction of the developed administration.

Comparatively less important governmental sectors including banks etc are to be opened up for private investment at length. All the public sectors except atomic energy, space and defence are to be privatized. After restructuring the governmental infrastructure in the said pattern attempts are to be made for the greater involvement of the state in the better management of education, health and environment etc. State administration is to be put in better ways in the process of maintaining fair and smooth administration. [23]

5.5.2. REFORMS IN THE GOVERNMENT FUNCTIONING:

Procrastination and the failures of the governmental machineries stand in the ways of the economic reform current at present in the country. This requires reforms in the functioning of the state administration.

i) Corrupt and dishonest people are to be barred from representing the Legislative Assemblies and the Parliament for the upliftment of the prestige of legal system.

ii) All the ministers including the Prime Minister itself must not hold their offices for more than two years at a stretch.

iii) Half of the members of the cabinet are to be appointed from out side of the Parliament through the necessary constitutional amendments.

iv) Appointments at the secretary level are to be made contractual so that the appointments can be dependent upon the performance of the execution of the given tasks.

v) The Judiciary of the country must be dynamic in nature. Reform in the fiscal sectors will decrease the rate of interest for short medium term loans. At present this rate of interest runs between 6% and 8%. All the countries that have a record of having stable development even they did not have this rate of interest rate current in their countries. If the real interest rate can be made fewer than 3% to 5% then this will mark the development and the growth of the economy of the country.

5.5.3. COMPETITION IN THE MARKET OF THE GOODS:

At the grass root level of the present reform process, is the creation of healthy competition in the markets of goods and services. That is why smooth inflow of private investment and free trade has to be ensured with utmost importance removing the barrier of paying high customs. It is desired that the duty rate of the country must be at par with other Asian countries. But the major handicap in removing the barrier of customs is the existence of the restriction on the imports of certain items. Restrictions upon the import of agricultural and consumable items are to be withdrawn. Discriminatory protection policy for the small scale industries is also to be revoked. Efforts are to be made on the large scale export of ready made garments, leather toys etc after applying labour

intensive production measures. If the competitive environment and spirit are maintained in the market of goods then the country can gain profit both stably and dynamically. [24]

5.5.4. REFORMS IN THE MARKET OF INPUTS:

Scholars opine that the first generation of reforms was restricted to the market of production only. Here the emphasis has been given upon removal of the barriers relating to import- export and industrial licensing. Reform measures in the inputs of production like land, labour capital; natural resources etc. have not been initiated. Flexibility in these fields is of importance for the proper execution of the reform measures labeled as 'first generation of reform'. In addition to this reform is to be initiated in the concept of bankruptcy. Regulatory act relating to the sectors of the companies is also to be reformed. Protection of the rights and the security of the poor and the weaker sections in the society are to be ensured. Arrangements of the food and the education for the weakest sections in the society are to be made sure through the introduction of education stamp and food receipt. Government will not provide these services. But it will bear cost of these services.

5.5.5. INTERNATIONAL FIELD:

Rules and regulations relating to Foreign Direct Investment (FDI) are also to be examined minutely. All sorts of quantitative restrictions upon the import are to be revoked. Government rather should incline to the fixation of a sustainable and flexible customs rate. All sorts of import duties are also to be reduced by degrees. This is to be done keeping pace with the growth of the general excellence of the economy and the increase of the generation of industries.

Lack of strong initiative and firmness caused the failure of the success of the proper implementation of the first generation of reform but this is to be kept

in mind that the true success of the reform depends heavily upon the real improvement of the standard of living of the people in the country. Economic reform and the development must proceed simultaneously and side by side. For this reason, keeping in mind the question of labour market, policies for the development of the human resources are to be attempted. Arrangements have to be made for the improvement of the skills of the labourers and thereby they are to be imparted proper trainings. For unskilled labourers and for the newcomers special provisions for appropriate training must be there for them. [25]

Second Generation Reform Measures Taken :

i) All sorts of quantitative restriction upon import have been revoked.

ii) Rupee has been made convertible in the sphere of capital formations.

iii) Future trading has been okayed in the markets of capital money and goods.

iv) Steps have been taken for the disinvestment of public sector enterprises by degrees.

v) Rectification has been made with the' Industrial Dispute Act' so that any industry can be closed down if necessary.

vi) Arrangements have been made for providing legal support towards the system of contractual appointments.

vii) Free and easy mobilization of the food grain both in the domestic and international market has been ensured.

viii) The prices of petroleum products, energy, fertilizers, and medicines have been left with the mechanisms of the market instead of providing government fixed prices with them.

ix) Preservation system for the small scale industries has been withdrawn.

x) Measures have been welcomed for the private investment in the fields of education, health, water supply drainage pattern, social security, social infrastructure etc.

xi) The down sizing of the volume of the public sectors with the help of the volunteer retirement scheme has been ensured.

xii) Steps have been taken for the reduction of the rate of the interests.

xiii) Measures have been in progress for the increase of the share of FIL in the Indian companies.

xiv) The share of the Foreign Direct Investment in India Banks has been increased.

xv) Taxation system has been revised and the measures for providing incentive have also been restructured.

xvi) Government has cut down the amount of subsidy to a great extent.

xvii) At present only 17 items instead of 29 items come under the rubric of the essential commodity act of 1955. [26]

5.6. PROGRESS IN STRUCTURAL REFORM:

The program of structural reform as the supporters of liberalization argue has been prepared with great care. Since June, 1991, the government has appointed several committees of experts to formulate proposals in the different reform areas, the investment regime, trade policies, and the financial sector, taxation and public sector enterprises. These committees' work was amply discussed with academics, industrialists and unions, which helped build consensus (except for public enterprises where the political resistance has been considerable) around the possibility of future reversals-which have plagued and some times derailed adjustment programs elsewhere in the world. It also enabled the government to assess the extent of political resistance to sensitive reforms (e. g. consumer goods, imports and privatization) and thus leave them out of the initial phase to avoid derailing the whole of the process. This said, and while the government has been successful at changing India's economy, major challenges remain, particularly regarding the reform of the financial, agricultural and infrastructure sectors and public enterprises. In addition, India needs to criticize

the effects of decades chronic under spending in health and education, and articulate a strategy to address serious urban problems. [27]

The liberalization of the investment regime is nearby complete. Fifteen years ago investment in the most important areas of the economy was a public sector monopoly; severe licensing restrictions regulated the amount of investment that private firms could undertake. Now there are few areas where private investors, domestic or foreign, can not invest and Indian foreign investment regime now compares favourably with East Asian countries. In telecommunications, power and mining it is significantly more open than that of its East Asian neighbors. The 1996-97 budget of July, 1996 introduced further reforms to expand the set of enterprises in which foreign institutional investors can invest and shortly after the budget was presented before parliament, the Ministry of Industries removed licensing restrictions for 10 industries still subject to prior approvals. While this measure may not have considerable effects since essentially all approvals have been granted on request it does provide a further simplification of the investment regime and sends a positive signal to domestic and foreign investors.

