CHAPTER - VI

IMPACT OF ECONOMIC REFORMS: PRE AND POST REFORMS SCENARIO

6.1 INTRODUCTION:

There is no denial of the fact that the objective of the public policy in India since independence has been the promotion of rapid and balanced economic development with equity and justice. In December, 1954 Parliament of India accepted the socialist pattern of society as the objective of social and economic policy. A plethora of regulations and controls, which were in operation for the last four decades, not only hindered rapid growth and modernization of the economy but also became the breeding ground for corruption. The control which was imposed to check the growth of monopoly, in effect, resulted in the growth of monopoly. The control mechanisms provided so much protection to Indian industry that it led to inefficiency and high cost of production. The losers were not the monopoly capitalists but the consumers who were overburdened with high prices and the poor quality of products. The industrialists thrived in a sheltered and protected environment but lost the dynamism to innovate and compete in international markets. [1]

Public sector industries in India have been characterized by inefficiency; many of them have been incurring losses over long periods while their counterparts in the private sector are making profits. The financial health of the banking sector in the country deteriorated over the years. Agriculture continued to be the backbone of Indian economy. It provided employment and income for about two-thirds of Indian work force. Though over the years the Indian economy significantly benefited from the fruits of the 'Green Revolution', yet the success of the revolution has been concentrated in particular regions of the country. Greater attention has been given to agricultural subsides than to agricultural investment. Unemployment has been one of the serious problems

that the country has been facing since the inception of planned economy the country. The relatively high rate of population growth has been associated with a high growth of labour force. [2]

The meager resources were released to the sectors that deserve greater priority. These sectors are education, public health, rural development, social security, family welfare, women and child development, housing, literacy, water supply and so on. Hundreds of millions of our people are still trapped in 'abject poverty'. At the end of sixty years of independence, the country is facing a situation which is crucial on both domestic and external fronts. There have been gains in industry and agriculture but these have not been sufficient to offset the burden caused by a rising population and increasing fiscal profligacy. India's fragile economy was plunged into a deep crisis by the adverse impact of the conflict in the Gulf in August, 1990. For the next 10 months, the economy was teetering on the brink of a collapse as the country passed through to changes of government, a general election and several other traumatic events. Narosimaha Rao's Government took office in June, 1991 when Indian economy was in the midst of unprecedented crisis. For the first time in India, the country was faced with the prospect of defaulting on its international commitments. The access to commercial credit markets was completely denied; international credit ratings have been down graded and the international financial community's confidence in India's ability to manage its economy had been severally eroded. The economy suffered from serious inflationary pressures, emerging scarcities of essential commodities and break down of fiscal discipline. [3]

6.2 THE NEW ERA:

To restore international confidence in the economy and reduce the imbalances which had emerged both in external and domestic financial conditions a programme of economic reforms was initiated with the first budget which was, presented within a month of the government's coming into office. As

per official statement of the Government of India, "The goal of our economic reforms is to improve the living standards of all of our people, not just the rich and privileged. Reforms will be difficult and will take several years, but the alternative of continuing wide spread poverty, unemployment, illiteracy, disease, malnutrition rising inflation, and stagnant production is unacceptable," However, the collapse of the Soviet Union in 1991 and the web of liberalization across the national frontiers of the different countries induced the acceptance of open economy paradigm. Scholars of the pro-liberalization school argued with great emphasis that the state controlled development through the controlled economy is obsolete now-a-days.[4]

To keep up with the pace of the liberalization, everything changed in July, 1991 dramatically. A series of new policy measures was announced with a view to restoring confidence. The budget of the new government marked the beginning of a process of liberalization and fiscal correction which was carried on in the second budget presented at the end of February, 1992. By that time, the foreign exchange crisis was over and international reserves were rising. Economic reform had two basic components: stabilization and structural reforms. Both these measures affected Indian economy in their own distinct ways.

As is well known the immediate impetus for the imposition of the current structural adjustment programme in India since 1991 was the balance of payments crisis of 1990-1991 which involved a substantial erosion of foreign exchange reserves and difficulties in the repayment of short- term external commercial debt. This crisis also was associated with (and subsequently attributed to) the unsustainable domestic fiscal position resulting form the government's use of large deficits to fuel the economic growth of the late 1980s. When a new government came to power in the middle of 1991, its two economic policy initiatives were to approach the IMF for an immediate stand by loan and a two stage devaluation of the rupee by about 20 percent. Subsequently a wide

ranging programme of economic reforms was set in motion, in which the immediate aim of stabilization was conjoined with a broader structural adjustment package based on the strategy of liberalization. The strategy was explicitly broadly similar to that typically found in IMF- World Bank structural adjustment programmers, with the difference that the stabilization element was relatively underplayed, and the fiscal compression did not last more than two years. However, the fiscal stance has changed greatly in quality, with a dramatically reduced allocation for public capital formation.[5]

The liberalization of government controls has been fairly wide ranging, covering inter alias the de-licensing of industrial investment and production ,removal of export subsidies and reduction of fertilizer subsidies,decanalization of a number of imported items along with shift from import quotas to tariffs and reduction of average tariff rates, financial liberalization measures both for resident and external investors. With the exception of consumer goods quantitative restrictions have been removed from imports and tariffs brought down significantly. On the financial side, foreign institutional investors have been allowed to enter Indian stock markets with full repatriability permitted after a small lock in period. Not only have conditions been cased for the entry of foreign banks into the domestic sector, banking regulations have been changed so that they can now set their own lending rates (subject to minimum) and are free to launch subsidiaries which offer equity linked services. The logic behind these moves, besides the standard expectation that removal of controls on investment and trade would improve allocative efficiency, and the expectation that private investment, both domestic and foreign, would rise substantially and, with foreign capital inflows channeled into the equity rate, the demand for foreign financing will be met by non debt creating instruments. It is worth nothing that such liberalization has operated mainly to the benefit of large capital, whether Indian or foreign, the labyrinth of rules and controls facing

small producers, co-operatives and ordinary citizens in their day to day life has been generally untouched and in some cases made even more oppressive.[6]

The first phase of economic stabilization included measures to improve India's fiscal and balance of payment position. The results of these macro economic crisis management measures soon bore fruit.

A. Gross Fiscal Deficit:

Between 1985-86 and 1990-91 more than 8%of G.D.P

By 1993-94 -4.7%of G.D.P;

B. Current Account Position:

1990-91- the primary deficit of 3.2% of G.D.P

1991-92- The primary deficit of 0.5% of G.D.P

C. Foreign Exchange Reserve:

1990-91- 2.1 billion of U.S dollars.

1991-92-9.22 billion of US dollars.[7]

The functioning of Structural Adjustment Programme (SAP) soon bore fruit for the country and could solidify her Foreign Exchange Reserve position in the post economic reform period. Information provided in the following table proves this point.

Table: 6.1

Foreign Exchange Reserve
(excluding gold but including revaluation effects)

	Aug 24, 2007	Aug 25, 2006	Mar 31, 2007	Variation Over								
				Month Ago	Year Ago	Fiscal Year So Far				Full Fiscal Year		
						2007-08	2006-07	2006-07	2005-06	2004-05	2003-04	2002-03
Rs. Crore	912166	736445	836605	29263	175721	75561	89106	189266	54198	126916	124730	92327
US $ mn	221507	158001	191926	3399	63506	29581	12890	46815	9535	28126	35556	20835

Source: Economic and Political Weekly, September 08-14, 2007, Vol. XLII, No. 36.

Along with the macro-economic stabilization process, structural reforms were initiated on a wider scale to progressively liberalize and then ultimately

integrate India with the emerging world economic order. Radical changes were brought forward through economic reforms. [8]

When the Narasimha Rao government had introduced neo-liberal economic reforms in 1991, avertable euphoria had swept the country. While the state and the capitalist- controlled media had been largely responsible for its creation, the success of their effort owed much to the pervasive sense of disillusionment with the old dirigisme, and to the hope that "something different might work ". Today when these reforms have been completed after having more than 15 years of existence, no hosannas are being sung to their achievement. Even bourgeois commentators are hard put to celebrate fourteen years of reform. [9]

The net effect of delicensing of investment and production in most industries, opening up of more sectors to private investors to allow the market forces at work at random, liberalization of capital markets, lifting of many import controls and reduction of tariffs reform of tax structure and financial sector, etc can be attempted here below. The discussion will show how the reform measures have regulated and redefined the role of the state and stretching up the horizon of the functioning of market forces to a great extent. [10]

6.3. IMPACT OF ECONOMIC REFORMS:

Economic reform in the context on globalization is an established fact of life at present. The impact of globalization for the different countries, and for their masses is of immediate and great concern. Touching to a greater or lesser extent over nearly all aspects of economy, society and polity the impact of globalization is multifaceted. Attention here interestingly and necessarily focused on the LDCs including India as the developed countries are the regime makers in respect of globalization and they also have the national capacity to cope with the stresses and strains that may be generated by globalization.

Taking the optimistic view of globalization the enthusiasts of this process argue that through higher integration into the world economy- through elevating the role of the market and reducing the role of the state in the economy and also through greater participation in world trade and allowing Foreign Direct Investment (FDI) inflows but not necessarily Portfolio Foreign Investment (PFI) inflows - will have enormously beneficial effects. The process will enable LDCs to access the large world market as the integration will boost their industrialization.

Advancing their economic prosperity these countries will get their GDP growth rate accelerated very smoothly. On the other hand there will be the alleviation of poverty through the trickle down effect by way of grater employment that an expanded industry will provide and as well through direct poverty alleviation measures by the state that increased economic resources will make possible. The forces of political stability and democracy will also be strengthened as there will be expansion of the middle classes following the higher economic growth.

But on the basis of the negative consequences of globalization the critics of globalization have mounted a powerful and wide ranging case against globalization. In the form of several hypotheses the case can be stated succinctly. One can consider the impact of globalization in conceptualizing these hypotheses, in the first instance, on the relationship of any particular LDC as a whole to the world economy and the interstate systems. Analytically treating the internal structure of the country as consisting of three consistent parts, namely, the state, economy and society, one has to examine the impact of globalization on each of these three parts. Taking this arrangement of the three parts as a triangle, with the state at the apex while the economy and society occupy the other two vertices at the base one also can explain the situation. Alongside many other triangles representing other LDCs inside a big circle standing for the world economy and the interstate systems, this triangle lies itself as a whole.

Globalization, thus, as all three vertices of the triangle are interrelated, may have direct first-order effects on one of them but also indirect second-order effects for the other two vertices. But the situation was something different when the countries were more closed and less open, the state stood as a 'gatekeeper' in relation to the influences coming from the outside of the world. The situation can be presented for proper understanding in the following graphical manner.

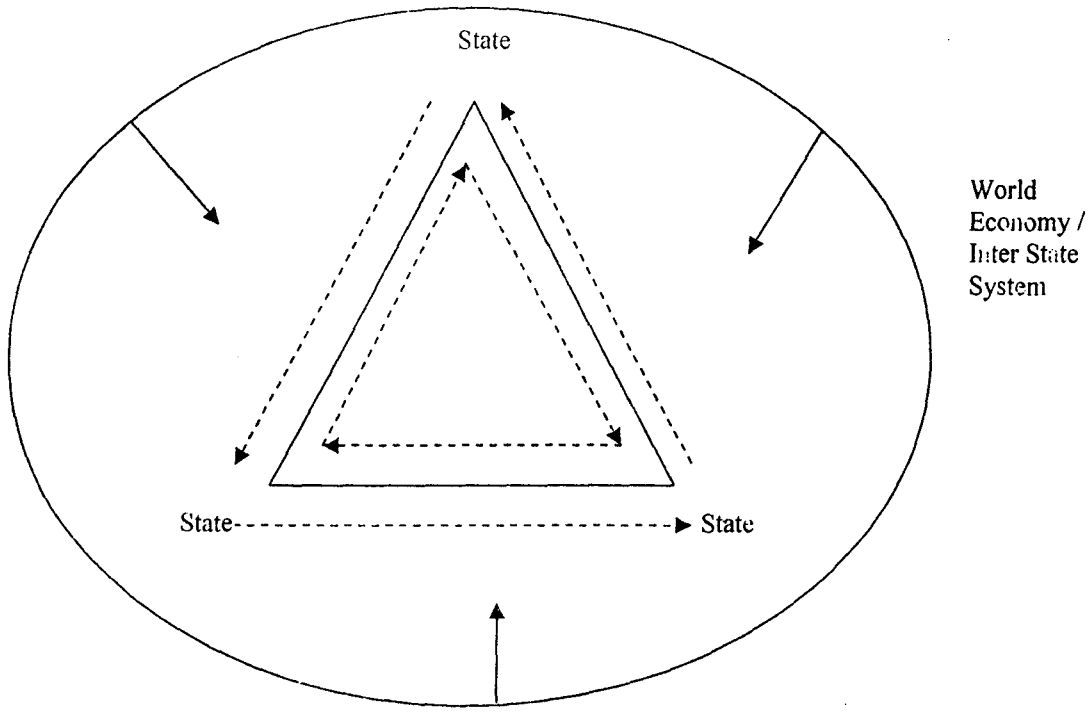


Figure: 6.1: Impact of World Economy on an LDC in pre-reform scenario

But at present, often, bypassing the states (govts.), the economy and society of any country can be directly influenced by international forces through trade and capital flow and satellite communication. Pressures from the world economy and the interstate system in the era of globalization, bearing in on the LDCs and its different interrelated constituent parts can best be depicted graphically in the following figure shown below.

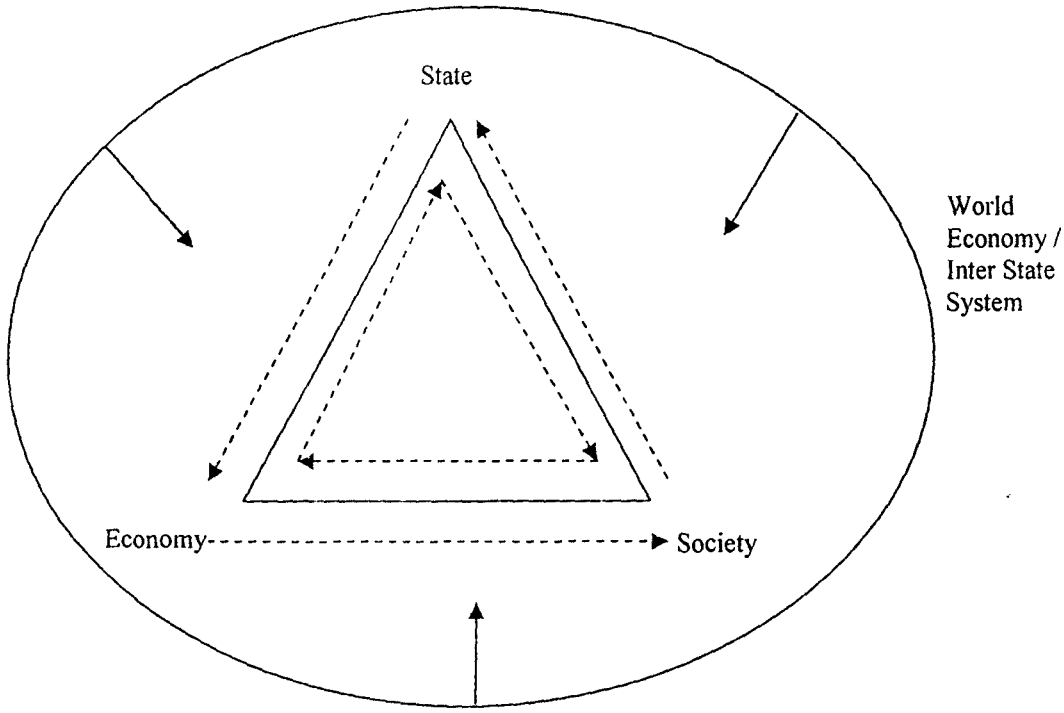


Figure: 6.2: Impact of World Economy (Globalization) on an LDC in the post-reform

Such is the development of the World Economy (Globalization) at present. Against this perspective the impact of economic reforms on any nation-state is to be understood. [11]

Before undertaking an appraisal of the economic reforms, it would be desirable to state the goals of the process of economic development. The reform process while accelerating economic development should lead us to the following ends:

(i) a higher rate of growth by applying the mechanism of market forces as much as possible;

(ii) an enlargement of employment potential leading to full employment ;

(iii) reduction of population living below the poverty line;

(iv) promotion of equity leading to a better deal for the poor and less well off sections of our society; and

(v) reduction of regional disparities between the rich and the poor states of India; and

(vi) stepping down the old formula of controlled and planned development and keep pace with the concept of 'rollback' of the state. [12]

It would be of interest to examine economic reforms in terms of the targeted goals of the economic development of the society mentioned above.