The trade and foreign exchange regimes have been substantially liberalized, but protection levels are still high. India's pre-1991 trade regime was very restrictive. India had world's highest tariffs. Since June, 1991, several rounds of trade reforms have lifted all licensing restrictions on imports of intermediate and capital goods, liberalized partially imports of consumer goods, and reduced maximum tariffs to 50 percent, and the import weighted average tariff to 25.2 percent. In parallel, the exchange rate regime has been liberalized, and full convertibility has been established for current account transactions. This progress not with standing , India will need to liberalize its trade regime even further if the country is to reach the openness of its East Asian and Latin American competitors (where import weighted tariffs are in the 10-15 percent range) and some anomalies of the trade regime are to be eliminated . Also

current licensing restrictions on consumer goods imports are significantly more severe than in most other countries.[28]

A skilful and significant liberalization of the financial sector has been made with of India but the public sector remains dominant still: with a financial savings rate of 9 percent of GDP in 1990-91 (11 percent of GDP at present) India's pre-1991 policies had been successful at developing a solid base of deposit and a diversified stock of financial instruments. However, until very recently the financial sector had been dominated by public banks which had limited discretion in the allocation of their lending (in 1991 as much as 63.5 percent of in1creases in bank deposits had to be held in cash reserve requirements and governments securities and 40% of the remaining had to be allocated to priority sectors designated by government) and publicly owned insurance companies still have to be held more than half of their portfolio in government designated securities. Prudential regulations had no real role to play in the deployment of capital and in any case were inadequate making it difficult to assess the true quality of bank port folios or bank profits. Interest rates and financial instruments were tightly regulated and competition was limited by restrictions on entry of new banks, insurance companies or mutual funds. Pricing and terms of new equity issues were regulated. [29]

Because of persistently large public sector borrowing requirements and weak public banks balance sheets, the government has chosen a phased approach to liberalizing the financial sector but this approach has been excessively gradual in the case of privatization of the public banks and deregulation of insurance companies and contractual savings institutions. Much of the reform effort was focused on establishing the institutional base required for deregulated financial markets to operate efficiently and in deregulating the market them selves. In particular, prudential regulations that meet international standards have been introduced and to improve its capacity to enforce the new particular prudential guidelines the RBI created a Board of Financial Supervisors

which began functioning in December, 1994. Several steps have been taken to develop markets in government securities, including the creation by RBI of a dealer network to operate in and provide liquidity to government security markets, followed by the approval of the first six private primary dealers in 1996. In parallel, measures have been taken to develop the Securities and Exchange Board of India's (SEBI), capacity to provide over sight regulation in India's stock markets and to increase the transparency of stock market transactions. In particular, legislation has been enacted to improve title transfers and a code for takeovers has been formulated. A new modern electronic securities exchange system, the National stock exchange (NSE), which allows scrip less transactions began operating in 1995. In November 1995, the government established an insurance regulatory body, to prepare the basis for eliminating the public monopoly in this sector although a decision on this has yet to be taken. [30]

However, while progress has been achieved in relaxing controls, reducing government's pre-emption of financial savings, and reestablishing the soundness of the financial system, much remains to be done. Interest rates are now market determined for most transactions. The exceptions are for small loans (below Rs. 2, 00, 00 that is about US $ 6,000 at 13.5 percent) and for the maximum rate that remains on deposits of less than 30 days. Forced holdings of government debt by banks, while reduced, remain at a high 37 percent of deposits and 40 percent of banks' loan portfolios still must be allocated to designated "priority sector lending." While barriers against the entry of private banks (domestic and foreign) have been relaxed, restrictions on the expansion of their branch network remain. And public sector banks continue to have around 90percent of the sector's assets and little progress has been achieved in reducing government equity holdings in the public banks or in improving their autonomy in the key areas such as staffing and pay. As a result financial intermediation costs remain excessive and the autonomy of financial sector institution is very much in doubt.[31]

The tax regime has been simplified and strengthened considerably. In the 1994-95 Budget, taxes on corporate income were unified at 46 percent for widely held companies and 55 percent for branches of foreign banks, a major reform of excises was implemented to make it more closely resemble a value added tax and address its major problems. Mean while, the government extended the coverage of MODVAT (a modified value added tax) to include manufacturing sectors thus for excluded, and for the first time some services. Of particular importance also were the decisions to; i) shift most excise rates from specific to ad-valorem to increase buoyancy , ii) reduce the number of rates ; and simplify the system by relying on invoices for determination. These reforms considerably simplified and modernized India's tax system and made it possible for the Central Government to begin to focus its efforts on improving tax administration. The 1995-96 Budget further reduced peak excise. It did not reduce corporate tax rates further but it continued the emphasis on simplification, lower rates and greater buoyancy to strengthen compliance, the authorities proposed tax deduction at source for fees for professionals, technical services and service contracts. How ever in this context it is essential to discuss the macroeconomic vulnerabilities and the structural weakness of the economic activities of the country in the economic reform process current in the country. [32]

5.7. MACROECONOMIC VULNERABILITIES AND STRUCTURAL WEAKNESS:

The stabilization and the reform measures introduced over the last four teen years (14) have considerably improved India's growth prospects as the scholars of the pro-liberalization group argue. The growth performance of the last fourteen years and preliminary indications for 1996-97 reinforce this view and may suggest that India is on a trajectory of a stable 6-7 percent real annual growth. This inevitably raises the question of whether India will be able to repeat the experience of its successful East Asian neighbors.

The answer is that strong corrective measures are necessary to make this happen. Not only is the country facing serious fiscal imbalances that have yet to be corrected, but there also remain a number of macro economic vulnerabilities and structural weaknesses that need to be addressed even to sustain the current 7 percent growth rate, let alone exceed it. First because of the public sectors' poor savings performance, India's savings rate is considerably lower than that of its East Asian competitors. Second agriculture which accounts for 30 percent of GDP and 70 percent of employment is still being penalized by numeral restrictions inhibiting the trade and processing of agricultural commodities and inadequate composition of public spending for agricultural development. Third, relative to the East Asian high performing economies, India has invested relatively little in the development of the country's human resources and social indicators are thus considerably lower. Fourth, India's infrastructure bottlenecks are not just a problem of resources but require extensive institutional and regulatory reform at all levels of government. Fifth, there is growing evidence that India's cities and town are facing a crisis of serious dimension and that urban policies and institutions are in urgent need of reform. None of these constraints can alone threaten the acceleration of private investment and growth but taken together, they constitute a serious obstacle. Finally, as highlighted in the previous discussion, there remains an important unfinished reform agenda that need to be brought to its logical conclusion, particularly regarding the trade regime, the tax system, and the financial sector. [33]

5.8. MACROECONOMIC VULNERABILITIES:

5.8.1. FISCAL VULNERABILITIES:

An important source of fiscal pressure was expected from the pay commission which was supposed to give its recommendations on civil service pays before the end of 2006 calendar year (the last pay commission recommended a more than 200 percent increases five years ago). While the

central governments' expenditure on wages is relatively small (less than 2 percent of GDP), states expenditure on wages has been around 4-5 percent of GDP and significant wage increases would considerably further erode their finances. In addition salaries in public enterprises are based on the pay levels in the civil service while essential to restore the competitiveness of pay in the civil services, in the absence of off setting measures; a significant pay increase would also weaken the finances of public enterprises. The recommendations of the Sixth Pay Commission were ultimately brought out in the month of April, 2008. It recommended the abolition of Class-IV staff from the existing staff pattern of the country and a huge enhancement (at least an enhancement of 30% of the last month's gross salary paid to the central government's employees with retrospective effect from 01.01.2006) of the salaries of the employees of the Central Govt. It also recommended for the introduction of the concept of 'Grade Pay' for the employees.

Another source of pressure is related to the repercussions of states' indebt - ness on the Central Government. All the states in the federal structure of the country can not have the discretion to increase their fiscal deficits beyond the financing authorized by the Central Government. The states have the power to delay payments to service their debt to the central Government. Central Government and public sectors do not make any financial concessions. These developments virtually weaken the states' ability to comply with their financial obligations vis-à-vis the Central Government and could become one avenue whereby states' fiscal imbalances spill over to the Central Government's finances.

Finally, the new government has announced its intention to increase significantly public spending upon primary education. This denotes that the public sector will continue to have a major role in the provision of infrastructure. But in this context it is to be kept in mind that unless considerable efforts are made to reduce unproductive public spending and mobilize additional

resources, responding to India's urgent infrastructure and human resource development needs will exaggerate fiscal imbalances.

It will be difficult to achieve these goals, however, without a restructuring of centre -state fiscal relations. It is clear that centre- state fiscal relations will need to be restructured if the states are to be encouraged to address their major problems of weak tax collection, growing wage bills, uneconomic enterprises and poor cost recovery. Similar considerations apply to the financial relation ships between state and local governments. [34]

5.8.2. EXTERNAL ACCOUNT VULNERABILITIES:

Notwithstanding favourable external prospects and the remarkable improvements in India's current and capital accounts India's external accounts and debt position continue to be vulnerable in several important respects.

First, while growing agricultural production is reducing the country's vulnerability to fluctuations in world food prices, its dependency on oil imports is increasing. Domestic production is leveling off and current trends persisting. India's oil imports will double to US$ 12 billion in the next five years.

Second, fiscal adjustment in the OECD countries and consequent reduction of multilateral and bilateral concessional development aid will increase the country's borrowing costs and make it more vulnerable to foreign interest rate shocks. Such vulnerability can only partially be offset by increased resource to non debt capital flows.

Third, of India's US $99 billion external debt found at the time of launching the 'New Economic Policy' in 1991 (which includes US$5 billion of short term debt), about US$25 billion was due to be repaid in the next four years with a peak of US$8 billion in 1996-97. This is in addition to the rollover of the short term debt and roll over of NRI accounts. Added to the financing requirements of the current account deficit, this means that over the next four years India would need to mobilize about US$46 billion of external finance

excluding the rollover of short-term debt and NRI accounts. These vulnerabilities are, however, tempered by India's sustained good export performance, the fact that portfolio investment in India has taken place in instruments that are costly to reverse, and by India's strong liquid position -US$17 billion in reserves versus short term liabilities (including NRI deposits with remaining maturities of less than one year) roughly about half that size.[35]

Reform process helped the country to a great extent to have good business in international trade and commerce. For the next ten years since 1991 India did well with the help of its reform activities to repay the debts due to the countries from where it took loans to adjust its fiscal imbalances. Updated figures shown below in the table justify it.

Table 5.1

Foreign Trade

	June* 2007	Fiscal Year So Far			Full Fiscal Year				
		2007-2008*	2006-2007	2006-2007*	2005-2006	2004-2005	2003-2004	2002-2003	2001-
Exports : Rs. crore	48383	141331 (6.9)	132165 (28.0)	563800 (23.5)	456389 (21.6)	375340 (27.9)	293367 (15.0)	255137 (22.1)	209018
US $ mn	11867	34304 (18.1)	29045 (22.7)	124629 (20.9)	103044 (23.4)	83536 (30.8)	63843 (21.1)	52719 (20.3)	43827
Imports : Rs. Crore	78268	226321 (21.7)	185988 (24.7)	820568 (24.2)	660474 (31.8)	501065 (39.5)	359108(20.8)	297206(21.2)	24520
US $ mn	19196	54909 (34.3)	40886 (19.5)	181368 (21.6)	149184 (33.8)	111517 (42.7)	78149 (27.3)	61412 (19.4)	51413
Non-POL US $ mn*	13531	40079 (50.4)	26655 (7.6)	124097 (17.9)	105233 (37.1)	76772 (33.2)	57652 (35.5)	42540 (15.8)	36729
Balance of Trade : Rs. Crore	-29884	-84991	-53823	-256768	-204085	-125725	-65741	-42069	-361
US $ mn	-7329	-20605	-11841	-56739	-46140	-27981	-14306	-8693	-75

* Provisional figures

Source : Economic and Political Weekly, August 4-10, 2007, Vol. XLII, No. 31.