6.3.1. GDP Growth, Employment and Poverty:

There is no doubt that economic reforms have been able to promote a relatively higher growth rate- after the teething troubles of the first two years viz. 1991-92 and 1992-93, the growth rate during 1993-94 to 1997-98 averaged more than 7 percent per annum (Table given below). After 1991-92; the momentum of growth has been maintained providing increasing evidence that the growth potential has improved as a result of the reforms initiated in 1991. The growth rate during the Eighth Plan (1992-97) period worked out to be 6.8 percent whereas the growth rates during the Ninth Plan (1997-2002) and Tenth Plan (2002-2007) were targeted at 7% and 8% respectively. Even if 1991-92 which was a bad year is included, the growth rate during the 6 year period, and 1991-92 to 1997-98 works out to 5.7 percent. There is no doubt that after 1992-93 the economy picked up and the growth rate reached an average level of 7 percent during the 4 year period (1994-95to 1998-99). This can be considered as a legitimate achievement of economic reforms. The major issue is to sustain this high growth rate and re-orient the content of economic reforms so that it can make a definite dent on poverty and unemployment. [13]

Table: 6.2

GDP Growth Rates at Factor Cost (1980-81 prices)

Year	GDP growth rate	Year	GDP growth rate
1981-82	6.1	1990-91	5.4
1982-83	3.1	1991-92	0.8
1983-84	8.2	1992-93	5.3
1984-85	3.8	1993-94	6.2
1985-86	4.1	1994-95	7.8*
1986-87	4.3	1995-96	7.6*
1987-88	4.3	1996-97	7.8*
1988-89	10.6	1997-98	5.0*
1989-90	6.9	1998-99	6.8**
		1999-2000	5.9**

* Revised in February 1999 by CSO at 1993-94 prices.

** Advance Estimates as released in February 2000 at 1993-94 prices.

To get the update knowledge regarding GDP growth following table may be taken into consideration. It is interesting to notice that if a comparison of the annual average growth rate during the pre-reform period (1980-81 to 1990-91) which was of the order of 5.6 per cent per annum, then the post-reform decade (1990-91 to 2000-01) also shows the same average annual growth rate of 5.6 per cent of real GDP. However, there is a distinct improvement in growth rate of GDP during the 4-year period (2000-01 to 2004-05) to an average of 6.3 per cent.

Table: 6.3

GDP Growth (at factor cost) at 1993-94 Prices

Year	GDP (Rs. Crores)	GDP Growth Rate
1980-81	4,01,128	
1990-91	6,92,871	
1991-92	7,01,863	1.3
1992-93	7,37,792	5.1
1993-94	7,81,345	5.9
1994-95	8,38,031	7.3
1995-96	8,99,563	7.3
1996-97	9,70,083	7.8
1997-98	10,16,594	4.8

Year	GDP (Rs. Crores)	GDP Growth Rate
1998-99	10,82,798	6.5
1999-00	11,48,367	6.1
2000-01	11,98,592	4.4
2001-02	12,67,945	5.8
2002-03	13,18,362	4.0
2003-04	14,30,548	8.5
2004-05	15,29,408	6.9

Annual Average GDP Growth Rate

1980-81 to 1990-91	5.6
1990-91 to 2000-01	5.6
2000-01 to 2004-05	6.3

Source: Compiled and computed from CSO, National Accounts Statistics (2005)

6.3.1.1. Economic Reforms and Reduction of Poverty:

At the 41st Annual conference of the Indian Society of Labour Economics, Dr. S. P. Gupta, member, planning commission delivering V.B. Singh memorial lecture on November, 18, 1999 captioned "Trickledown Theory Revisited: The role of employment and poverty ", surveyed the progress that has taken place in the era of economic reforms after 1991 and the period preceding the reforms: Dr. Gupta brought out some disquieting fact " In India, the poverty reduction (i.e. reduction of the percentage of the people living below the poverty line) over 1983 to 1990-91 was around 3.1 percent per annum, but it reversed to 1 percent in the 1990s i.e. between 1990-91and 1997.In contrast to this, the GDP growth in India between 1983 to 1990-91 was 5-6 percent and between 1990-1991 and 1997,was expected to go beyond 5-7 percent.

Table: 6.4

Percentage of People below the Poverty Line 1983-1997 (Percentage)

NSS Round	Percentage			Absolute
	Rural	Urban	Combined	
Numbers				
				(Million)
1983(38th)LS	45.65	40.79	44.48	322.8
1987-88(43rd)LS	39.09	38.20	38.86	304.9
1989-90(45th)TS	33.70	36.00	34.28	276.0
1990-91(46th)TS	35.04	35.29	35.11	291.0
1992(48th)TS	41.70	37.80	40.70	348.0
1993-94(50th)S	37.27	32.36	35.07	320.5
1994-95(51st)TS	38.03	34.24	36.98	329.5
1995-96(52nd)TS	38.29	30.05	36.08	328.0
1997(53rd)TS	38.46	33.47	37.23	348.8
1998(59th)TS				
Six Months	45.25	35.48	43.01	406.3

LS = Large Sample, TS = Thin Sample

Source: Household consumption survey, NSSO, Government of India.[14]

For updated information regarding the conditions of poverty both in the rural and the urban areas of the country information given in the following tables are of great importance.

Table: 6.5

Comparable Estimates of Poverty and Inequality

(URP, Official Poverty Lines)

(Per cent)

Rural	Headcount Ratio				Poverty Gap			
	1983	1987-88	1993-94	2004-05	1983	1987-88	1993-94	2004-05
Andhra Pradesh	26.8	21.0	15.9	10.8	5.86	4.35	2.9	2.0
Assam	44.6	39.4	45.2	21.7	8.75	7.45	8.3	3.5
Jharkhand	65.5	52.8	62.3	42.9	22.00	13.56	16.2	8.9
Bihar	64.7	54.2	56.6	42.2	19.54	12.74	14.2	8.3
Gujarat	28.9	28.3	22.2	19.4	5.64	5.44	4.1	3.4
Haryana	21.9	15.3	28.3	13.6	4.28	3.62	5.6	2.2
Himachal Pradesh	17.0	16.7	30.4	10.9	3.58	2.63	5.6	1.5
Karnataka	36.3	32.6	30.1	20.0	9.73	7.88	6.3	2.7
Kerala	39.6	29.3	25.4	13.2	9.98	6.30	5.6	2.8

Rural	Headcount Ratio				Poverty Gap			
	1983	1987-88	1993-94	2004-05	1983	1987-88	1993-94	2004-05
Chhattisgarh	50.6	46.7	44.4	42.0	12.49	10.38	8.6	9.4
Madhya Pradesh	49.0	40.1	39.2	35.8	13.95	10.64	9.8	7.8
Maharashtra	45.9	40.1	37.9	30.0	11.95	9.56	9.3	6.4
Orissa	68.5	58.7	49.8	46.9	22.72	16.30	12.0	12.1
Punjab	14.3	12.8	11.7	10.0	3.03	1.97	1.9	1.3
Rajasthan	35.0	33.3	26.4	19.0	9.65	8.64	5.2	2.9
Tamil Nadu	54.8	46.3	32.9	22.7	17.39	12.65	7.3	3.7
Uttaranchal	25.2	13.2	24.8	14.9	4.00	1.99	4.4	1.9
Uttar Pradesh	47.8	43.3	43.1	33.9	12.70	10.25	10.6	6.7
West Bengal	63.6	48.8	41.2	28.5	21.06	11.58	8.3	5.8.
All India	46.5	39.0	37.2	28.7	12.36	9.29	8.5	5.8
Rural	**Squared Poverty Gap**				**Gini-Coefficient**			
	1983	1987-88	1993-94	2004-05	1983	1987-88	1993-94	2004-05
Andhra Pradesh	2.00	1.41	0.87	0.65	29.7	30.9	29.0	29.4
Assam	2.63	2.04	2.21	0.90	20.0	23.0	17.9	19.9
Jharkhand	9.8	5.03	5.59	2.55	27.2	26.6	23.4	22.7
Bihar	7.86	4.32	4.9	2.30	25.9	25.2	22.2	20.7
Gujarat	1.69	1.59	1.16	0.91	26.8	26.1	24.0	27.3
Haryana	1.37	1.30	1.75	0.61	28.5	29.2	31.4	34.0
Himachal Pradesh	1.16	0.71	1.62	0.35		27.1	28.4	31.1
Karnataka	3.69	2.80	2.01	0.63	30.8	29.7	27.0	26.5
Kerala	3.62	2.05	1.85	0.98	32.0	32.1	30.1	38.3
Chhattisgarh	4.47	3.36	2.47	3.43	24.4	24.5	21.7	29.8
Madhya Pradesh	5.54	3.97	3.58	2.31	31.5	30.6	30.	26.8
Maharashtra	4.3	3.21	3.35	1.99	29.1	31.2	30.7	31.2
Orissa	10.17	6.24	4.07	4.24	27.0	26.9	24.6	28.5
Punjab	1.06	0.51	0.48	0.269	29.2	29.7	28.1	29.5
Rajasthan	3.81	3.40	1.56	0.72	34.7	31.5	26.5	25.1
Tamil Nadu	7.52	4.80	2.50	0.96	36.7	33.0	31.2	32.2
Uttaranchal	1.04	0.46	1.08	0.42	29.2	28.3	24.4	28.5
Uttar Pradesh	4.7	3.4	3.64	1.93	28.9	28.5	28.3	29.0
West Bengal	9.46	3.99	2.45	1.42	30.0	25.8	25.4	27.4
All India	4.87	3.23	2.84	1.76	30.4	29.9	28.6	30.5

Source : 2004-05 estimates are calculated from grouped data from NSSO Report 508. Estimates for 1983, 1987-88 and 1993-94 are calculated from the unit level data respectively.

Table: 6.6

Comparable Estimates of Poverty and Inequality (URP, Official Poverty Lines)

(Per cent)

Urban	Headcount Ratio				Poverty Gap			
	1983	1987-88	1993-94	2004-05	1983	1987-88	1993-94	2004-05
Andhra Pradesh	41.2	41.1	38.8	27.1	10.9	10.6	9.3	6.1
Assam	25.9	11.3	7.9	3.7	5.6	1.5	0.9	0.5
Jharkhand	40.5	34.6	26.5	20.7	10.9	7.8	5.2	4.7
Bihar	61.6	63.8	40.7	38.1	18.5	16.6	9.7	9.3
Gujarat	41.9	38.5	28.3	14.2	9.7	8.2	6.2	2.5
Haryana	26.4	18.4	16.5	15.6	5.8	3.6	3.0	3.2
Himachal Pradesh	11.0	7.2	9.3	5.0	2.8	0.7	1.2	1.0
Karnataka	43.6	49.2	39.9	33.3	13.3	14.1	11.4	8.9
Kerala	48.0	38.7	24.3	20.6	14.7	10.0	5.5	4.7
Chhattisgarh	50.7	36.0	44.2	40.7	14.5	9.8	11.5	12.9
Madhya Pradesh	56.1	50.0	49.0	42.3	16.1	14.5	13.9	12.4
Maharashtra	41.1	40.5	35.0	32.8	12.1	12.4	10.2	9.2
Orissa	54.0	42.6	40.6	43.7	16.7	11.1	11.4	14.1
Punjab	22.9	13.7	10.9	5.0	5.9	2.3	1.7	0.6
Rajasthan	41.2	37.9	31.0	28.5	11.5	9.6	7.0	6.2
Tamil Nadu	51.9	40.2	39.9	24.1	15.4	11.5	10.2	5.3
Uttaranchal	22.4	20.4	12.7	17.0	5.9	4.2	3.2	3.0
Uttar Pradesh	52.7	46.4	36.1	30.7	15.1	12.7	9.3	7.2
West Bengal	33.5	33.7	22.9	15.4	8.5	7.4	4.5	2.6
All India	43.6	38.7	32.6	25.9	11.4	10.2	8.0	6.2
Urban	Squared Poverty Gap				Gini			
	1983	1987-88	1993-94	2004-05	1983	1987-88	1993-94	2004-05
Andhra Pradesh	4.1	3.9	3.2	1.9	33.2	36.1	32.3	37.6
Assam	1.7	0.3	0.2	0.1	26.1	31.0	29.0	32.1
Jharkhand	4.2	2.6	1.6	1.5	30.9	32.1	32.5	35.5
Bihar	7.1	5.9	3.4	3.0	28.5	26.6	28.2	33.3
Gujarat	3.6	2.6	2.0	0.7	28.5	27.8	29.1	31.0
Haryana	1.9	1.1	0.9	1.0	34.8	28.7	28.4	36.5
Himachal Pradesh	1.1	0.1	0.3	0.3	35.8	29.2	46.2	32.6
Karnataka	5.5	5.7	4.4	3.1	34.2	34.0	31.9	36.8

Urban	Headcount Ratio				Poverty Gap			
	1983	1987-88	1993-94	2004-05	1983	1987-88	1993-94	2004-05
Kerala	6.2	3.9	1.9	1.6	38.9	36.9	34.3	41.0
Chhattisgarh	5.6	3.6	4.1	5.4	32.2	32.1	30.6	44.0
Madhya Pradesh	6.2	5.6	5.3	4.8	29.8	33.3	33.6	39.7
Maharashtra	4.9	5.2	4.2	3.5	34.6	34.8	35.7	37.8
Orissa	7.1	4.2	4.3	5.8	29.0	31.0	30.7	35.4
Punjab	2.3	0.6	0.4	0.1	33.9	28.8	28.1	40.3
Rajasthan	4.7	3.4	2.2	1.9	33.9	34.6	29.3	37.2
Tamil Nadu	6.3	4.6	3.9	1.6	35.1	35.8	34.8	36.1
Uttaranchal	2.0	1.2	0.9	0.7	30.5	35.1	27.5	32.9
Uttar Pradesh	5.9	4.7	3.4	2.3	31.5	33.5	32.6	36.9
West Bengal	3.2	2.4	1.4	0.6	33.5	34.6	33.9	38.3
All India	4.4	3.8	2.9	2.0	33.9	35.0	34.4	37.6

Source: 2004-05 estimates are calculated from grouped data from NSSO Report 508. Estimates for 1983, 1987-88 and 1993-94 are calculated from the unit level data respectively.

Dr. Gupta underlined the pro-elitist bias of economic reforms when he states: The inverse relationship observed between poverty reduction and GDP growth becomes even more prominent if one obtains the trends over the recent years. For example between 1993-94 and 1997, and even after that the estimates of poverty reduction went down when poverty percentage (i.e. people below the poverty line) increased from 35.07% to 37.23% in the aggregate. This is the period when GDP growth rate increased to around 6.9% per annum, the highest ever witnessed consecutively for four years in India.