5.9. STRUCTURAL WEAKNESS:

Consolidating the success of the last fourteen years is of fundamental importance if India is to emulate the performance of the East Asian countries and draw on the benefits of economic integration to achieve faster and sustainable economic growth. A comparison between India and other high performing economies , and an examination of what mattered in the success of these economies, suggest that a broad- based growth driven by labour intensive production for exports is the best instrument for India to significantly reduce the scourge of poverty .This is reinforced by the 1996 world Bank 'Global Economic Prospects' report which found that many of the countries that are insufficiently integrated with the world economy are among the poorest . The government has recognized the crucial link between integration and economic growth by fundamentally changing its development strategy in 1991 and made accelerating export growth a central objective of its reform programme.

Export growth in East Asian countries has served two key functions. At a macro economic level it allowed rapid growth in capital goods and technology imports required by high domestic investment rates without the emergence of unsustainable external sector deficits and liabilities. It also circumvented limitations imposed by the small size of domestic markets. At a micro economic level the need to succeed in highly competitive world markets forced local firms to raise the efficiency with which they used capital and other scarce resources. To consolidate the success of the last few years, and draw on some of India's unique strengths to accelerate exports growth important structural weaknesses need to be addressed. These are discussed below with importance. [36]

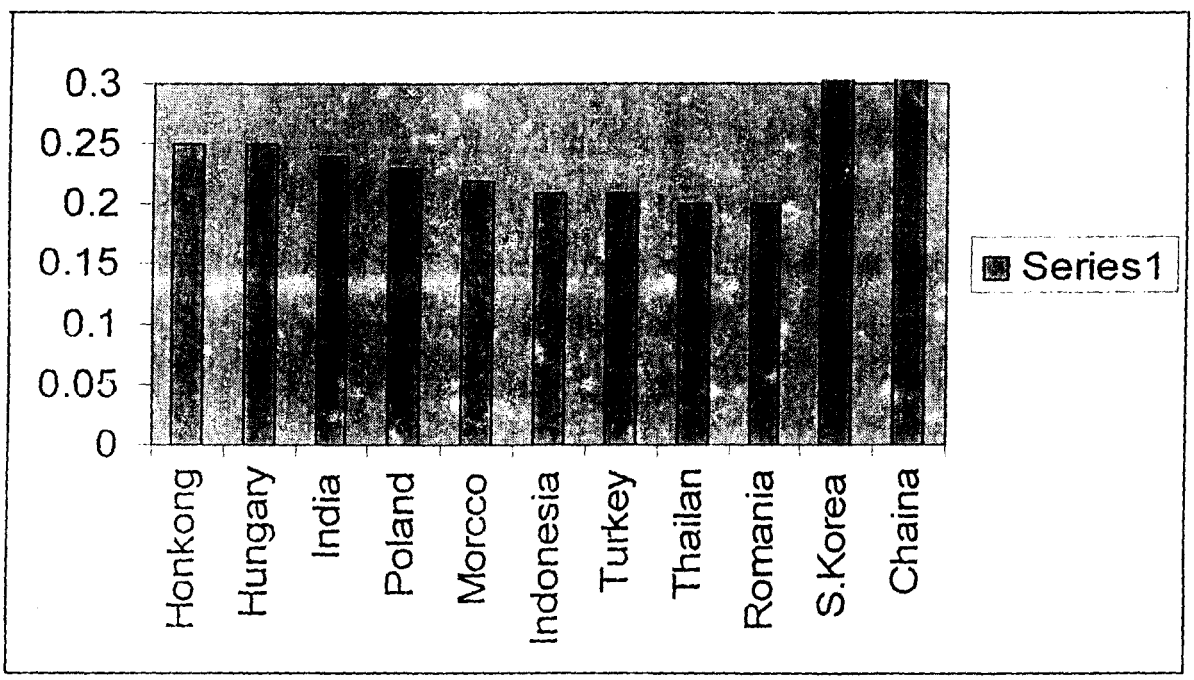
1. Protection levels are still excessively high. Inter-alia, this may not only reduce foreign direct investment, but also its benefits. The progress of the last few years not with standing, India's tariffs are still among the highest in the world.

2. The Chelliah committee on the tax reform produced a well conceived programme of reforms for the central government taxes aimed at broadening the tax base, lowering rates, and streamlining the rate structure thus providing the base for improvements in tax administration. But the whole of the recommendations of the committee has not been implemented. It is important to extend the base of the excise system. Exemptions have increased in recent years, and long standing exemptions for the small scale industry encourage tax evasion and the inefficient fragmentation of production. Correcting this and reducing the rates to no more than two or three should make it possible to make the excise system close to a value added tax, and facilitate its integration with the critically needed establishment of VATS (Value Added Tax System) at the state level. The importance and significance of VAT was taken into consideration in a conference at New Delhi where all the Finance Ministers from different states and Union Territories took part. After a long discussion and analysis VAT was introduced in most if the states including West Bengal from 2003-04 financial year onward.[37]
3. There is also considerable scope to increase the efficiency of corporate income taxation, as well as revenues, by reducing both the rates and exemptions associated with this tax. Similar consideration applies to the personal income tax. Particularly important in this regard is the exemption of agricultural income by states - to whom the constitute delegates its taxation. Last but not least, critically important to the improvement of India's taxation system is the implementation of the recommendation of the Tenth Finance Commission to shift the base for revenue sharing from a high share of two taxes at present (personal income taxes and excises) to a lower share of total tax receipts which would provide states with a more stable source of revenue while no longer influencing how the central Government raises revenue. [38]

4. **Labour Cost:** Indian hourly labour costs for production workers in manufacturing are among the lowest in the world for the 31 countries for which the United States Bureau of Labour Statistics calculates comparable data. In the Clothing Industry, 1993 Indian hourly wages costs of US$0.27 compared with US$4.61 in Taiwan, US$2.71 in Korea, US$1.62 in Hungary US$0.71 in Thailand.

Chart : 5.1

International Comparison of Labour Cost



Source: KSA, 1995, Cited in Majumder, 1996.

Indian labour markets in the industrial sector are characterized, especially in relation to East Asian Countries, by exceptional inflexibility (World Bank-1993). A complex legal regime- some 50 major pieces of legislation covering labour and dispute settlement govern industrial relations in the organized sector where most FDI would be directed. Rules governing termination of employment and closing of an industrial establishment (exit policy) render it virtually impossible to restructure ailing public and private sector firms.

Labour market rigidities will become more costly as India integrates further in the World Economy. The labour market inflexibility may limit India's

ability to attract significant FDI in labour intensive manufacturing exports a pre-requisite for growth and poverty reduction. Evidence from India and other countries indicates that restriction affecting hiring and firing decisions increase the sunk costs associated with new investment and lead to postponement of investment or high capital intensity. The government recognizes the inadequacy of its outward development strategy with the existing labour legislation. It is in the process of reviewing existing laws such as the Industrial Disputes Act and the Trade Unions Act, with the objective of establishing an efficient system of labour dispute settlement. [39]

5. **Literacy:** High levels of enrolment in primary and secondary education have been shown to be a key factor in sustained high levels of growth in Eight East Asian export-led economies. The average 3-4 years of schooling in India's population in the mid 1980s was comparable to the more slowly integrating developing countries (3.4 average years) and was about 3 years less than the median for the fast integrating countries (6.7 average years). In India, while primarily enrolments have increased rapidly, literacy rates have not kept pace because of the high drop out rates, particularly in rural areas among females.

But India's high number of scientist and engineers is likely to provide a comparative advantage in trade and attract FDI to certain high skill industries. While the broad educational standard of the population as a whole was low, the absolute number of scientists and engineers in India around- 2.5 million in 1990 - was among the largest in the world (Table given below). This number comprised around 0.8% of the labour force higher than in Korea in 1981 (in the midst of take off phase). [40]

Table: 5.2

Scientific & Technical Workers

Country	Scientists & Engineers (000)	% of labour force	Tech-nician-s(000)	% of labour force	Total (000)	% of labour force	Scientists & Engineers as % of Total	Year	Type and Data
India	2.471	0.77	639	0.20	3.11	0.96	79.4	1990	EA
China	-	-	-	-	9661	1048	-	1988	EA
Indonesia	193	0.34	1664	2.96	1858	3.30	10.4	1980	ST
Korea	94	0.62	1931	12.77	2026	13.40	4.6	1981	EA
Pakistan	287	0.85	210	0.62	498	1.48	57.6	1990	EA
Iran	295	2.49	171	1.45	468	3.96	63.0	1982	ST
Turkey	708	3.71	163	0.85	875	4.58	80.9	1980	ST
Argentina	695	6.09	245	2.18	946	8.29	73.5	1988	EA
Brazil	1362	3.08	-	-	-	-	-	1980	ST
Nigeria	22	0.07	80	0.25	102	0.2	21.7	1980	ST
Japan	8672	14.28	4955	8.56	13641	22.46	63.6	1987	EA

*EA: Economically active qualified labour.

ST= Stock of qualified labour.

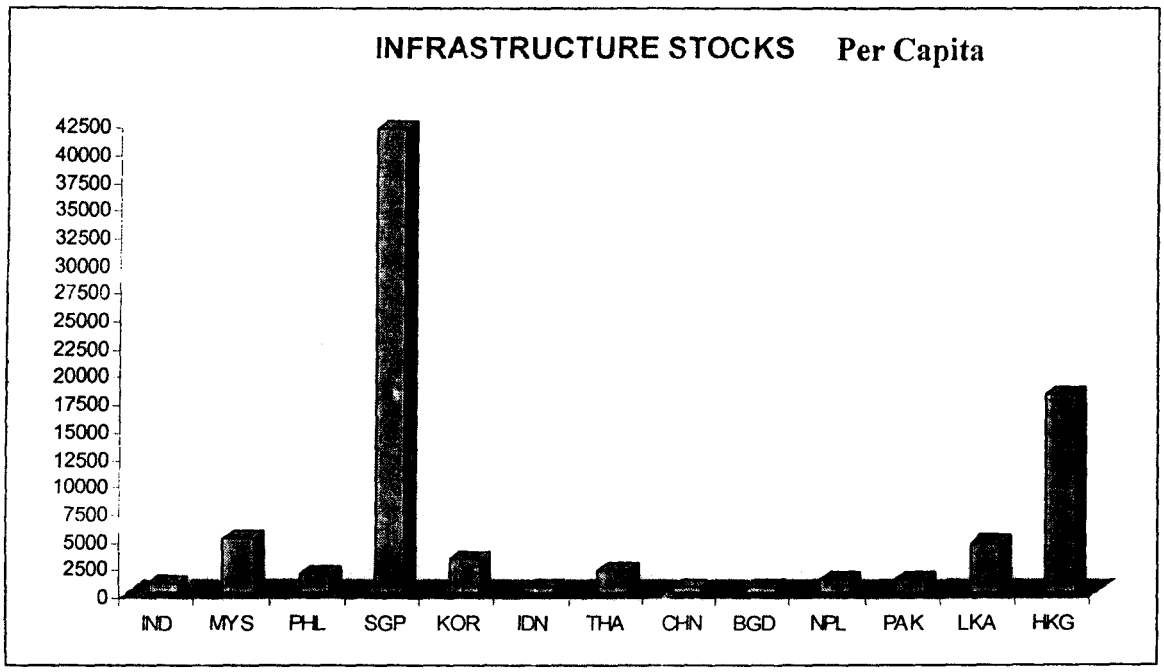
Source: UNESCO Statistical Year Book, 1992, Statistics on Science & Technology of World Bank.

6. Deficiencies in transport, ports powers and telecommunications are a major handicap for India's growth and export competitiveness. At an aggregate level, India had an infrastructures stock of a little over US$500 per capita in 1993 (Charts given below), lower than most Asian Counterparts.

   a) Indian major ports are overcrowded, poorly equipped and inefficiently laid out. Eleven ports account for over 90% of the country's total ports throughout. They are used beyond their capacity, with average utilization rates currently ranging from 118 to 135% compared with international norms of between 55% and 65%.