Dr. Gourav Datta of the World Bank in his article:" Has poverty declined since Economic Reforms?" compared the decline in head-count index, poverty gap index and squared poverty gap index for rural and urban India in the pre-reform and the post reform period. The main conclusions of the study are as under:

1) Mid-1980s seems to be a significant watershed in the evolution of the living standards in India ..... While there was a marked decline

in both rural and urban poverty rates between 1973-74 and 1986-87, there is no sign of anything comparable.

2) For the rural sector, the results indicate that while there was a significant trend decline in all the three poverty measures up to mid-1991 at an annual rate of 2.7% for the head-count index, 4.5% for the poverty gap and 5.9% for the squared poverty gap index, the rate of decline since then is not significantly different from zero.
3) For the urban sector in the pre-reform period (1973-74 to 1990-91), the results indicate a declining trend in all the three poverty measures up to mid 1991 (at an annual rate of 2.2% for headcount index, 2.8% for poverty gap and 3.1% for squared poverty gap) the same trend is even continued in the post-reform period (1990-91 to 1996-97)and more and all the three poverty measures register a decline (at an annual rate of 2.2% for headcount index, 2.65% for poverty gap and 3.7% for squared poverty gap).
4) While the urban sector appears to have continued its trajectory of growth and poverty reduction through the 1990s, rural poverty reduction was chocked off by lack of rural growth. [15]

6.3.1.2. GDP Growth, Employment and Growth of Poverty:

The question arises: Why is that although GDP growth rates have been very high during the recent years especially after 1993-94? These have not been accompanied by corresponding reduction in poverty. If poverty implies either unemployment or underemployment or absence of good quality employment, then it would be of interest to study the change in scenario before and after economic reforms. Data provided in the table below reveal that total employment increased from 3.026 lakhs in 1983 to about 3.568 lakhs in 1990-91 and then improved to about 3.829 lakhs in 1997-98. The rate of growth of

employment was of the order of 2.39% per annum during 1983 and 1990-91, which was equal to rate of growth of labour force during this period. [16]

However, it was hoped that if this rate of growth of employment is sustained in the next decade the country would be able to reduce the backlog of unemployment significantly. Unfortunately, the period of overall growth rate of employment was only of the order of 1.0%. It may also be noted that since the reform process is limited to the organized sector, more so to the large corporate sector, the growth rate of employment in the organized sector also decelerated to 0.60% during 1990-91 to 1997-98 as against 1.73% per annum witnessed in the 7 year pre-reform period of 1989-90. This was just one third of the growth rate of the employment witnessed earlier. There was also a substantial slow down in the employment growth rate of unorganized sector to merely 1.1% during 1990-91 to 1997-98 as against employment growth rate of 2.41% witnessed during the 7 year pre-reform period (1983 to 1990-91). This leads one to the natural conclusion that the trickle down effects of the growth process did not benefit the poor in the country. [17]

Table: 6.7

Movement of Employment 1983-1987

In Lakhs

Year	Total	Organized Sector	Unorganized Sector
1983	3026.0	240.1	2785.9
1990-91	3567.6	270.6	3297.0
1997-98	3828.5	282.5	3546.0

Table: 6.8

Growth Rate of Employment Annual Average (%)

Year	Total	Organized Sector	Unorganized Sector
1983 to 1990-91	2.39	1.73	2.41
1990-91 to 1997-98	1.0	0.6	1.1

Source: Computed from data provided by Household consumption Survey, NSSO, Government of India.

6.3.1.3. Poverty and Employment:

From the data given in Table-6.7, it becomes evident that percentage of people below the poverty line declined from 44.48% of total population in 1983 to 35.11% in 1990-91 and the absolute number of persons below the poverty line sharply declined from about 323 million in 1983 to 291 million in 1990-91 but thereafter, during the 7 years period since 1990-91 until 1997-98, the proportion of people below the poverty line went up from 35.1% to 37.23%. In absolute terms, the number of the poor went up from 291 million in 1990-91 to 349 million in 1997. If the six monthly thin samples for the 1998, then the situation appears to be alarming because of the proportion of the population below the poverty line shoots up to 43% and the total number of poor rises sharply to 406 million. Obviously, the pattern of growth followed after 1991 reduced employment growth rate to 0.6%, meaning thereby that employment elasticity which was the order of 0.41 during 1983 to 1990-91 slumped to an insignificant figure of 0.1 during 1990-91 to 1997-98. [18]

It is to be borne in mind always that the pillars of the Government's poverty reduction strategy are accelerated and sustained labour intensive growth and investment in human capital. Anti poverty programmes initiated by the government in several banners like 'Antyaday', project S.G.R.Y etc. have a supplementary role. Although over all growth in terms of GDP accelerated over the past few years, there is concern that some of the stabilization and structural reform measures initiated in 1991 might have had a negative impact on the living standards of the poor. In particular, the sharp devaluation and the fiscal stabilization measures taken in the first few years of the program led to significant increases in the prices of key commodities such as fertilizer, rice sugar, cotton and gasoline. This was compounded by a poor monsoon in the first year of programme which caused agricultural production to fall while the industrial sector started a two-year relatively serious recession. Finally, results of

the 1991-92 National Sample survey suggested a sharp increase in the incidence of poverty. Although this increase is difficult to explain on the basis of the variables that are good predictors of poverty (such as wages for unskilled agricultural labourers, agricultural production and inflation), and may be associated with methodological weaknesses it nonetheless generated considerable public debate on the social consequences of stabilization and reform. [19]

There have been questions, however, on what has been the evolution of poverty in the last few years (1991-2005). The acceleration of growth in the last few years, the sustained agricultural performance, the positive evolution of real wages for unskilled agricultural labour and the decline in inflation would all suggest that the incidence of poverty has declined in the last few years. But in the absence of more recent comprehensive data of the kind provided by the quinquennial surveys, it is impossible to conclude with any degree of certainty the effects on poverty of the developments of the last few years. For the purpose of this analysis, however, and as very first approximations case studies were carried out by Indian economists and social scientists between January and March, 1996 in four states (Maharastra, Tamil Nadu, Punjab and Uttar Pradesh) while they still need to be validated by actual data this exercise suggested that the incidence of poverty was unlikely to have increased. More interestingly, perhaps a strong result which emerged from these case studies is that the welfare and safety net programmes seem to be barely noticed by those who were being interviewed. In spite of the significant resources that the country allocates to such programmes, there is little evidence that they have a palpable impact on the living standards of the poor. This may be because the newer programmes failed to reach the targeted population. Below is a brief discussion of how the beneficiary assessments were conducted, and of their results. [20]

The case studies were carried out in four states - Maharastra, Tami Nadu, Punjab and Uttar Pradesh. One of the primary benefits of the work is that it

provides very timely information on how the poor people view their opportunities and living conditions at the time of inquiry. This timeliness and responsiveness comes at a cost, however, regions (and villages and individuals within villages) were chosen to be broadly representative of, e.g. certain cropping patterns, agro-climatic zones, social or ethnic grouping and are not formally or statistically representative of the country as a whole. The case studies were designed to address two questions, first, how have the poor in India fared since 1991 and what has been the likely impact of reform and stabilization measures on their incomes and living standards and second, how well have these safety net programmes both government and non-government worked to protect the living standards of the poor. [21]

A number of general findings emerged. **First,** across all regions respondents in both rural and urban areas reported no dramatic changes in their standards of living following the advent of the 1991 stabilization and reform program. The changes mentioned were typically due to idiosyncratic or localized effects; for example death or illness in the family, late or scant rainfalls, loss of employment for a particular household member. A slightly higher share (although still few) of people in urban areas are aware of economy, wide changes, but their knowledge tends to be fragmentary and there was no sense that had been affected by such changes. [22]

Second, there were marked regional disparities in richer areas with better infrastructure, natural endowments and commercially oriented agricultural such as in Punjab or Maharastra, cultivators were generally positive. In the rural areas, increases in producer prices were appreciated. In many regions farmers have responded to changing market initiatives by shifting cropping patterns to more profitable or less input intensive crops for example, sun flower seeds require less water and are more resistant to disease and insects than more traditional crops like sorghum. In addition, some farmers are producing for relatively new export markets (i.e. grapes in Maharastra). But small and marginal farmers in the case

studies reported less favourable outcomes. In general, small and original formers are slower to diversify or change cropping patterns and few report sufficient additional earnings (cash or in kind) to compensate for the rise in input process.[23]

Third, case study findings on rural wages and employment are mixed contrary to what is suggested by wage statistics in many regions covered in the case studies agriculture wages seem to have just kept pace with cost of living increases since 1991 and most individuals report working the same number of days post -1991 as pre -1991.

The limited work done in urban areas - medium to large cities in Maharastra and U.P seem to reinforce the view that wages and employment movements after 1991 depends to a large extent on the relative wealth of the region and type of occupation. Se cure employment is rare among the poor, with the exception of certain sectors (i.e. domestic employment) where it appears that lower monetary wages (domestic workers surveyed in U.P earn an average half of other low skill occupations) are traded for more stable development. In prosperous Mumbai, unskilled workers in the construction sector report more competition for jobs (due to higher in flux of rural workers), falling wages, and a drop in average annual days of employment. [24]

Fourth, the case study findings regarding India's extensive system of social safety nets suggest the following.

The PDS is almost universally viewed as an ineffective food safety net. In most states, the prices of food grain available through the PDS are on a par with prices in the market, and PDS quality is generally lower. One exception was Tamil Nadu.

Few villages have ICDS operating centers another food safety net programme for pre school children. By contrast the mid- day meal programme in certain districts of UP is seen as an effective inducement to attend school, as were SC/ST scholarship programmers. [25]

With the exception of Maharastra, Employment Assurance Schemes (EAS) and other public works programme (including the JRY) are not effective at providing employment for the poor. Those employed under the schemes typically work many fewer days than stated targets. [26]

Credit schemes have an uneven history of success in rural India. Many respondents received loans through the IRDP. But these loans often did not serve their stated purposes to increase assets and thereby raise incomes in some sustainable way - and many are not rapid. [27]

However, the Ninth plan projections revealed that labour force is likely to increase at the rate of 2.51 per cent per annum during the years of 1997 and 2002 and there after by 2.4 percent during the next fifteen years. The grim scenario that has emerged during the 1990s regarding employment growth and employment elasticity to GDP growth makes one sit up and rethink whether the reform process will be able to meet the challenge of poverty and unemployment during the next decade. There is, therefore, a dire need for changing the gears of the strategy of growth by shifting emphasis from the production of articles of durable consumption like washing machines, colour TVs, refrigerators, air conditions, nylon fabrics, scooters, mopeds and cars to articles of mass consumption or wage goods. [28]

Joseph Stiglitz, senior vice-president of the World Bank mentions: "A comparative approach to development putting social justice, equality and the fight against poverty should be at the heart of the Banks' agenda, rather than following the so-called Washington consensus". [29]

On the basis of the information given by National Sample Survey (NSS) after making a thorough employment surveys conducted during the 55th round in July-June 1999-2000, and the 61st round in July-June 2004-05, the sixth and seventh in a quinquennial series updated information as regards the conditions of rural unemployment rate in the country may be presented in the table given below:

Table: 6.9

Reported NSS Rural Unemployment Rates in 1999-2000 and 2004-2005

Round		Persons	Males	Females
Per cent in the labour force				
Usual (Unadj)	55th	1.9	2.1	1.5
	61st	2.5	2.1	3.1
Usual (Adj)	55th	1.5	1.7	1.0
	61st	1.7	1.6	1.8
Current Weekly	55th	3.8	3.9	3.7
	61st	3.9	3.8	4.2
Current Daily	55th	7.1	7.2	7.0
	61st	8.2	8.0	8.7
Per cent of persons				
Usual (Unadj)	55th	0.7	1.1	0.4
	61st	1.0	1.2	0.8
Usual (Adj)	55th	0.6	0.9	0.6
	61st	0.7	0.9	0.6
Current Weekly	55th	1.5	2.1	1.0
	61st	1.6	2.1	1.2
Current Daily	55th	2.6	3.7	1.5
	61st	3.2	4.2	2.1

6.3.2. Economic Reforms and Impact on Labour:

A review of Industrial relations in the pre-reform period reveals that as against 402.1 million man days lost during the decade (1984-90) i.e. in the pre-reform period, the number of man days lost declined to 150.5 million during (1991-2000).In the post reform period looking at the aggregate level, it may be stated that the loss of man days in the aggregate level declined and this can be treated as the index improvement of Industrial relations in the post reform period. But if a further break of the man days lost into strikes and lockouts is made then it is revealed that as against 46.2% of total man days lost during the pre-reform period by lockouts, the proportion jumped to 61.2% in the post reform by lockouts. In other words, where as workers have resorted much less to

strikes fearing the wave of privatization and liberalization, employers' militancy has become much more pronounced in the post-reform period.[30]

Table: 6.10

Man Days Lost in Strikes and Lockouts.

Period	Total No. of Mandays Lost		
	Strikes	Lockouts	Total
Pre reform period	216.4	185.7	402.1
1981-90	53.8	46.2	100.0
Post-reform period	58.4	92.1	50.5
1991-97	38.8	61.2	100.0

Note : Figures in brackets are percentage of total mandays lost.

Source: Calculated from data provided in the Ministry of Labour, Annual Report (1998-99) and earlier issues.

Another table shown below clearly shows that the situation further worsened during 2001-2003, and lockout accounted for 77.1 per cent of total man days lost. Thus, the sharp decline in total mandays lost was more a consequence of the disciplining of the labour rather than a disciplining of the employers.

Table: 6.11

Man Days Lost in Strikes and Lockouts

(Million)

Period	Total No. of Man days Lost		
	Strikes	Lockouts	Total
Pre-reform Period (1981-90)	216.4 (53.8)	185.7 (46.2)	402.1 (100.0)
Post-reform Period (1991-2000)	91.6 (39.8)	138.5 (60.2)	230.1 (100.0)
2001-2003	18.4 (22.9)	62.2 (77.1)	80.6 (100.)

Note : Figures in brackets are percentage of total man days lost.

Source: Calculated from data provided in the Ministry of Labour, Annual Report (2001-2002) and earlier issues and Economic Survey, *2005-06.*

Besides this as a result of 1687 closures a total of 1.20 lakhs of workers also lost their jobs, evidence has shown that the closure is being used as a device to reduce the component of permanent workers thereby down grading the states of

total work force. In addition the production units have been resorted to lay off to cut down labour costs in the lean period. During the 10 years post reform period (1991-2000), a total of 6.0 lakh workers were laid off on the plea of redundancy, a total of 20.720 workers were retrenched during 1991-97. This retrenchment is another serious blow to the workers.

Table: 6.12

Percentage Distribution of Total Work Force

Sl. No.	Period	Self employed	Wage Employment	Casual Labour
01.	1988	53.6	15.2	31.2
02.	1984	51.9	14.7	33.5
03.	1996	52.4	15.9	32.8
04.	1997	52.6	14.5	32.9
05.	1998	50.7	12.3	37.0

Source: Ashok Mathur (2000), Economic Reform, Employment and Non-employment; Theory evidence and policy in Hajela, P.D. and Goswami, M.P.: Economic Reforms and Employment.

All these trends have increased the proportion of casual labour in total employment in the post reform period. It may be pointed out that casual labour which stands lowest in terms of average income as well as security has risen in proportion from 31.2% in 1988 to 37% in 1998. Growing casualisation of labour adversely impacts on the income of the labour.