Chart: 5.2

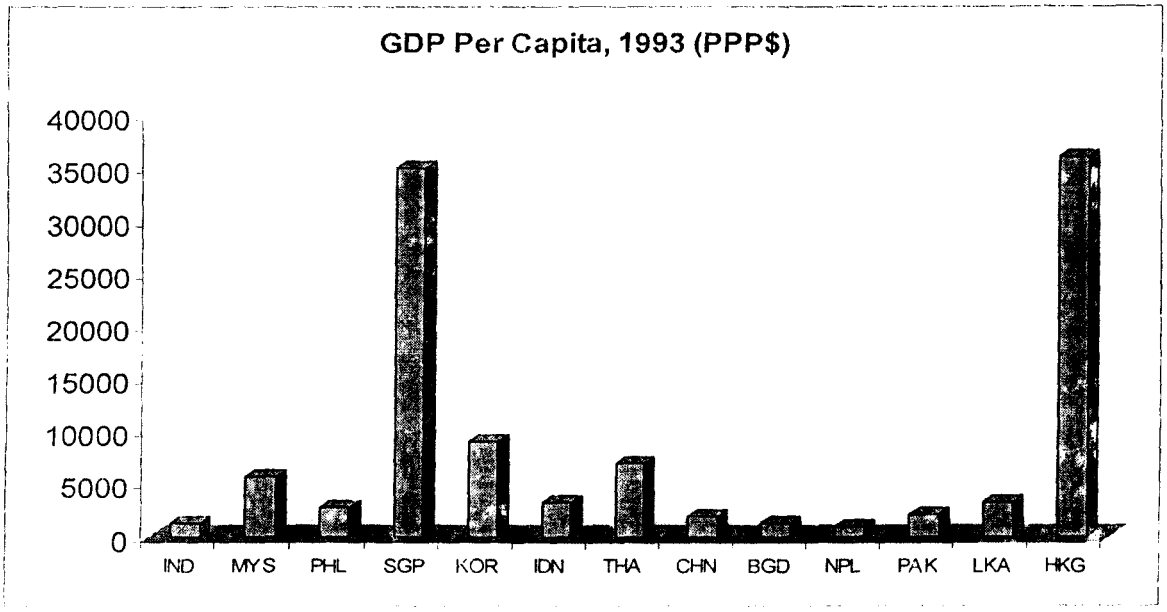
Infrastructure Stocks Per Capita GDP



Source : World Bank 1993,CIA.

Chart: 5.3

GDP Per Capita



Source: World Bank 1993, CIA.

b) **Roads**: Nowhere is the contrast between high stock and low efficiency as marked as with roads. The length of the paved roads per capita is high relative to most East Asian Comparators (around 1000 kilometers per million people versus around 150 in China and 550 in Thailand). But only 20% of paved roads are estimated to be in good condition compared with 70% in Korea and 50% in Thailand. Road usage is growing rapidly however.

c) The air transport sector is where India has made the most progress over the past few years. But with the exception of China, airport capacity remains low relative to East Asia (Table given below). However, concerns about the ability of the public airline industry to compete have restricted the expansion of private activity in this area.

Data provided in the table given below indicates that Indian railways in spite of having a high length of railways the department has been losing freight market share to road transport. The reason lies in the fact of giving priority to the container cargo leading to slow and widely variable delivery times. A recent World Bank study indicates it takes about a quarter of the time to send a container from Madras to Northern India by truck as by Rail. The shortage of rolling stock and equipment contributed to bottlenecks in the movement of the cargo. For the smooth operation of the economic progress of the country there should be a growth between eight and ten percent of the freight transport demand in the medium term. Only the massive investment can cope up with the situation at present.

Table: 5.3
International Comparison of Air Port Capacity

Country	Air Ports per one Million Population	Air Force per 1000 km.^{2}
India	0.38	0.11
Malaysia	5.83	0.35
Philippines	3.67	0.52
Singapore	3.46	15.81
South Korea	2.50	1.16
Indonesia	2.21	0.23
Thailand	1.74	0.20
China	0.17	0.02

Source: World Bank 1993, CIA.

d) **Telecommunications:**

Table given below shows India underperforming to comparable countries on a range of telecommunications sectors indicators in particular for telephone density and line faults. India has already recognized the importance of this sector in enhancing its ability to compete by inviting private sector participation. [41]

Table: 5.4
Telecommunications Sector Indicators, 1993

Sl. No.	Name of Country	Telephone Density per 100 PoP	Waiting (years)	Faults per 100 lines per year
01.	India	0.89	2.5	218.0
02.	Europe	30.85	2.9	NA
03.	Argentina	12.29	1.3	12.5
04.	Mexico	8.79	1.0	NA
05.	Brazil	7.51	0.7	43.2
06.	Asia	4.27	1.4	NA
07.	Egypt	4.26	5.8	NA
08.	Thailand	3.71	6.5	32.2
09.	Africa	1.6	4.9	NA
10.	China	1.47	0.8	NA
11.	Philippine	1.31	9.9	10.0
12.	Pakistan	1.31	4.9	120.0
13.	Indonesia	0.92	0.5	49.0
14.	SriLanka	0.9	>10	15.0

Source: ITUs World Telecommunications Development Report-
World Telecommunications Indicators, 1994-96.

7. The power deficit is chronic and the situation is rapidly deteriorating. The power supply gap has continued to increase during the Eighth Five Year Plan. The overall energy deficit has risen from about 9% to about 14% with the peak deficit getting close to 30% today. This power shortage is estimated to cost India US $2-3 billion a year at least. The factors underlying this deficit are well known. Chief among them is the inability of the sector to expand the country's power supply capacity at a pace commensurate with a rapidly growing demand. The latter is fueled by economic liberalization and industrial development as well as low subsided tariffs to agriculture and households. Significant, comprehensive reform is necessary in this sector.

8. Finally, there is growing evidence that India's cites and towns are facing a crisis of serious proportions stemming from chronic under investment in urban areas and consequent shortages of key urban services. At the heart of the problem are the cities' weak fiscal base-eroded by state legislation imposing rent controls, limits on the amount of land an individual can hold, restrictions on land markets and unrealistically low water charges. In some of the main cities, fiscal revenues are excessively dependent on extremely inefficient taxes which need to be eliminated such as Octroi. Thus, any programme of urban reform would need to include measure to:

a) improve urban areas' use of the existing resources base (such as a better cost recovery and enforcement of existing taxes);

b) strengthen the resource base and make it more efficient (such as lifting rent controls, eliminating Octroi and establishing efficient land markets); and

c) establish a rule based efficient system of capital transfers to replace the present system which is discretionary and unpredictable. Such measures would provide the base for the restoration of the finances of the country's cities and towns and thus restore their capacity to invest in critically needed infrastructure. They also would help municipalities become credit

worthy borrowers, able to access capital markets and mobilize financing for critically needed investment.

It will be critically important to complete the financial sector reforms started in 1991. This is necessary not only to promote the efficient allocation of the investment needed to achieve higher growth but also to strengthen the implementation of both fiscal and monetary policies and preserve macro economic stability. However, some of the financial sector reforms can only be implemented if fiscal consolidation is achieved because further liberalization in the presence of large public sector borrowing requirement needs and consequently high interest rates could weaken the financial system as companies balance sheets deteriorate and banks non-performing assets rise. [42]

Assuming that fiscal consolidation is achieved the priority financial sector reforms are essentially four:

First: The comprehensive restructuring of the public banks which started with their recapitalization needs to be brought to its logical conclusion. This means granting banks increased managerial autonomy over branch networks, employment and compensation issues and portfolio decisions.