Although the government has not formally accepted the exit policy, but emboldened by the wave of economic reforms and pro-capitalist attitude of the state the exit policy is being implemented by various clandestine devices in practice by the employers. By the scheme of voluntary retirement, the load of workers is being reduced both in the public and private sector; consequently, workers are being pushed from the organized to the un-organized sector from secure to insecure employment. [31]

6.3.3. Increase in Productivity and Real Wage Earning:

Industrialist lobbies have frequently charged labour for not raising labour productivity but forcing an increase in the real wage of earnings of labour. Sheriff and Gamber (1999) have studied the problem of increase in labour productivity and real earnings of regular wage salaried employees. Their study reveals, whereas overall real labour productivity showed an increase during 1983-88 by 3.16% and during 1988-94 by 3.32% the real earning of workers increased at the annual average rate of 7.0% during 1983 and 1987-88, but showed a miserably low increase of 1.0% during 1987-88 and 1993-94. Though the post reform is not long enough to arrive at any definite conclusion, but it does give some indication of straws in the wind that the gains of productivity increase during 1988-94 by 3.32% were passed on to the workers by only 1.0% and the rest pocketed by the employers. This had an unhealthy impact on the labour welfare. [32]

The upshot of the analysis given above is that the basic problem with economic reform is not to treat labour as an asset but mere by as an instrument which can be dispensed with; when in the judgment of the employer it is no longer useful. This is very mechanical view of the labour, which is resented by trade unions on the one hand, and judiciary on the other.

The demand of Industry Associations like FICCI, ASSOCHAM and CII for permitting labour flexibility-meaning thereby the right to hire and fire has been contested by the trade unions. The government also did not agree to scrap section 25N of the Industrial Disputes Act (1947). The Honourable Supreme Court in a series of judgments has pointed out the demoralizing effect of retrenchment and closures on workers. The supreme count earmarked.

"By requiring prior security of the reasons for the proposed retrenchment.....Section 25N seeks to prevent the hardship that may by caused to the affected workmen as a result of retrenchment, because at the commencement of his employment, a workman naturally expects and looks

forward to security of services spread over a long period and retrenchment destroys his hopes and expectations. The retrenched workman is suddenly and without his fault thrown on street and has to face the grim problem of employment (The Indian Hume Pipe Co. Ltd. V. the workmen, 1960/2) SCR3 at pp. 36-37).

The advocates of economic reforms try to justify labour flexibility by drawing to the provision of safety net to help laid off workers. Joseph Stiglitz in his keynote address before the Industrial Relations Research Associations (Jan 9, 2000) stated in a very sharp manner: "There is no safety net that can fully replace the security provided by an economy running at full employment No welfare system will ever restore the dignity that comes from work". Stiglitz, therefore, urged, "Workers rights should be a central focus of development".

6.3.4. Neglect of Agriculture - The Major Sin of Economic Reforms:

A major criticism of the process of economic reforms is the neglect of agriculture. Data reveal that food-grains production increased from 129.6 million tones in 1980-81 to 176.4 million tones in 1990-91 resulting in annual compound rate of 3.1%. But during the 10 years period of economic reforms, food grains production increased from 176.4 million tones in 1990-91 to 202.5 million tones in 1998-99 indicating an annual average growth rate of 1.7% which was lower than the growth rate of population. Complacency on the food-grains front can certainly cost the nation very dearly in the coming decade. [33]

Various reasons have been assigned for this situation; firstly, the reform process has emphasized the growth of manufacturing and service sectors and thus neglected agriculture. Secondly, as per the data provided in the Report on Currency and Finance (1998-99), gross capital information in agriculture indicated that public sector investment (at 1980-81 prices), which had increased to Rs. 1796 crores in 1980-81, indicated a sharp decline and averaged only Rs. 1138 crores during the 6 years period (1991-92 to 1996-97). Thirdly, NABARD

accumulated Rs. 13500 crores under its Rural Infrastructure and Development Fund but was able to utilize it to the extent of only 30% - indeed, a very dismal performance. This lack of development of irrigation and infrastructure by withdrawing public sector investment with the hope that the private sector investment will expand in irrigation did not materialize. This was specially the case in backward states like Bihar, Madhya Pradesh and Orissa which indicates very poor growth rates in food grains production even lower than the national average.[34]

According to Economic Survey (1999-2000) : "The decline in public investment in agriculture is mainly due to the diversion of resources into current expenditure in the form of subsidies for food, fertilizers, electricity, irrigation, credit and other agricultural inputs rather than on creation of assets."

Table: 6.13

Growth Rates of Agricultural Production in India

Sl. No.	Name	Pre-Reforms period(1990-91 over 1980-81)	Post-reform Period(1998-99 over 1990-91)
01.	Food-grains	3.1	1.7
	a)Rice	3.3	1.6
	b) Wheat	4.3	3.2
	c) Coarse Cereals	1.2	-0.6
	d) Pulses	3.0	1.3
02.	Oil seeds	7.1	4.1
03.	Sugarcane	4.6	2.4
04.	Cotton	3.4	3.4
05.	Jute & Mesta	1.2	0.7
	Index of Agricultural production	3.8	2.3

Source: Computed from the data given in Economic survey (1999-2000)

To get the update information in this regard a quick glance can be made at the following table.

Table: 6.14

Growth Rates of Agricultural Production in India

	Pre-Reform Period 1990 – 91 over 1980-81	Post-Reform Period 2003-04 over 1990 -91
1. Food grains	3.1	1.40
(a) Rice	3.3	1.06
(b) Wheat	4.3	2.10
(c) Coarse Cereals	1.2	1.20
(d) Pulse	3.0	0.36
2. Oil Seeds	7.1	1.98
3. Sugarcane	4.6	1.47
4. Cotton	3.4	2.68
5. Jute & Mesta	1.2	0.52
Index of Agricultural Production	**3.8**	**1.54**

Source: Economic Survey (2005-2006)

Although the reform process has neglected agriculture and as a result, the growth rate of agricultural production which was 3.8% during the eighties, came down to 2.3% during the nineties yet the population dependent on agriculture has not indicated any decline.

Table: 6.15

Annual Growth Rate of Various Development Programmes

Sl. No.	High yield varieties	1970-71 to 1980-81	1980-81 to 1990-91	1990-91 to 1997-98
01.	Total HYV	10.5	4.2	4.4
02.	Paddy	12.5	4.1	2.3
03.	Wheat	9.5	2.7	1.1
04.	Irrigated area	3.6	2.7	1.9
05.	Rice	1.4	1.7	2.1
06.	Wheat	4.6	2.3	1.1
07.	Total cereals	2.4	1.7	2.0
08.	Pulses	0.0	2.7	1.8
09.	Major irrigation	2.7	1.3	1.2
10.	Minor irrigation	4.2	3.5	2.3
11.	Fertilizer consumption	9.6	8.5	3.7

Source: Computed from the data given in Economic survey (1999-2000).

Although the Ninth Plan (1997-2002) fixed a target of 4.5% for annual growth in agriculture, this target appeared to be very difficult to achieve. This was more so in view of the fact that though India had seven good monsoon years in succession, agricultural production indicated year to year fluctuations. This costs a shadow on sustainability of agricultural growth, unless there is a reorientation of priorities with much greater emphasis on agriculture and industrialization. The state, instead of withdrawing from investment in agriculture, irrigation and rural infrastructure, has to strengthen public sector investment in these areas. In case, this is not done, bulk of the population dependent on agriculture will suffer and the country would also endanger long term prospect of food security.[35]

Same importance was put upon the field of agriculture during the Tenth Plan (2002-2007) too to have a balance of development across the country along with industry. Annual growth rate in agriculture was fixed at the rate of 4% during this plan .A rate of 30-32%of investment in this field was ext it proposed. In this context it is to be mentioned that during the tenure of Ninth Plan the rate of investment in this field was fixed at the rate of 23-24%.

6.3.5. Economic Reforms and Industrial Growth :

Economic Reforms were mainly intended to remove the bottlenecks, which acted as obstacles in industrial production. To pursue this goal, Industrial licensing was abolished in all but 18 industries. Later the government delicensed several others. During 1998-99, three industries viz. i) coal and lignite, ii) Petroleum (other than crude and its distillation products), and iii) Sugar were delicensed. Accordingly, there are only six industries now under compulsory licensing. Two Industries, viz. coal and lignite were taken out from the list of industries reserved for public sector. At present there are only four industries reserved for the public sector. [36]

Data provided in the table given below reveals where as the eighties (1981-82 to 1990-91), general index of industrial growth with production recorded an annual average growth rate of 7.8%, growth rate of IIP slowed down to 5.8% during the nineties (1990-91 to 1998-99). In manufacturing it declined from 7.6% in the 80s to 5.9% in 90s and in electricity from 9% to 6.8% and in mining & quarrying it slumped from 8.3% to just 3%. Thus, the expectations that growth of IIP would be stimulated did not materialize.

Table: 6.16

Annual Average Growth Rate of Industrial Production.

Sl. No.	Sector	1981-82 to 1990-91	1991-92 to 1998-99
	General Index	7.8	5.8
a.	Manufacturing	7.6	5.9
b.	Electricity	9.0	6.8
c.	Mining and quarrying	8.3	3.0

Source: RBI, Reports on currency and finance (1998-99).

Current information in this regard shows the dismal record.

Table: 6.17

Annual Average Growth Rate of Industrial Production.

Sl. No.	Sector	1981-82 to 1990-91	1993-94 to 2003-2004
	General Index	7.8	6.6
a.	Manufacturing	7.6	7.0
b.	Electricity	9.0	5.6
c.	Mining and quarrying	8.3	3.9

Source: RBI, Handbook of Statistics on Indian Economy (2004 - 2005)

Another table given below reveals the growth rates of industrial production on the basis of use based classification. The data reveal, but for intermediate goods, which recorded a slightly higher growth rate of 7.7% in the nineties as compared to 5.9% in the eighties in all other sectors, growth rates recorded in the eighties were higher than those in the nineties. In the capital

goods sector, growth rate dipped to a very low level of 3% in the nineties as against a robust growth rate of 11.5% in the eighties.

Table: 6.18
Annual Average Growth Rate of Industrial Production
Use Based Classification

Sl. No.	Sector	1981-82 to 1990-91	1991-92 to 1998-99
01.	Basic gods	7.0	6.2
02.	Capital goods	11.5	3.0
03.	Intermediate goods	5.9	7.7
04.	Consumer goods	6.7	5.5
	a) Durables	13.9	7.9
	Non-durables	5.5	5.0
05.	General index	7.8	5.8

Source: RBI, Report on currency and finance (1998-99).

From the index of growth rates of industrial production, it becomes evident that the performance of the industrial production during 1991-92 to 1998-99 which was generally identified as a period of wide-ranging reforms in the industrial sector was not up to the mark. It failed even to equal the performance observed in the eighties, not to speak of improving the performance as a consequence of the reform process in the nineties. The failure of the basic goods sector really put a question mark on the advisability of the reform process. [37] Latest data found in this regard exhibits the same gloomy picture.

Table: 6.19
Annual Average Growth Rate of Industrial Production-
Use Based Classification.

Sl. No.	Sector	1981-82 to 1990-91	1993-94 to 2003-2004
01.	Basic gods	7.0	5.3
02.	Capital goods	11.5	7.2
03.	Intermediate goods	5.9	6.5
04.	Consumer goods	6.7	7.2
	(a) Durables	13.9	10.2
	(b) Non-durables	5.5	6.4
05.	General index	7.8	6.6

Source: Computed from RBI Handbook of Statistics on Indian Economy, 2004-2005)

6.3.6. Reforms and the Government:

The new economic policy has failed to meet the expectation that it aroused at the beginning. Why it failed to do so? Is it true that the progress of reforms has been blocked and the government did not agree to reduce its role in the economic role of the society? Even though there had been political instability. It is furthest from the truth that the government continued to play the role it used to play in the pre-liberalized era. Facts do corroborate the view that in spite of frequent changes in political rule at the centre with four governments assuming power in a span of three years, there had been a steady decline in the size of the government in the post-liberalized era. Whatever be the cause of failure one can not blame the government for creating obstacle to the new direction of the economy.

The Government of India thought of reducing the role of the public sector and started the process of opening more and more areas for the government. The industrial policy of 1991 started the process of de-licensing, but for a small number of 18 industries, industrial licensing was withdrawn. The process of deregulation was aimed at enlarging competition and allowing new firms to enter the market. The main aim was to abolish the license-raj, permit-raj and establish the rule of the market.

Not only the market was opened to domestic entrepreneur/industrialists, even foreign capital was provided free entry up to 51% equity in high-tech areas. The area of the public sector was limited to the following in future:

a) Essential manufactured goods.
b) Exploration and exploitation of oil and mineral resources.
c) Technology development and building of manufacturing capabilities in areas which are crucial in the long term of development of the economy and where private enterprise is inadequate.
d) Strategic Areas – Defence equipment. [38]

It was envisaged under the new economic policy that the role of the government in direct economic activities would be reduced and more space would be created for the private sector. As one analyses the successive budgets of the central government one observes that both the total receipt of the government under various budgetary heads and total expenditure measured as percentage of the nominal GDPs for the relevant years did register a declining trend following the new economic policy. Thus, according to the report on the Currency and Finance, 1998 the total receipt of the Government of India declined on an average from 18.41% to 16.02% between of 1985-86 to 1989-90 and 1991-92 to 1996-97. An analysis of the relevant data reveals that there was a sharp decline in revenue receipt (which declined from 11.1% to 9.95% of the GDP). Capital receipt also declined but this was rather marginal-during the five year period preceding the introduction of the new economic policy, capital receipts as percentage of the nominal GDP had been 7.3 on an average in the post 1991 period the percentage declined to 6.07. Within the revenue receipts the decline was more pronounced in tax revenue (net to centre), which declined from 8.34% to 7.34%. The receipts from dividends and profits and the interest receipts by the central government did not decline. In fact, dividends and profits as percentage of GDP increased from 0.17% to 0.28% during this period.

As total receipts declined, total expenditure, again measured as percentage of GDP, also registered a decline. In fact the decline in total expenditure had been at a higher rate. The five yearly average of total expenditure between 1985-86 and 1989-90 had been 20.47%. In the post 1991 period the share declined to 16.88% (average of six years of between 1991-92and 1996-97). There was a cut in revenue expenditure, but this was marginal in nature (it declined from 13.69% to 12.91%). There was a drastic cut in capital disbursement from 6.78% of the GDP, it declined to 3.98% within the same period. The capital outlay that includes budgetary support for central plan,

central assistance to state plans and central assistance to union territories declined from 2.81% to 1.55%.

If the items of the expenditure are decomposed as development and non development expenditure, one observes that during the period under consideration the non-development expenditure as a percentage of GDP had a marked stability. In the pre-reforms period it was 8.78 percent, the ratio is 8.79 during the post-reform period. The major casualty to the economic reforms that were taken up by the Government of India is the development expenditure. The development expenditure as percentage of GDP has declined from 11.6 percent to 8.56 percent. One understanding is that the NEP has a definite orientation - the orientation featured by a decline in the proportion of tax revenue and a cut in capital disbursement indicating a decline in the development expenditure.

Facts indicate that there is a definite shift in the orientation of the government finance following the introduction of the NEP. The government is really with drawing from the development activities. The development expenditure as the percentage of the GDP is declining steadily over this period. In spite of the so called political instability reflected in frequent changes of government in the centre, the orientation of the policy as such did not undergo a change. It remained remarkably stable. In fact, this is what one expects in a society in which the neo-liberal view has marked its stamp and the involvement of the government in economic life of the society is discouraged. The concept of a state that would intervene in the economy either through Keynesian or through the process of planned allocation of revenues, resources under a control and command system is being criticized. The ruling philosophy is that the role of the state in economic activities should be confined to the minimum level-to the extent which is necessary to correct the market forces. Consequently, the development aspect of the government expenditure is being undermined and this is being reflected in the successive budgets of the central governments.

6.3.7. Performance of Public Sector Undertakings:

Information about the performance of the much maligned central public enterprises, reveals that a gross profit as percentage of capital employed has shown a consistent up ward trend from 11.61 percent in 1993-94 to 15-88 percent in 1995-96 and then to 16.18 percent in 1997-98. A similar trend was observed in net profit, which was of the order of 2.84 percent in 1993-94 but improved to 6.15 percent in 1997-98. Value added per unit of capital which indicates the efficiency of capital employed also showed an improvement from 0.26 in 1993-94 to 0.33 in 1997-98. Obviously, the central planning sector enterprises have shown better performances during the 5-year period of reform (1993-94 to 1997-98). The basic question which needs to be raised is: if the ground realities indicate better performance of the central Public Sector Enterprises is it desirable to undertake disinvestment of these enterprises? Would it not be better to introduce reform of public sector enterprises so that they can improve their performance still further? By 1997-98, the Government had signed Memorandum of Understanding (MOU) with108 PSEs. Evaluation of their performance reveals that 45 were rated as excellent, 25 very good and 19 as good. If 89 PSEs out of 108 have shown improvement, there is a case for innovating measures to improve performance of PSEs, rather than giving a bad name and hang them. [39]

6.3.8. Privatization and Disinvestment:

Privatization can be conceived in two ways: 1) it may simply mean the opening up of such areas for investment for private sector which were hitherto reserved for the public sector. It is believed that entry of private sector units instill the spirit of competition between the public sector units and the private sector units and this competitive spirit can become the motivating force, for improving the efficiency and the productivity of the public sector.

Secondly privatization implies the change of ownership of the public enterprises in favour of private sector. This can take the form of total

denationalization and in that case, the enterprise is completely sold off to the private sector.

It can also mean that ownership of the public enterprise is diluted by selling of a certain percentage say 26%, 49% or 74% of the shares of the public enterprises. The Government may decide to sell 10% in the first instance and later permit larger percentage share for the ownership of the private sector. This is described as 'incremental privatization'. [40]

The Government may sell 10% of the shares of public enterprises to collect some funds to reduce its budget deficit. This is described as 'token privatization', or some economists have described it as 'deficit privatization'.

In India, although the Government has been pleading for privatization but it has been able to undertake privatization of the public enterprise in a very limited manner.

The Government however, has allowed Private Sector investment by Indian or foreign companies in certain sectors. Three important areas opened for the private foreign investment are power gas and oil. The BJP led government decided to open insurance sector to the private sector. This only implies that existing undertakings in the public sector will continue, but private sector can compete by establishing new undertakings. The Government of India is willing to open minerals and mines, roads, railways, telecommunications, even arms and ammunition etc. to the private sector. In case of certain sectors like roads, the private sector can levy toll tax and recover the investment made.

Electricity Laws (Amendment) Bill was passed by the Lok Sabha to help Maharastra Government to enter into agreement with Enron.

The government has opened telecommunication sector in India by agreeing to allow switching, equipment and value added services like earphones, paging, video-text and other services to foreign investment. The C-Dot and MTNL are not willing to give away the highly profitable sector of ear telephones to the private sector since they are doing good business. Railways are also planning to

go in for massive privatization in such areas as building of locos, wagons, coaches, rails and a large number of components being imported presently. Catering services are also to be privatized. [41]

Indian Airlines is also thinking of Partial Privatization by having a strategic partner with 26% stake in equity. Although the Government intends to privatize Vayudoot but there are no takers for this heavy loss making unit.

Maruti Udyog has been privatized. The percent Japanese company Suzuki has been allowed to raise its equity from 49% to 51% and become major shareholder.

Dr. Ashok Gupta after making a detailed survey of privatization efforts in India concludes: "Interestingly, the whole debate about prospects of privatization has concentrated on a few industries only in an agrarian economy. The industries, including the public sector, accounts for approximately 10% of India's net GDP. Therefore, even an unusual increase of 10% annual increase would affect whole of the economy by only one percent. As such no economic miracle can be expected unless the 'winds of change' reach the rural sector also. Widespread and sustainable agricultural growth is an important precondition for the industrial development. In fact, 10% increase in agricultural productivity is equivalent to a three-fold increase in industrial productivity".

Although in theory, it is argued that the loss making public sector enterprises if they are transferred to the private sector would become profit making. Even if the Government tries to sell the equity of loss-making enterprises, the private sector is not willing to take them over .Consequently; the Government is trying to go in for increment privatization of profit making public sector enterprises. [42]

6.3.8.1. Disinvestment of Public Sector Enterprises:

Disinvestment of public sector enterprises was started in 1991-92 and the main objective of disinvestment was to cover the fiscal deficit of the central Government. For this purpose, healthy highly profitable PSUs were offered for

disinvestment. The Comptroller & Auditor General (CAG) in his report to the Parliament in 1993 criticized the Government's faulty procedures for the sale of shares of PSUs causing a huge loss. The disinvestment of public sector shares in 1991-92 which were valued at Rs. 6,480 crores noted only Rs 3,038 crores- a huge loss of the Rs 3.442 crores. This was tantamount to transferring legitimate public sector funds to provide pockets, which could not be justified on the basis of either economic logic or social consideration.[43]

The whole process of disinvestment continued in a very lackadaisical manner, till August, 1996, when the government set up the Disinvestment Commission. The commission submitted 8 reports till August, 1998 and action on many of its recommendations has been taken.

Total disinvestment undertaken during 1991-92 to 1998-99 yielded Rs. 18,698 crores by sale of equity of PSUs. This is just 8.4% of the total investment in central public sector undertakings of the order of Rs 2, 23,047 crores in 1997-98. Obviously, the success of privatization effort can be considered as marginal. This is also in view of the fact that the Government has been offering the shares of profit making enterprises, which is not justified by any logic.

During the last 10 years (1995 to 2005-2006), the Government failed to raise the budgeted disinvestment in the capital market. Many reasons may be ascribed for this failure but the most important is the non-acceptability of shares of PSUs in the capital market. The token privatization to the extent of 8-10% of the shares of PSUs did not enthuse the Indian/ foreign investors to buy these shares because they could hardly exercise any controls on PSUs.

6.3.8.2. Disinvestment of Profit-Making Enterprises:

The government has been undertaking disinvestment of enterprises which have been earning profits. Mostly they are those which belong to the category of Navaratnas (precious Jewels) or Minor-Navaratnas (small precious jewels). The government in the initial stages followed the scheme of bundling of shares- each

bundle combining equity from poor and good performers. This scheme of bundling fetched very low price for the sale of government equity. For instance, the average price at which the Government offered more than 87 crores share in 1991-92 at Rs. 34.83 crores was deemed to be extremely low because the average price of Rs. 109.61 crores was realized later. This scheme therefore, was sharply criticized. Even the comptroller and Auditor General castigated the government for this. [44]

The government after this disastrous experience of the scheme of bundling shares abandoned it and soon started talking in terms of privatization of PSUs as opposed to disinvestment, though in essence the Government has been offloading the shares of its profit making enterprises in favour of the private sector. This process of disinvestment is referred to by Mr. Ashok Rao as "privatization of the profit making enterprises and the nationalization of the losses of loss making enterprises". To say the least, the approach of the Government is simply illogical. It is not aimed at reducing the burden of loss making enterprises by passing on such private enterprises to the private sector; neither does it make sense to transfer the shares of highly profit-making public sector enterprises to the private sector. C. P Chandrasekhar and Jayanti Ghosh after making calculations of the return on the PSUs of enterprises chosen for disinvestment stated: Even including the less profitable PSUs in which the government equity has been disinvested, the average rate of return (gross profits to total capital employed) during 1994-95 to 1996-97 in companies subject to privatization stood at 22.2 percent, well above the average of 14.93 percent for the public sector as a whole ". Since during 1987-88, the performance record of the PSUs has further improved and the average rate of return of PSUs has improved to 16.1 percent, the picture would be certainly better for these enterprises indicating a relatively higher rate of return. The basic question which the government refuses to answer is: why is it under taking the disinvestment of its profit making enterprises and especially highly profitable enterprises?"

To crown its muddle-headed policy of privatization the Government has devised its scheme of 'strategic investor', who will be permitted to exercise the majority control even when the concerned investor does not hold a majority of shares. Mr. Arun Ghosh, in his article "The Nations' Economic Dilemmas (Business Line, January 11,2000) exposed the proposal of 25 percent sale of IPCL to an MNC (foreign or Indian) by rejecting the offer of IOC to buy the shares of IPCL as the price offered by the government. The government is considering DOW Chemicals, Mitsubishi or Reliance to be chosen as strategic partner. Again the question arises: what is the need of the privatization of the Navratnas, which is a pioneer in a frontier technology industry and as on March, 1999 had reserves of Rs.2.771 crores. The company earned profits of Rs. 532 crores during 1997-98 but would be handed over to a strategic partner for merely purchasing 25 percent of holdings. What a travesty of logic indeed! Since all three candidates are competitors of IPCL. Arun Ghosh raises the question: With management control; would they promote or demote IPCL interests? --------IOC's interest lies in IPCL's expansion so that its own naphtha market expands (since IOC is a seller of naphtha to IPCL). And to repeat, IOC is cash rich ? Yet, IOC did was rejected? Again why? [45]

C. P Chandrasekhar and Jayanti Ghosh drew attention to the statement of power Minister Mr. Rangarjan Kumarmangalam to transfer the shareholding of National Hydro Electric Power Corporation which survives on budgetary support of Rs. 450 crores every year to National Thermal power corporation (NTPC) for a huge sum of Rs. 4.500 crores. Subsequently, NTPC would hive off a few of its units in to a new subsidiary and in the process, 51 percent of NTPCs holding would be offloaded to private sector. Thus by a dubious process of cross holding the Government intends to privatize its Navratnas to meet its budget deficit. In a very sharp comment; Chandrasekhar and Jayanti Ghosh state: "simply the strategy appears to be one of reducing the fiscal deficit in the Central Budget by substituting Government debt with public sector debt".[46]

6.3.9. Economic Reforms and Movement of WPI and CPI:

The rise of prices affects the labour classes adversely as against the capitalist classes who gain disproportionately with a rise of prices. The movement of wholesale price index (WPI) reveals that in the pre-reform period (1981-82 to 1991-92), the annual average rise of WPI was of the order of 6.9 percent and in the post reform period (1991-92 to 2001-2002) it was of the order of 8.6 percent. In case one takes food articles as a group, which affects the poor much more, the WPI for food articles rose at the rate of 10.3 percent in the post-reform period as against 7.2 percent in the pre-reform period. On both counts the performance on the price front in the post-reform period was relatively adverse as against the pre-reform period.

But a better index of measuring welfare would be to study the movement of consumer price -Index (CPI). Table given below provides information on point to point index of WPI CPI, (IW), and CPI (AL). The data reveal that during 1990-91 to 1998-99, WPI, indicated annual average rise by 7.9 percent, but the CPI for industrial workers (CPI-IW) showed a rise of 9.45 percent and the CPI for agricultural labourers (CPI-AL) indicated a still higher rise by 12.67 percent. Since CPI-AL is a more comprehensive index covering a very large section of poor agricultural workers, its rise by annual average of 12.67 percent only indicates the deteriorating plight of the weaker section of our society which has poor bargaining power. Obviously their real wages should show a decline with such a sharp increase in CPI (AL)

Table: 6.20
Comparative of Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the post reform period

year	WPI	Industrial Workers	Agricultural workers
1990-91	191.7	201	658
1991-92	217.7	229	1.046
1992-93	233.1	243	1,053
1993-94	257.7	267	1,175
1994-95	284.9	293	1,300
1995-96	299.4	319	1,396
1996-97	320.7	351	1,543
1997-98	336.8	380	1,602
1998-99	353.7	414	1.743
Annual average increase (1990-91to1998-99)	7.9	9.45	1,2.67

Sources: Compiled and Computed from RBI Handbook of statistic on Indian Economy.

The Reserve Bank of India Report on Currency and Finance (1998-99) focused attention on the increase in divergence of inflation as measures of CPI (IW) and WPI. RBI report mentions. "The consumer price inflation increased from 9.0 percent during the eighties to 9.9 percent during the nineties so far. The average differential of the consumer inflation and the whole sale price inflation has increased from 1.1 percentage points in the eighties to 1.7 percentage points in the nineties Besides, the year-to year differentials have been quite high, particularly since 1995-96"

The up shot of the above analysis is that in the post reform period, particularly after 1995-96 retail inflation has been higher than whole sale inflation and the reform process has been failed to curb this trend. Relative movement of the Wholesale Price Index and Consumer Price Index justifies the argument strongly. [47]

Table: 6.21
Relative Movement of the Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the Post-reform Period

Year	WPI* (Base 1993-94=100)	Consumer Price Industrial Workers (Base 1982=100)	Index Agricultural Labourers (Base 1986-87=100)
1993-94	100.0	272	189*
1994-95	112.6	304	204*
1995-96	121.6	337	234
1996-97	127.2	369	256
1997-98	132.8	388	264
1998-99	140.7	445	293
1999-2000	145.3	446	306
2000-2001	155.7	453	305
2001-2002	161.3	466	309
2002-2003	166.8	477	319
2003-2004	175.9	495	331
2004-2005	187.3	506	339
Annual Average Increase (1993-94 to 2004-05)	**5.9**	**5.8**	**5.4**

* Figures have been derived by applying the conversion factor 5.89 with the earlier series.

Source: Government of India, Economic Survey (2005-06).

One of the major objectives of the launching of New Economic Policy in the country has been the reduction of prices of the daily essential commodities. But unfortunately even after the completion of 17 years of reform there has been the steady rise in the prices of these commodities. Surge in the inflation has been a matter of great concern for the policy makers of the country. During the last few years government could not do much to control the rising graph of inflation.

It was found that inflation as a feature of capitalist economies was subdued and reined in especially from the early 1980s and this was the tine when monetarist policies were used to great effect to counter the inflationary trends of

the 1970s. These policies worked not so much by restricting money supply, as was the explicit claim, but rather by destroying the ability of the working classes in the developed countries and commodity producers in the developing world to maintain their income shares even as profit shares started soaring.

There is no denial of this fact that inflation emerges as India's economic problem number one. Given the way prices, especially the prices of essentials in retail markets, have been moving in recent months, this is hardly surprising. But the matter what is surprising is that media and political attention to a problem that has bothered the common man for sometime now has been rather recent in the country.