Second: Remaining controls on banks and insurance companies forced holdings of government debt need to be phased out- *pari- pasu* with the development of markets for government debt.

Third: As the deficit is reduced it should be possible to accelerate the development of money markets by reducing the intervention of the RB1 in the placement of government debt.

Fourth: The government will need to continue strengthening prudential regulations, suppression and the capital market infrastructure and legal and regulatory framework.

As noted in the government CMP (Common Minimum Program), no strategy of economic reforms and regeneration in India can succeed without

sustained and broad based agricultural development. Agriculture accounts for 30% of India's GDP and 70% of total employment. Its performance is therefore central to the well-fare of over 300 million poor who live and work in rural areas.

However, scholars opine that none of these constraints can in principle, alone threatens the acceleration of private investment, exports and growth. However, when combined together they can seriously stifle private sector investment intentions and thus hamper India's ability to draw on the benefits of global integration in improving its economic performance and welfare. India's past disappointing growth performance and the enabling environment for private investment improve relative to its own past but will also be conditioned by the performance of other countries an increasing number of whom are also embarked on the path of domestic reform and international integration for growth and welfare improvements. If a significant proportion of these constraints are addressed, then 8%-9% growth rate is within reach at ease. [43]

However, another school of thought criticizes the hindrances and handicap being found in the process of structural reforms raising some empirical and theoretical issues which may best be presented in the fallowing manner.

5.10. EMPIRICAL ISSUES:

There are certain ironies in the labels that have been used to describe India's Prime Ministers. Jawaharlal Nehru was often cited as a brilliant strategist, yet the doctrinaire belief in central planning created the strangulating set of regulations and controls that his successors have tried to curtail. Indira Gandhi was widely regarded as a populist but proved to be very conservative on fiscal policy and would have rued the deficits that her son, supposedly technocratic, Rajib, authorized with abandon. Narosimha Rao was undoubtedly a traditional, patronage-dispensing politician but ultimately took economic liberalization further than any prime minister.

Although it is in accurate to describe the overall process as an oscillation between controls and a more open economy it is worth noting that different factors helped launch each of the episodes. Thus, India does not have a stable coalition of supporters of liberalization to balance the remarkably consistent group that opposes decontrol. It is also interesting that two of three liberalization episodes (1966-68) and (1991-94) were launched after crisis, and the 1985-87 effort might not have occurred at all if Mrs. Gandhi had not been succeeded by her son. Thus, the next steps of the United Front Government, National Democratic Alliance, and United Progressive Alliance too will provide a test of whether reform has been institutionalized or whether India needs to have some extraordinary set of circumstances to overcome the groups thwarting liberalization.[41]

5.11. THEORETICAL ISSUES:

These liberalization episodes have significance for both the theoretical literature on structural adjustment and the writing on Indian political economy.

First: India's attempts at liberalization have never been fully successful because there is no sufficiently powerful coalition willing to push consistently over long periods to achieve a decontrolled economy whereas a broad coalition of government officials, businessmen in protected industries and academics and members of the press have always been available to criticize steps towards market oriented policies.

Second: The backlash against the 1966 liberalization was so severe that Mrs. Gandhi veered far to the Left, nationalizing the banks in 1969 and adopting a populist stance during her much of time in office.

Third: The transition from a tightly controlled to a market oriented economy involved more than just changes in macro economic policy and

deregulation. As Przeworski demonstrated for Eastern Europe in the post 1989 era and as Mc Million argued in general, making effective use of the market requires a widespread ability within the public to use market data effectively transfer property rights, enforce contracts, and accept the legitimacy of the discipline of the market if one's product is not in demand. If sufficiently powerful groups will not accept the transition external pressure and even public opinion may not be adequate to achieve liberalization.

Fourth: The three liberalization episodes also shed some light on the puzzle raised by previous analysts of political economy in the subcontinent who tried to explain why Indian savings and investment rates have been comparable to those in East Asia yet India's GDP growth rate has remained much lower. The neoclassical view of this issue simply argues correctly that Indians use capital inefficiently. More interesting however, several rational reasons explain why Indian capital is used inefficiently. First and most obvious, many businesses especially those in the public sector and those owned by influential private businessmen, receive subsidized credit. Second and related to this explanation, Indian managers in both the public and private sectors know that the nation's political system oscillates between regimented and more open policies.

Fifth: To achieve major structural adjustment the sequence in changing policy must work to build support for the transition. In 1966, when Mr. Gandhi devalued the rupee and announced decontrols, liberalization was a shock and provoked immediate rejection, like a bad organ transplant. Rajib Gandhi's decontrol efforts in 1985-87 were presented more convincingly but the accompanying budget deficits and foreign borrowing created serious problems for the success or National Front and Rao Governments. If future effort-sat decontrol is to succeed, they

probably should involve incremental steps that are unthreatening to the major interest groups that have stalled previous reforms.

Finally, India's neglect of its poorest population is a major barrier to economic liberalization. Deregulation would actually help the poorest in India because it would eventually create more employment and faster growth yet the intense fears of liberalization in the lower middle class and among working class employees of the state sector, who are far more powerful than the really poor, pose serious risks in freeing the economy. It might be preferable to introduce liberalization during an economic up swing when the risks of switching jobs are less traumatic. [45]

From the discussion relating to the liberalization episodes in the process of structural reform it is clear that the Economic Policy of the country has swung heavily between controls and greater openness with a tendency toward decontrolling larger and more important segments of the economy. But the interesting fact is that since independence the political risks of full scale liberalization have not been shouldered by any government of any political party.[46]

NOTES & REFERENCES

1. Bhattacharya, Dhiresh: *India's Five year plans,* Ninth edn. (Calcutta: Joydurga Library, 1986), pp. 40-70.
2. Singh, Charan: *India's Economic Policy- Gandhian Blueprint* (1978) pp. 10-15.
3. Dasgupta, Biplab: *Structural Adjustment, Global Trade and the New Political Economy* (New Delhi: Sage Publication India Pvt. Ltd., 2002), pp. 20-50.
4. Bhagwati, Jagdish: *India in Transition: Freeing the Economy* (Oxford: Clarendon Press, 1993), pp. 15-30.