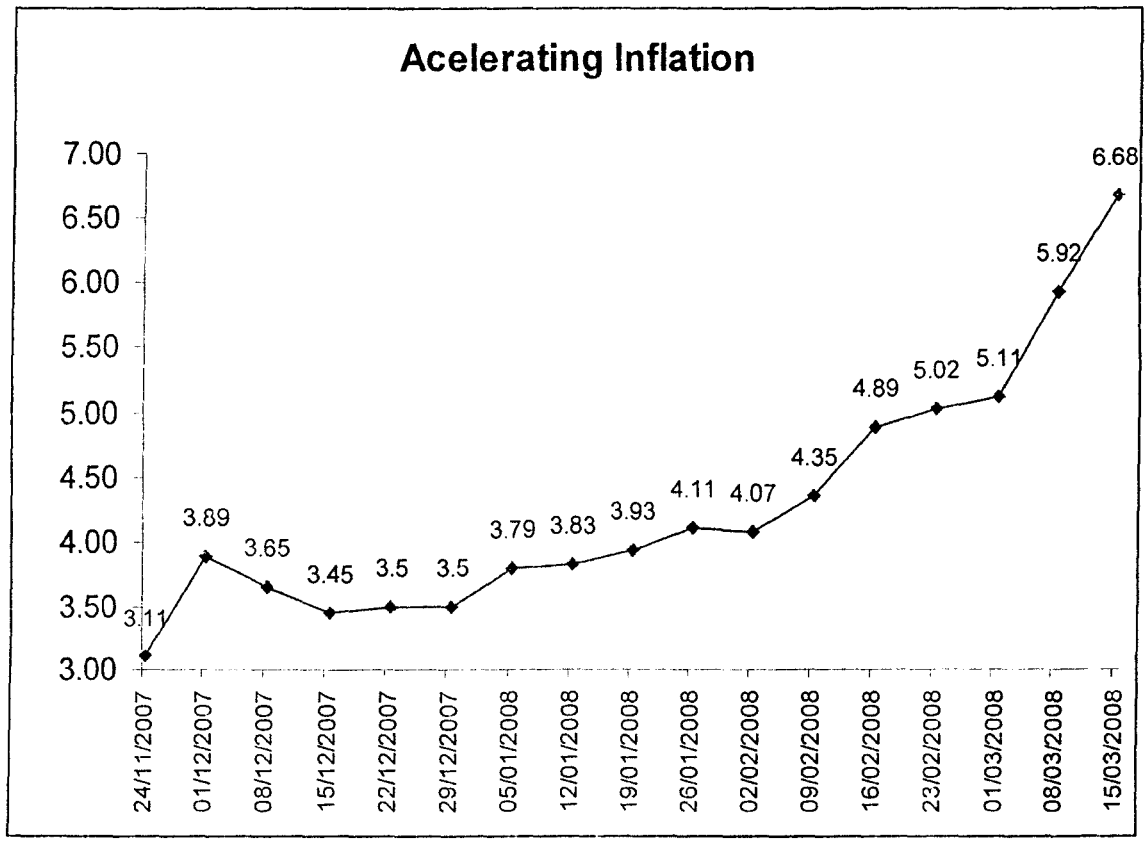
A minute analysis reveals the fact that the part of the reason for this delayed response is that headline inflation figures offered by point-to-point annual increases in the wholesale price index (WPI) capture trends on the ground with a substantial lag. Matters came to a head when WPI-based inflation figures relating to the week ending March 15, 2008, released at the end of March, indicated that the annual rate of inflation had risen to 6.68 per cent, which was higher than it had been for the previous 13 months. What is more, this inflation was not restricted to a few commodities but was widely spread in terms of its incidence. Inflation stood at 9.28 per cent in the case of dairy products, 19.03 per cent in the case of edible oils, 20.12 per cent in the case of oilseeds, over 9 per cent in the case of mineral oils and 26.86 per cent in the case of iron and steel. On March 22 it touched 7 percent as the trend continued with the annual WPI-based inflation rate.

If one judges it by historical standards or relative to the ceiling rate of 5 per cent set by the Reserve Bank of India the acceleration appears dramatic because even as recently as February (2008) WPI-based inflation was running low. The WPI for the week ended February 2 pointed to an annual inflation rate of just 4.07 per cent, whereas, during the corresponding period in the previous year, annualized

inflation was as high as 6.5 per cent on a week-to-week basis. However, soon thereafter the inflation rate started falling (even as concerns over inflation were still being expressed), and by October / November last year, it was hovering around 3 per cent. What is being witnessed now is a continuation of a trend that began in December when inflation once again edged upwards: 3.5 per cent in December, 4 per cent by end-January, 2008, 5 per cent by late February, 6 per cent at the end of the first week of March and then close to 7 per cent by mid-March in the same year(2008).

Chart: 6.1

Inflationary Trend between 24.11.2007 and 15.03.2008.



Source: Frontline, Vol. 25, No. 8, April 12-25, 2008.

To be particular it must be noted that even a 7 per cent level is by no means high if one views it from a perspective imbued with the tolerance for

single-digit inflation levels that characterized India in the past. But four factors explain the almost panic-stricken response today. First, the current level seems to be one more step in a stairway that could quickly take inflation to double-digit levels. Secondly, it is well above the 5 per cent mark that has been officially declared as the acceptable ceiling rate in the weak of fiscal and monetary reform. Thirdly, it is accepted that prices at the measured in terms of retail prices could be near or above double-digit levels. And, finally, all this is occurring in a period when global inflation is on the rise and policies of trade liberalization and domestic deregulation have reduced the degree to which Indian prices are insulated from the prices to be found in the international market. (Govt. of India: Economic Survey, Ministry of Finance, New Delhi, Annual).

6.3.9.1. Notable Gap between Retail and Wholesale Prices:

It can be stated with ease that the rising trend of inflation paved the way for the hoarders to increase the prices of the essential commodities in the country. Notable feature in the post-reform scenario has been the widening of the gap between the retail and the wholesale prices of the commodities. According to figures released by the government's own Department of Consumer Affairs, in the last one year, in the retail market of Delhi, the price of groundnut oil has been risen from Rs. 98 to Rs. 121 a kg, mustard oil from Rs. 55 to Rs. 98, vanaspati from Rs. 56 to Rs. 79, rice from Rs. 15 to Rs. 18, wheat from Rs. 12 to Rs. 13, wheat flour from Rs. 13 to Rs. 14, gram from Rs. 32 to Rs. 38 and *tur dal* (pigeon pea) from Rs. 35 to Rs. 42. In fact, figures collated by the Price Monitoring Cell of the department establish that in the case of a few commodities there is a huge difference between inflation as measured by retail prices (collected from and averaged across 18 reporting centers worldwide) and the WPI. In the case of rice, inflation over the year ending March 15 stood at 7.88 per cent as measured by the WPI, whereas it worked out to a huge 20.86 per cent in

terms of average retail prices. The inflation rate stood at 8 and 22 per cent respectively in the case of vanaspati too.

It is a fact that these differences are bound to be reflected in the consumer price indices for agricultural labourers and industrial workers, which not only give greater weight to some of the essential commodities that have been high rates of price inflation but are also based on the retail prices of these commodities. Unfortunately, the lag in the release of consumer price indices is much greater than in the case of the WPI, the most recent figure being for the month of February 2008. Yet, going by the consumer price indices, the annual month-to-month rate of inflation stood at 6.38 per cent in February 2008 for agricultural workers and a much lower 4.69 per cent for industrial workers. Given the most recent trends in the prices revealed by other sources, the figures based on the March indices are likely to be much higher.(Ministry of Commerce: Annual Report, 2007-'08).

Table: 6.22
A Gap too Wide (Inflation, in per cent, as measured by Retail and Wholesale Prices)

Commodities	Over the past 12 months		Since the beginning of 2008	
	Retail Price	WPI	Retail Price	WPI
Rice	20.86	7.88	3.74	1.95
Wheat	4.06	3.97	3.17	1.39
Atta (Wheat Flour	4.59	0.45	3.18	1.59
Gram	3.95	3.32	4.41	3.84
Tur (Pigeon Pea)	15.76	13.98	-3.35	1.74
Sugar	-0.23	-6.87	5.56	0.59
Groundnut Oil	14.71	10.11	2.97	5.86
Mustard Oil	28.26	28.98	12.11	14.49
Vanaspati	22.23	7.94	13.72	4.34
Potatoes	4.12	29.41	-25.37	-5.41
Onions	-27.19	-26.71	-30.63	-34.01
Milk	8.07	9.71	1.90	1.94

WPI: Wholesale Price Index

Source: Retail prices from Price Monitoring Cell on the Ministry of Consumer Affairs, Food and Public Distribution, averaged over 18 reporting centers.

6.3.9.2. Inability of the Government:

Important feature and condition of initiating liberalization process in any society has been the withdrawal of the control mechanism of the government from determining the role and shape of the market forces. This leads to free ground for the market to operate on. In the extreme point under this sort of economy there is every possibility for the government to be unable in controlling the direction of the market forces. Present developments in the country prove this point with concrete evidences. For the ongoing inflationary process in the country a combination of domestic and international factors is seen as responsible. A central tendency is the growing inability of the government to use its procurement and distribution mechanism as a means of controlling the domestic prices of cereals and pulses. This inability stems from two sources. The first is the failure to ensure that marketed surpluses of these commodities grow at a fast enough paces to match consumption and buffer stocking requirements in years when demand is buoyant, as is the case recently being found in the country.

Liberalization of trade in many of these commodities can be treated as the second source as it has seen the entry of private traders, including large transnational buyers, who have cornered stocks and limited procurement by government agencies like the Food Corporation of India (FCI). According to estimates made by the Commission for Agricultural Costs and Prices (CACP), the rice stocks in the Central pool as on October1, 2008, would be only 5.49 million tonnes, just marginally above the buffer norm of 5.20 million tonnes. Wheat stocks are estimated to be only 10.12 million tonnes, which would be below the buffer norm of 11 million tones, as is the case recently.

This was not a problem in the past because either demand was depressed of because the government responded to the situation by using its foreign exchange reserves to import food and augment domestic supply. During 2006 and 2007, nearly 7.5 million tonnes of wheat were imported by the Centre to

augment buffer stocks. However, given what has been happening to global prices, imports have been at prices much higher than that paid to domestic farmers, swelling the subsidy paid to cover the difference between the import price and the domestic sale price. Across the world, food prices, especially those of staples such as grains, have been rising sharply in recent months. Wheat epitomizes the trend, with international prices estimated to have risen by close to 90 per cent just during this year (2008). From this analysis it can be said easily that the process of liberalization has started taking its toll to a great extent. (Frontline, Vol. 25, No. 8, April 12-25, 2008).

6.3.10. Trend of Growth in Infrastructure:

Table below provides information about the trend in the Index of Infrastructure Industries for the period 1980-81 to 1998-99. The analysis reveals that in case of saleable steel and cement, the growth rates were higher in the post-reform period than in the pre reform period. In case of steel, the index of production increased by 10.2 percent during 1993-94 and 1998-99 as against only 4.9 percent in the pre-reform period (1980-81 to 1990-91). Similarly, the growth of cement production also indicated sharp increase by 8-9 percent during 1993-94 to 1998-99 as compared to only 4 percent in the pre-reform period. However, it should be pointed out that the momentum gained in the post reform period for acceleration in the production of cement was the consequence of introduction of dual pricing in the case of cement introduced in 1982, with progressive reduction in the percentage of controlled cement to eventually freeing cement prices from state control. This led to massive increase in the cement and output. Similarly, gradual easing of steel price control was accepted by the government in 1983. But all these measures were taken in the pre- reform period, which helped to provide an environment to these industries to raise their capacity and output without any bottle necks. [48]

However, other infrastructure Industries- electricity, coal, petroleum and refinery products did not fare well in the post -reform period. In the case of electricity, whereas in the eighties growth rate of generation was of the order of 9.1 percent, it was just 6.8 percent in the nineties. Likewise, coal production declined from 6.4 percent in the eighties to just 3.4 percent during 1993-94 to 1998-99. Petroleum refinery products fared even much worse. In case of petroleum, growth rate dipped from 12.2 percent in the nineties to just 3.9 percent during 1993-94 to 1998-99. While the state with drew from these sector and did not undertake investment in infrastructure, the private sector -Indian as well as foreign failed to fill the vacuum. Obviously, excessive dependence on private sector in the post-reform period did not yield the much trumpeted and desired results. [49]

Table: 6.23

Trends in Index of Six Infrastructure Industries (1980-81=100)

Name	1980-81	1990-91	1993-94	1998-99	1980-81 to 1990-91	1990-91 to 1993-94	1993-94 to 1998-99*
Electricity	100.0	238.9	292.3	138.8	9.1	6.9	6.8
Coal	100.0	185.7	215.8	117.8	6.4	5.1	3.4
Saleable Steel	100.0	147.6	190.5	162.3	4.9	8.9	10.2
Cement	100.0	260.4	309.1	153.3	4.0	6.0	8.9
Petroleum	100.0	317.9	254.7	121.3	12.2	-7.2	3.9
Refinery Products	100.0	186.8	196.1	128.4	6.5	1.6	5.1
Composite Index	100.0	215.0	249.9	138.3	8.0	5.1	6.7

*With 1993-94 as base=100

Source: Compiled and Computed from RBI (1999), Hand Book of Statistics on Indian Economy, P.43

Information about the trend in the Index of Infrastructure Industries for the period 1980-81 to 2004-2005 reveal the same negative picture so far as the question of building good infrastructure in the country was concerned .

Table: 6.24

Trends in Index of Six Infrastructure Industries (1980-81=100)

	Index of Infrastructure				Average Growth Ratio		
	1980-81	1990-91+	1993-94+	2004-05*	1980-81 to 1990-91	1990-91 to 1993-94	1993-94 to 2004-2005
Electricity	100.0	238.9	292.3	181.6	9.1	6.9	5.6
Coal	100.0	185.7	215.8	152.4	6.4	5.1	3.9
Saleable Steel	100.0	147.6	190.5	252.1	4.9	8.9	8.8
Cement	100.0	260.4	309.1	229.5	4.0	6.0	7.8
Petroleum	100.0	317.9	254.7	125.7	12.2	-7.2	2.1
Petroleum Refinery Products	100.0	186.8	196.1	238.1	6.5	1.6	8.2
Composite Index	100.0	215.0	249.9	190.7	8.0	5.1	6.0

* With 1993-94 as base = 100 + with base 1980-81.

Source: Compiled and computed from RBI (2004-05), Handbook of Statistics on Indian Economy (2004-05).

6.3.11. India's Foreign Trade and Balance of Payments:

Although the policy of liberalization in foreign trade was initiated in 1985-86 but their impact felt during the period of 1986-87 to 1990-91 was slow and after 1991 the new economic reforms went in for a more rapid globalisation of the Indian Economy by reducing or abolishing quantitative restrictions and also reducing tariff barriers which hindered trade. The main implications of reform measures were intended to boost exports as well so as to facilitate developmental imports or such imports, which were vital for increasing industrial production, may be of some raw materials. It would therefore, be appropriate to compare trend of foreign trade in the pre-reform periods i.e. 1980-81 to 1990-91 (described

as the eighties) and the period 1990-91 to 1998-1999 (described as the nineties) or the post reform period. [50]

RBI, Report on currency and Finance (1998-99) analyzing the growth performance of imports and exports in the post reform period excludes 1991-92 since it was exceptional year of import compression. The Report mentions: "On an average annual basis, exports growth during 1992-93 to 1998-99 at 9.8% was higher than that of 8.2% registered during 1980-81 to 1990-91. Similarly, the average import growth during the nineties at 12.0% remains substantially higher than that of 7.8% recorded during the eighties. "The Report further states" India's foreign trade exhibited considerably buoyancy during the period of 1993-94 to 1995-96 with both exports and imports recording, on an average an increase of 20% per annum. The growth of India's foreign trade, however, decelerated during the next three years i.e. during 1996-97 and 1998-99.

Table: 6.25

Major Indicators of India's Foreign Trade Imports

Period	Exports	Oil	Non-oil	Total	Balance of Trade	Growth rate Import	Growth rate Export	Export & Import Ratio
1980-81	8485	6655	92.2	15867	-7382	7.0	40.5	53.5
1981-82	8704	5786	9387	15173	-6469	2.6	-4.4	57.4
1982-83	9108	5816	8970	14787	-5679	4.6	-2.5	61.6
1983-84	9449	4673	10368	15311	-5862	3.8	3.5	61.7
1984-85	9878	4550	9863	14412	-4534	4.5	-5.9	68.5
1985-86	8905	4078	11989	16067	-7162	-99	11.5	55.4
1986-87	9745	2200	13527	15727	-5982	9.4	-2.1	62.0
Average for 1980-81 to 1986-87						2.4	-0.2	59.9
1987-88	12089	3118	14038	17156	-5067	24.1	9.1	70.5
1988-89	13970	3009	16488	19497	-5527	15.6	13.6	71.7
1989-90	16613	3768	17452	21219	-4607	18.9	8.8	78.3
1990-91	18145	6028	18044	24073	-5927	9.2	13.4	75.4
Average for 1986-87 to 1990-91						16.7	11.2	74.1
Average for 1980-81 to 1990-91						8.2	7.8	65.1
1990-92	17865	5325	14086	19411	-1545	-1.5	-19.4	92.0
1992-93	18537	6100	15782	21882	-3444	3.8	12.7	84.7
1993-94	22238	5754	17553	23306	-1068	20.0	6.5	95.4

1994-95	26331	5928	22727	28654	-2324	18.4	22.9	91.9
1995-96	31795	7526	29150	36675	-4880	20.8	28.0	86.7
Average for 1992-93 to 1995-96						15.7	17.5	89.7
1996-97	33470	10036	29096	39132	-5663	5.3	6.7	85.5
1997-98	35006	8164	33321	41485	-6478	4.6	6.0	84.4
1998-99	33659	6433	35425	41858	-8199	-3.9	0.9	80.4
Average for 1996-97 to 1998-99						2.0	4.5	83.4
Average for 1992-93 to 1998-99						12.0	19.8	87.0
1999-2000	37538	9656	36498	46154	8616	10.3	11.5	81.3

* Provisional

Source: Compiled and computed from RBI, Report on currency and Finance (1998-99), p.ix-16 and Economic and Political weekly, June, 3-9.2000.

A closer perusal of the data, however, does not give such a rosy picture about our foreign trade in the nineties as against the eighties. If the period 1980-81 to 1986-87 is grouped as a period of stagnation in the foreign trade, and the period 1987-88 to 1990-91 as a period in which the foreign trade picked up substantially, it is revealed that during the 4 year period (1987-88 to 1990-91), the exports of the country grew at an annual average rate of 16.7 percent and imports at the rate of 11.2 percent. This period compares well with the post-liberalization period of 1991-92 to 1995-96 in which export grew at the rate of 15.7 percent and imports at the rate of 17.5 percent per annum. To pick up the best years .i.e. 1993-94 and 1995-96 and to leave out the 1991-92 and 1992-93 the year of low performance is not a valid basis of comparison. [51]

However, some benefits of globalisation claimed are as under:

1) India's share in world exports which was 0.5 percent in 1985to 0.63 percent in 1997. 2) Exports as a ratio of imports improved from 74.1 percent during the period 1987-88 to 1990-91 to 89.7 percent during the next five years(1991-92 to 1995-96) and 83.4 percent during the 3 year period (1996-97 to 1998-99). Over the entire period of the nineties export-import ratio was of the order of 87 percent. [52]

To review the position of India's Foreign Trade and Balance of Payments on the basis of the updated information the following table can be of great importance.

Table: 6.26
India's Exports, Imports, Trade Balance and Balance of Payments
(Pre-Reform Period: 1980-81 to 1990-91)

Year	Exports	Imports	Trade Balance	Net Invisible	Balance of Payments as Current Account	1 as % of 2	US $ million 4 as % of 3
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1980-81	8,445	16,314	-7,869	5,065	-2804	-51.8	64.3
1981-92	8697	15970	-7273	4094	-3179	54.5	56.2
1982-83	9490	16468	-6979	3572	-3407	57.6	51.2
1983-84	9861	16575	-6715	3499	-3216	59.5	52.1
1984-85	10061	15715	-5654	3238	-2416	64.0	57.2
1985-86	9461	17294	-7834	2967	-4867	54.7	37.9
Annual Average (1981-82 to 1985-86)	9514	16404	-6890	3474	-3416	58.0	50.4
Average Growth Rate	2.3	1.0					
1986-87	10413	17729	-7316	2756	-4560	58.7	37.7
1987-88	12644	19812	-7168	2316	-4852	63.8	32.3
1988-89	14257	23618	-9361	1364	-7997	60.3	14.6
1989-90	16955	24411	-7456	615	-6841	69.4	8.2
1990-91	18477	27914	-9437	-243	-9680	66.2	-2.6
Annual Average (1986-87 to 1990-91)	14549	22697	-8148	1362	-6786	64.1	16.7
Average Growth Rate	14.3	10.0					

Source: RBI, Handbook of Statistics on the Indian Economy (2002-03).

Table: 6.27
India's Exports, Imports, Trade Balance and Balance of Payments
(Pre-Reform Period: 1991-92 to 2004-05)

Year	Exports	Imports	Trade Balance	Net Invisible	Balance of Payments as Current Account	1 as % of 2	US $ million 4 as % of 3
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1991-92	18266	21064	-2798	1620	-1178	86.7	57.9
1992-93	18869	24316	-5447	1921	-3526	77.6	35.2
1993-94	22683	26739	-4056	2898	-1158	84.8	71.4
1994-95	26855	35904	-9049	5680	-3369	74.8	62.8
1994-95	26855	35904	-9049	5680	-3369	74.8	62.8
1995-96	32311	43670	-11359	5449	-5910	73.9	48.0
Annual Average (1991-92 to 1995-96)	23797	30339	-6542	3514	-3028	78.4	52.7
Average Growth Rate	11.8	9.3					
1996-97	34133	48948	-14815	10196	-4619	69.7	68.8
1997-98	35680	51187	-15507	10007	-5500	69.7	64.5
1998-99	34298	47544	-13246	-9208	-4038	72.1	69.5
1999-00	37542	55383	-17841	13143	-4698	67.7	73.7
2000-01	44894	59264	-1437	10780	-3590	75.7	75.0
Annual Average (1996-97 to 2000-01)	37309	52465	-15156	10667	-4489	71.1	-
Average Growth Rate	6.8	6.3					
2001-02	44703	56277	-11574	14974	+3400	79.4	129.3
2002-03	53774	64464	-10690	17035	+6345	83.4	159.1
2003-04	66285	80003	-13718	27801	+14083	82.8	202.7
2004-05	82150	118779	-36629	31229	-5400	69.2	85.2
Annual Average (2001-02 to 2004-05	61728	79881	-18153	24010	+7307	77.3	132.3
Average Growth Rate	22.5	28.3		27.8			

Source: Compiled and computed from RBI, Handbook of Statistics on the Indian Economy (2004-05) and Economic Survey, (2005-06).

6.3.12. Comparison of BOP and DGCI and S Data of Foreign Trade:

The DGCI & S data does not include defence imports. For a more realistic picture it would be desirable to examine the balance of payments data which indicates total payments received from imports and total payments made on account of imports (including defence imports which are not recorded in DGCI & S data).If this datum is examined, the export-import ratio during the eighties works out to be 60.7 percent and during the nineties to be74.5 percent. (Contrast it with the optimistic picture presented by the DGCI & S data of 65.1 percent for eighties and 87 percent for the nineties).

6.3.13. Trade Balance, Invisibles and Current Account Deficit:

Data reveal that in the pre-reform period (1980-81 and 1985-86) invisibles on the average neutralized the trade deficit to the extent of 56.4 percent. This was a significant contribution of the positive balance from invisibles. But during the period 1986-87 to 1990-91 the favorable balance on account of invisibles declined from US$297 billion in 1985-86 to just $0.24 billion in 1990-91 After this in the post reform period in visible started picking up and reached a high level of $ 5.68 billion in 1994-95. There after invisibles have further increased and the net positive balance reached a peak level of about US$ 10 billion during the 3 year period (1996-97to 1998-99). Consequently invisibles were able to neutralize the trade deficit by about 64 percent during 1995-96 to 1998-99.

A break up of the invisibles reveal that non-factor incomes (travel, transportation, insurance, misc. services etc.) continuously indicated decline during 1980-81 to 1990-91 reaching a low level of $981 million in 1990-91 and further dipping to a negative level of $197 million in 1995-96. Therefore, non-factor incomes have improved and reached a level of $2.16 billion during 1998-99. This is a healthy development. However, investment becomes negative during the pre-reform period to the extent of $13.45 billion accounting for 46% of total net invisibles. This trend has further been accentuated in the post reforms

period and the net outgo on account of investment income was of the order of $27.53 billion during 1991-92 to 1998-99. This is largely a reflection of the investment income which has to be remitted abroad due to heavy flow of investment undertaken by Foreign Investment Institute (FIIs) and non-resident Indians (NRIs).

To compensate for the heavy outflow of investment income, the Government encouraged private transfers in a massive manner. The net inflow from private transfers aggregated to about $64 billion during 1991-92 and 1998-99. This may be welcome, but this has also increased our dependence on private transfers.

The upshot of the entire analysis indicates that the current has continued to be negative. A major factor responsible for this is the burgeoning trade deficit which averaged $13.73 billion during the last 4 years (1995-96 to 1998-99).

This has to be controlled by either increasing exports or reducing imports. The policies of liberalization did help to increase exports but this has been more than neutralized by the much-greater rise in imports. Consequently, India has faced continuously the problem of current deficit during the entire post-reform period. In this connection, it may be stated that China has been able to perform better and had a positive current account balance of $29.72 billion in 1997 as against a deficit of $5.81 billion for India. China has therefore, got rid of dependency syndrome but India is still caught in this continued current account deficit problem and thus has to undertake heavy commercial borrowing at higher rates of interest from the developed nations. It may be noted also, in order to balance the capital account, net external assistance and borrowing accounted for nearly 46% and foreign investment, 47.5% of total funds needed. It is really disappointing that the share of foreign investment suffered a setback in 1998-99 since only $ 2.4 billion could be attracted during the year as against $5.39 billion in 1997-98 and $6.15 billion in 1996-97.

No doubt, there are several reasons that the policy makers of the country must have to learn from the BOP situation.

Firstly, after the East Asian crisis the advocates of full convertibility on capital account have suffered a retreat and the report on reaching full convertibility within the next three years was shelved.

Secondly, there was an increasing realization that the current account deficit could be sustained only due to large surplus on the visible account but this situation might not last long because of international factors, and foreign investment flows registered sharp decline.

Lastly, with an important increase in oil prices witnessed time and again and with the revival of industry, imports are likely to increase. Consequently it was imperative that to ensure medium term viability of India's balance of payments, it is extremely important to sustain export growth in the range of 12% to 15% (in US dollar terms) per year an average and revive the inflows of foreign investment.[53]

6.3.14. Foreign Investment:

A major objective of the reform process was to promote free flow of foreign investment. Data given below show the approvals and actual of foreign investment. A careful perusal of the data reveals that approvals have been mounting up with the passage of time. As against, the investment approvals of the order of US $1781 million in 1992, approvals increased to $ 11245 million in 1995 and then rose further to $15.752 million in 1998. But after the grant of approvals, the actual flows have been very small ranging from 13% in 1992 to 22% in 1997. During 1998 even the approvals slowed down to $6975 million - less than half level of 1997.[54]

Table: 6.28

Foreign Direct Investment: Actual Flows Vs. Approvals

US $ Million

Sl. No.	Period	Approvals (1)	Actual Flows (2)	2 as % of 1
01.	1991	325	155	47.7
02.	1992	1781	233	13.1
03.	1993	3559	574	16.1
04.	1994	4332	958	22.1
05.	1995	11245	2100	18.7
06.	1996	11142	2383	25.4
07.	1997	15752	3330	21.1
08.	1998	6975	2230	32.0
09	Total (1991-98)	55111	11963	21.7

Note: The approvals and actual figures include NRI direct investments approved by RBI, but exclude flows under acquisition of shares of Indian companies by non-residents.

Source: Government of India, Economic survey (1999-2000)

The table shown below shows information about investment flows in India during the 8 years (1991-92 to 1998-99). Data reveal that during eight year period, a total of US $ 28.794 billion was invested in India in the form of foreign investment out of which $13.23 billion (46.3% of total) was in the form of direct investment and $ 15.47 billion (53.7%) was in the form of port folio investment. Segregated data reveal that direct investment flows remained subdued during 1991-92 to 1994-95 and in this period port folio investment accounted for a large share, but in the later period 1995-96 to 1998-99, direct investment flows picked up and they accounted for a quite significant share and from 1997 and 1998-99, direct investment became dominant. It may also be noted that port folio investment is of a very undependable and volatile nature. [55]

Table: 6.29

Foreign Investment Inflow in India (US $ million)

Sl. No.	Period	Direct Investment	Port-folio Investment	Total
01.	1991-92	129	4	133
02.	1992-93	315	244	559
03.	1993-94	586	3567	4153
04.	1994-95	1314	3824	5138
05.	1995-96*	2144	2748	4892
05.	1996-97*	2821	3312	6133
06.	1997-98*	3557	1828	5385
07.	1998-99*	2462	-61	2401
08.	Total (1991-92 to 1998-99)**	13328 (46.3)	15466 (53.7)	28794 (100.0)
09.	1999-2000	1330	1341	2671

Note: * Includes acquisition of shares by Indian companies by non-residents under section of FERA.

** From April - November

Source: Compiled and computed from RBI, Hand Book of statistics on Indian Economy (1990) and RBI Bulletin, January 200.

The latest data about Foreign Investment Inflow in India reveal the following:

Table: 6.30

Foreign Investment Inflow in India (US $ million)

Sl. No.	Period	Direct Investment	Port-folio Investment	Total
01.	1999-2000	2155	3026	5181
02.	2000-01	4029	2760	8151
03.	2001-02	6130	2021	8151
04.	2002-03	5035	979	6014
05.	2003-04	4322	11377	15699
6	2004-05**	5653	9313	14966
	Total (1991-92 to 2004-2005)	40652 (47.5)	44942 (52.5)	85594 (98.0)

Note: * Includes acquisition of shares by Indian companies by non-residents under section of FERA.

** Provisional

Source: Compiled and computed from RBI, Handbook of Statistics on Indian Economy (1990) and RBI Bulletin, February 2006.

It would be of interest to compare FDI flows in India with other developing countries. The data reveal that FDI flows to India was just 1.8% of the total inflow to all developing countries in 1999 and this share declined to 1.2% in 1998. As against an FDI inflow of US $2.26 billion in 1998 in India, China got a massive inflow of $45.46 billion and Brazil $28.72 billion in 1998. India has failed to attract enough foreign investment to give a boost its economy. [56]

Table: 6.31

FDI Flows in Developing Countries

In US $ million

Sl. No.	Country	1998	1998 %	1997	1997 %
01.	China	45.460	24.8	44236	23.2
02.	Brazil	28718	15.7	18745	9.8
03.	Mexico	10238	15.6	12831	6.7
04.	Thailand	6969	3.8	3733	2.0
05.	Argentina	5697	3.1	8094	4.2
06.	S.Korea	5143	2.8	2844	1.5
07.	Poland	5129	2.8	1908	2.6
08.	Chile	4792	2.6	5417	2.8
09.	Venezuela	3737	2.0	5087	2.7
10.	Malaysia	3727	2.0	5106	2.7
11.	Columbia	2983	1.6	5701	3.0
12.	Czech Republic	2540	1.4	1301	0.7
13.	India	2258	1.2	3351	0.8
14.	All developing countries	183.449	100.0	191.065	100.0

Note: Figures in the parenthesis represent the percentage share of total inflows to developing countries.

Source: UNCTAD, World Investment Report (1999).

6.3.15. Reduction of Regional Disparities:

One of the major objectives of development was to reduce regional disparities. With this end in view, state policies were patterned to help the backward regions. It was also included as a part of the devolution of funds and

higher allocations were made for the backward states so that regional disparities could be narrowed down.

The reform process initiated in 1991 emphasized the use of the market forces, which naturally attract investment to regions more developed in infrastructure -both economic and financial. It does not pay any attention to the question of regional imbalance. It would be therefore, desirable to understand the impact of economic reforms on various states.