5. Sinha, Aseema: "Changing Political Economy of India". First published as "The Changing Political Economy of Federalism in India: A Historical Institutionalist Approach" in *India Review*, 3 (1), 2004, pp. 25-63.
6. Nanjandappa, D. M.: "Mahalanobisonomics vs. Manmohanomics" in *Political Economy Journal of India*, July-Dec., 1995, pp. 15-25.
7. Patnaik, Prabhat and Chandrasekhar, C. P.: "India: Dirigisme, Structural Adjustment and the Radical Alternative" in Baker, Dean; Epstein, Gerald and Pollin, Robert (eds.): *Globalization and Progressive Economic Policy* (Cambridge, Cambridge University Press, 1998), pp. 67-91.
8. V. V. Ramanadhani: *Privatization in Developing Countries* (1990), pp. 30-45.
9. Monhot, S. R.: "Peopolization vs. Privatization", in *Financial Express*, May, 5 1991, pp. 25.
10. Sen, Amartya: "Global Inequality and Human Security". First Delivered as Lecture 2 of the Ishizaka Lectures on 18 February 2002 in Tokyo.
11. Ahluwalia, Montek Singh: "India in a Globalizing World". First Delivered as the Jawaharlal Nehru Memorial Lecture in London on 20 April 2005.
12. Dey, Bata K.: "Liberalization and Human Management Concerns", pp. 421-433.
13. Datt, Ruddar: *India's New Economic Policy* (S. Chand & Co., New Delhi, 1987) pp. 40-46.
14. Datt, Ruddar: "New Economic Reforms: Need for Some Rethinking" in *The Indian Economic Journal*, Vol. 42, No.3 January-March, 1999.
15. Datt, Ruddar: *Economic Reforms in India- A Critique*, (S. Chand & Co., New Delhi, 1987), pp. 60-70.
16. Rajeev. P.V.: "Economic Reforms in India", *Yojana:* March 15, 1995, pp. 10-12.
17. Jalan, Bimal (ed.): *The Indian Economy- problems and prospects* (Penguine Books, 1992), pp. 43-50.
18. Jalan, Bimal: *India's Economic Crisis- The Way Ahead*, (OUP, 1991), pp. 30-40.

19. Agarwal, R.G.: *Price Controls in India since 1947* (Delhi: Federation of Indian Chambers and Commerce Industry, 1956) and Bhagwati, Jagdish N. and Desai, Padma: *India: Planning for Industrialization* (London: Oxford University Press, 1958), pp. 50-55.
20. Morris, Jones: *The Government and politics of India* (London: Hutchinson, 1971), pp. 15-36.
21. Frankel, Francine: *India's Political Economy: The Gradual Revolution 1947-77* (New Delhi: Oxford University Press, 1978), pp. 12-17.
22. Brass, Paul R.: *The Politics of India since Independence* (Cambridge University Press, 1990.), pp. 99-129.
23. Bardhan, Pranab: *The political Economy of Development in India* (Oxford: Basil Blackwell), pp. 18-25.
24. Jain, Girilal: "Freezing the Status Quo; Consequences of the Nehru Model", *Times of India*, March, 7, 1947, pp. 8-10.
25. Sachs, Jeffrey: "India's Unfinished Reform Agenda" in a booklet namely *India's Unfinished Reform Agenda* brought out by Indian Council for Research on International Economic Relations, New Delhi. The pamphlet embodies the views expressed by Prof. Sachs (Galen L. Stance, Prof. of International Trade, Department of Economics, Harvard University, USA) in Seminar's Series on "Structural Adjustment and Policy Reforms : Perspectives from International Experience" on August, 23, 1994 at New Delhi. It was jointly sponsored by ICRIER, New Delhi, and International Centre for Economic Growth, San Francisco, and USAID, New Delhi.
26. Denoon, David B. H.: "Cycles in Indian Economic Liberalization, 1966-96" in *Comparative Politics*, October, 1998, pp.43-60.
27. Joshi, Vijay and Little, IMD: *India: Macro Economics and Political Economy; 1964-91* (Delhi: Oxford University Press, 1994), pp. 62-63.
28. Malik, Ashok: "The BJP, the RSS Family and Globalization in India" in *Harvard Asia Quarterly*, 7 (3), Winter, 2003, pp. 26-32.

29. Lewis, John P.: *India's Political Economy; Government and Reform* (Delhi Oxford University press, 1995), pp. 318.

30. Bhagwati, Jagdish N.: *India in Transition: Freeing the Economy* (Oxford: Clarendon Press in 1993, pp. 84-87.

31. Lal, Deepak: Unfinished Business (India in the World Economy), (Los angles, 1999) pp.12-30.

32. Dandekar, V. M.: "Role of Economic Planning in India in the 1990s and Beyond": *Economic and Political weekly*, June, 11 1994, pp. 1457.

33. Taylor, Lance, "Economic Reform: India and Elsewhere", *Economic and political weekly*, Aug, 20 1994, pp. 2209.

34. Chopra, Ajay et. al.: *Indian Economic Reforms and Growth* (Washington D.C.: IMF Occasional paper #134, Dec. 1995) pp. 54-70.

35. Sengupta, Arjun: *Economic Reforms of Mrs. Indira Gandhi* (New Delhi: R.Gandhi Institute for Contemporary Studies, 1996), pp. 17-23.

36. Varshney, Ashutosh: "India's Political Economy: Issues, Non-issues and Puzzles" in *Journal of commonwealth and comparative politics*, 26 (Nov. 1988), pp. 236-39.

37. Rudolph, Lioyd and Rudolph, Suzanne: *In Pursuit of Lakshmi: The political economy of the Indian state* (Chicago: University of Chicago Press, 1987), pp. 31-38.

38. Stiglitz, J. E.: "The Role of Government in the contemporary World" in Tanzi, V & Chu, K. (ed.): *Economic Distribution & High Quality Growth*, (The MIT Press, 1988), pp. 35-50.

39. A World Bank Country Study: *India: Recent Economic Developments and Prospects* (Washington D.C., U.S.A., 1995), pp.41-57.

40. A World Bank Country Study: *India: Five Years of Stabilization and Reform and the Challenges Ahead* (Washington D.C., U.S.A., 1996), pp. 6-50.

41. Ghosh, Jayati: "India's Structural Adjustment: An Assessment in Comparative Asian Context" in *Economic and political weekly,* May, 17-24, 1997.

42. The World Bank: *World Development Report,* 1987, pp. 25-39.

43. The World Bank: *World Development Report,* 1991, pp. 18-25.

44. Lal, Deepak: *Op. Cit.* No.31, pp.25-40.

45. The World Bank: *World Development Report,* 1991, pp. 8-12.

46. Ghosh, Arun: *India in Transition-Economic Policy Options* (Allahabad Wheeler Publishing, 1992), pp. 3-15.