Table below presents data about per capita Net state Domestic product as current prices. The states have been arranged in the descending order in terms of per capita NSDP.

The data reveal that in 1980-81 the ratio between maximum per capita income of Punjab and the minimum per capita income of Bihar was 2.9. This ratio slightly increased to 3.5 in 1990-91 but by 1996-97, this ratio shot up to 4.7. This highlights the fact that the reform process aggravated regional disparities by favouring the forward states. [57]

Table: 6.32

Per capita Net State Domestic Product at Factor Cost

(At current prices, Rupees)

State	1980-81	1990-91	1996-97
Forward States			
Punjab	2.674	8.318	18.213
Maharastra	2.435	7.444	17.295
Haryana	2.370	7.508	16.199
Gujarat	1.940	5.913	13.932
West Bengal	1.773	4.673	9.441
Karnataka	1.520	4.598	10.279
Kerala	1.508	4.200	9.066
Tamil Nadu	1.498	4.978	13.989
Andhra Pradesh	1.380	4.728	9.867
Backward States			
Madhya Pradesh	1.358	4.049	7.445
Assam	1.284	4.281	6.663
Uttar Pradesh	1.278	3.590	6.733
Rajasthan	1.222	4.191	9.215
Orissa	1.314	3.077	6.422

State Forward States	1980-81	1990-91	1996-97
Bihar	9.7	3.665	3.835
All India	1.825	5.761	12.284
Ratio between maximum and minimum per capita NSDP	2.9	3.1	4.7

Source: Compiled and computed from data given in RBI, Handbook of Statistics on Indian economy (1999).

An analysis of the growth of Net State Domestic Product (at 1980-81 prices) also reinforces this conclusion. A close perusal of data reveals that NSDP in forward stares indicated an annual average growth rate of 5.2% during 1980-81 and 1990-91, the pre-reform decade. However, the situation improved and these stages showed a higher annual average growth rate of 6.3% during 1990-91 to 1996-97 (Refer to the Table given below).

As against them the backward states indicated a growth rate of 4.9% during the pre-reform decade (1980-81 to 1990-91) but this growth rate sharply declined to 3.0% in the post reform period (1990-91 to 1996-97).

Table: 6.33

State wise Net State Domestic Product at Factor Cost

Annual Average Growth Rate (At 1980-81 Prices)

Sl. No.	State	1980-81 to 1990-91	1990-91 to 1996-97
01.	**Forward States**	5.3	4.4
02.	Punjab	6.0	6.7
03.	Maharastra	6.5	4.0
04.	Haryana	5.2	7.9
05.	Gujarat	4.2	6.7
06.	West Bengal	5.0	6.0
07.	Karnataka	3.2	5.8
08.	Kerala	5.6	5.6
09.	Tamil Nadu	4.8	6.3
10.	Andhra Pradesh	5.2	6.3

Sl. No.	State	1980-81 to 1990-91	1990-91 to 1996-97
1.	**Backward States**	4.7	4.1
2	Madhya Pradesh	4.1	3.3
3.	Assam	5.0	2.6
4.	Uttar Pradesh	7.4	4.0
5.	Rajasthan	2.3	4.7
6.	Orissa	4.9	0.6
7.	Bihar	4.9	3.0
8.	Sub-total	5.6	5.5
9.	All India	5.6	5.4

* Provisional

Source: Compiled and computed from data given in RBI Handbook of Statistics on Indian Economy (1999).

Dr. M. J. Kurian of the planning commission who made an extensive study of the "widening Regional Disparities in India" indicated that more than two thirds of investment proposals (69.2%) in the post-reform period were concentrated in the forward states and a similar situation prevailed in terms of financial assistance disbursed by All India Financial Institutions as well as State Financial Corporations.[58]

To get an updated knowledge the following information in the table given below are of immense importance.

Table: 6.34
State wise Net State Domestic Product and Per Capita NSDP (199091 to 2002-03) at 1993-94 Prices

Forward States		Net State Domestic Product (Rs. Crores)		Average Growth Rate (1990-91 to 2000-01)	Per Capita NSDP (Rs.)		Average Growth Rate (1990-91 to 2002-03)
		1990-91	2002-03		1990-91	2002-03	
				5.6			
1.	Punjab	23693	37582	3.9	11776	15264	2.2
2.	Haryana	18215	31952	4.8	11125	14694	2.3
3.	Maharashtra	79869	153429	5.1	10159	15466	3.6
4.	Gujarat	36207	75447	6.3	8788	14539	4.3
5.	Tamil Nadu	43937	81019	5.2	7864	12839	4.2
6.	Andhra Pradesh	45131	82046	5.1	6873	10634	3.4
7.	Kerala	19774	37037	5.4	6851	11389	4.3
8.	Karnataka	29845	63968	6.6	6631	11799	4.9
9.	West Bengal	40633	89792	6.8	5991	10952	5.1
	Backward States						
10.	Rajasthan	29713	44769	3.5	6760	7608	1.0
11.	Madhya Pradesh	41833	43770	0.3	6350	7015	0.8
12.	Assam	12299	16788	2.6	5574	6221	0.9
13.	Uttar Pradesh	74791	96011	2.1	5342	5610	0.4
14.	Bihar	37607	34553	-0.7	4474	4048	-0.9
15.	Orissa	13450	21862	4.1	4300	5836	2.6
	All India	623407	1169793	5.4	7430	11013	3.3
Ratio between Maximum and Minimum Per Capita NSDP					2.7	3.8	

Note: States have been arranging in the descending order on the basis of per capita NSDP for 1990-91.

Source: Compiled and computed from Ministry of Finance (2003), Indian Public Finance Statistics (2004-05) and CSO, National Accounts Statistics (2005).

Dr. M. J. Kurian, after detailed analysis of regional disparities after the initiation of the economic reforms reaches the following conclusions:

"The accelerated economic growth since the early 90's with increased participation by the private sector appears to have aggravated regional disparities. The ongoing economic reforms since 1991 with stabilization and deregulation policies as their prime instruments and a very significant role for the private sector seem to have aggravated the inter-state disparities". He further states: "the better off states are able to attract considerable amount of private investment both domestics and foreign to improve their development potential because of the existing favourable investment climate including better socio-economic infrastructure. The backward states are unable to attract private investment because of unfavourables investment climate including poor infrastructure. They are unable to improve the investment climate by improving the existing poor infrastructural facilities due to lack of resources. Their lack of resources is linked to their poor development.Thus; they are truly in vicious cycle." [59]

6.3.16. Social Infrastructure and Human Development:

Table below shows date on selected indicators of Human Development viz. life expectancy, literacy rate, and infant mortality rate (IMR), death rate and birth rate. If the purpose of all developments is to improve the quality of life, the human development indicators are the end products of the development process.[60]

Table: 6.35
Selected Indicators of Human Development

State Forward States	Life Expectancy at birth in years (1991-95)	Literacy rate			Provisional Estimates of SRS-1997 (Per thousand)		
		Total	Male	Female	IMR	Death Rate	Birth Rate
Punjab	67.2	58.51	65.66	50.41	51	7.4	23.4
Maharstra	64.8	64.87	76.56	52.32	47	7.3	23.1
Haryana	63.4	55.85	69.10	40.47	68	8.0	28.3
Gujarat	61.0	61.29	73.13	48.64	62	7.6	25.6
West Bengal	62.1	57.70	67.18	46.56	55	7.7	22.4
Karnataka	62.5	56.04	67.26	44.34	53	7.6	22.7
Kerala	72.9	89.91	93.26	86.17	12	6.2	17.9
Tamil Nadu	63.3	62.66	73.75	51.33	53	8.0	19.0
Andhra Pradesh	61.8	44.09	55.13	32.72	63	8.3	22.5
Backward States							
Madhya Pradesh	54.7	44.20	58.42	28.85	94	11.0	31.9
Assam	55.7	52.89	61.87	43.03	76	9.9	28.2
Uttar Pradesh	56.8	41.60	55.73	25.31	85	10.3	33.5
Orissa	59.1	38.55	54.99	20.44	85	8.9	32.1
Bihar	56.5	49.09	63.09	34.68	96	10.9	26.5
All India	59.3	38.48	52.49	22.89	71	10.0	31.7
	60.3	52.21	64.13	39.29	71	8.9	27.2

Source: Government of India, Economic Survey (1999-2000)

It may be noted that HDI for India has been improving from 0.302 in 1981 to 0.381 in 1991 and further to 0.472 in 2001. Since HDI is less than 0.500 even in 2001, India continues to be a low HDI country judged by international standards.

Information supplied in the table below provides for HDI values for 1981, 1991 and 2001 for fifteen major states of India along with their ranks.

Table: 6.36
Human Development Index for India (Combined) - Selected States

States	1981 Value	1981 Rank	1991 Value	1991 Rank	2001 Value	2001 Rank	Per Capita NSDP 1997-98
Kerala	0.500	1	0.591	1	0.638	1	2490
Punjab	0.411	2	0.475	2	0.537	2	4389
Tamil Nadu	0.343	7	0.466	3	0.531	3	3141
Maharashtra	0.363	3	0.452	4	0.523	4	5032
Haryana	0.360	5	0.443	5	0.509	5	4025
Gujarat	0.360	4	0.431	6	0.479	6	3918
Karnataka	0.346	6	0.412	7	0.478	7	2866
West Bengal	0.305	8	0.404	8	0.472	8	2977
Rajasthan	0.256	12	0.347	11	0.424	9	2226
Andhra Pradesh	0.298	9	0.377	9	0.416	10	2550
Orissa	0.267	11	0.345	12	0.404	11	1666
Madhya Pradesh	0.245	14	0.328	13	0.394	12	1922
Uttar Pradesh	0.255	13	0.314	14	0.388	13	1725
Assam	0.272	10	0.348	10	0.386	14	1675
Bihar	0.237	15	0.308	15	0.367	15	1126
All India	0.302		0.381		0.472		2840

Note: States have been rearranged in the descending order on the basis of HDI Value for 2001.
* HDI Value for 2001. (Rs. In 1980-81 prices)
Source: Planning Commission (2002), National Human Development Report (2001).

NHDR has drawn attention to the rural-urban disparities at the all India level in 1981, rural-HDI was 0.263 and urban was 0.442. Thus, the urban-rural ration was 1.68. In 1991, rural-HDI to 0.340 and urban-HDI increased to 0.511. The urban-rural ratio was 1.50. This indicates that urban-rural disparity has

shown a decline from 1.68 to 1.50, which though not very sharp, is significant in the sense that rural areas are receiving relatively better attention.

Table: 6.37

HDI for Rural and Urban Areas All India

	1981	1991	2001
Rural	0.263	0.340	-
Urban	0.442	0.511	-
Combined	0.302	0.381	0.472

Source: National Human Development Report, 2001.

Human Development Report (1996) suggested that India should follow a pattern of development which should promote; (i) employment generating growth, (ii) equitable growth, (iii) participatory growth, (iv) grassroots growth and (v) sustainable growth. If such a pattern of development is fostered, then it would be possible to avoid lopsided development. In this connection, the Human Development Report (1996) warns : "The record of economic growth and human development over the past 30 years shows that no country can follow a course of lopsided development for such a long time - where economic growth is not matched by advances in human development, or vice versa."

Information provided in the following table give an interesting insight into the situation of progress of human development indicators in different states of India.

Table: 6.38
Selected Indicators of Economic Growth and Human Development in India-State wise

State	Annual Growth Rate of NSDP$_1$	% of Population below and Poverty Line		Rate of Unemp-loyment (1999-2000)	Birth Rate 2003	Death Rate 2003	Infant Mortality 2000	Literacy (2001)	
		1987-88	1999-00					Overall	Female
Punjab	3.9	13.2	6.2	4.0	20.6	7.0	49	69.9	63.6
Maharashtra	4.7	40.4	25.0	7.2	19.9	7.2	42	77.3	67.5
Haryana	6.0	16.6	8.7	4.8	26.3	7.1	59	68.6	56.3
Gujarat	7.6	31.5	14.1	4.6	24.6	7.6	57	70.0	58.6
West Bengal	7.1	44.7	27.0	15.0	20.3	6.6	46	69.2	60.2
Karnataka	6.3	37.5	20.0	4.6	21.8	7.2	52	67.0	57.5
Kerala	5.2	31.8	12.7	21.0	16.7	6.3	11	79.9	87.9
Tamil Nadu	5.2	43.4	21.1	11.8	18.3	7.6	43	73.5	64.5
Andhra Pradesh	5.5	25.9	15.8	8.0	20.4	8.0	59	61.1	51.2
Madhya Pradesh	4.5	43.1	37.4	4.5	30.2	9.8	82	64.1	50.3
Assam	2.9	36.2	36.1	8.3	26.3	9.1	67	64.3	56.0
Uttar Pradesh	3.4	41.5	31.2	4.1	31.3	9.5	76	57.4	43.0
Orissa	4.2	55.6	47.1	7.3	23.0	9.7	83	63.6	51.0
Rajasthan	6.0	35.2	15.3	3.1	30.3	7.8	75	61.0	44.3
Bihar	4.5	52.1	42.5	7.3	30.7	7.9	60	47.5	33.6
All India	6.3	68.9	26.1	7.3	24.8	8.0	60	65.4	54.2

Source:

1. Compiled and computed from RBI. Handbook of Statistics on Indian Economy (2004-05) for the period 1993-94 to 2003-04.
2. Planning Commission, Unemployment figures are on CDS basis.
3. Census of India 2001, Provisional Population Totals, Paper 1 of 2001.
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6.4. APPRAISAL:

No doubt it is to be acknowledged that the reform process will not be able to achieve the objective mentioned at the outset of this chapter, because the

private sector is merely concerned with profit motive, whereas the liberalization process has reduced the role of the public investment, it has failed to fill the vacuum created by the withdrawal of public sector investment in infrastructure investment more especially in the backward states.[61]

There are obviously the calls of a reform of the reform process. President W. J. Clinton, while speaking on March 24, 2000 on the need to harness new technologies like info-tech for eradication of poverty emphasized: Millions of Indians are connected to the internet, but million more are yet not connected to fresh water. Indian, accounts for 30% of the World's software engineers but also 25% of the World's malnourished. So our challenge is to turn the newest discoveries into best weapons humanity has ever had to fight poverty. Mr. Clinton underlined the fact that a lot 25 -year old multimillionaires were being created and the latest Indian start ups were shooting up the Nasdaq, this whole enterprise cannot just be about higher profits, there must also be a higher purpose.[62]

A forthright criticism of the process in terms of reform came from president K.R. Narayanan on the eve of the Republic Day message on 25 January-2000 when he warned: "The fury of the patient and long-suffering people would be unleashed if the three-way fast lane of liberalization, privatization and globalisation failed to provide safe pedestrian crossings for the un-empowered in India".

This indictment of the reform process only underlines the scant scare of the market forces and shows the tragic contradictions in our society, particularly the great regional and social inequalities in the following words: [51]

"We have one of the World's reservoirs of technical personnel but also the World's largest number of illiterates: the world's largest number of middle class but also the largest number of people living below the poverty line and the largest number of children suffering from malnutrition. One half of our society

guzzles aerated beverages while the other has to make do with palmfuls of muddied water". [63]

Justifying the trajectories of modern progress such as factories, dams and satellites, Mr. Narayanan, however, cautioned against ecological and environmental devastation leading to uprooting of human settlements, especially of the tribal and the poor. He mentioned, "Ways and methods could be found for countering the harmful impact of modern technology on the lives of the populace both by the government and the civil society". Pointing to the regional and social, inequalities accompanying the country's economic growth Mr. Narayanan cautioned, "Many a social upheaval can be traced to the neglect of the lowest tire of society, whose discontent moves towards the path of violence. Dalits and tribal are the most affected by all this".

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