STATE INTERVENTION AND MARKET IN THE CONTEXT OF STRUCTURAL REFORMS IN INDIA SINCE 1980s

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To whom it may concern

Certified that the Thesis entitled *"State intervention and market in the context of structural reforms in India since 1980s"* by Shri Rintu Kumar Biswas was completed under my supervision. The thesis incorporates original work and interpretation, and has not been submitted elsewhere, for any award of Ph.D. degree .Shri Biswas has fulfilled all the requirements of Ph.D. and also holds M.Phil. from this University. I wish him best in life.

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Dedicated

to

my respected parents

PREFACE AND ACKNOWLEDGEMENT

The concept of reform has pervaded across the world in the 1980s. The concept in true sense got momentum during the 1990s. The very concept gave birth to the rise of so many important scholarly questions in the process of the functioning of state-machinery. The state as an institution right from its very origin intervened in the process of bringing socio-economic changes. Such actions on the part of the institution of the state have been interpreted in terms of the concept of bureaucratic intervention by the scholars of public administration. However, the nature and scope of such intervention has been changing in nature from time to time. At the initial stage when the state assumed as police-state, the functions of the state were confined only to the maintenance of law and order and the smooth collection of the revenues from the citizens of the state. The role of the state under the canopy of capitalistic modes of production was very much bureaucratic in nature. But with the inception of the concept of welfare state, the question of state-intervention in the process of bringing socio-economic changes became crucial. The concept attracted the attention of the scholars, statesmen of the Third World Countries including India. India right from her independence, tilted in favour of the state controlled development. India's political and economic functions were directed towards making sure that the state has its control in most of the giant economic sectors of the country. For the achievement of such goals India opted for planned economic development.

Modern economy is conceived in terms of free economy i.e. an absolute freedom from any sort of intervention on the part of the state. The place of market in the process of bringing development is being held in high esteem. It is argued that the market has a unique and spontaneous character of bringing development.

The process of the so called reform in the post cold war period in bringing development is being understood in terms of liberalization, privatization and globalization commonly known as LPG. The process has been vehemently opposed by the Marxist scholars since its inception as they argue that in order to keep up its pace of

exploitation smooth, the present form of reform is being marketed by the scholars of the liberal school.

However, the process of liberalization was initiated in India during 1980s and in order to keep up the pace of liberalization with the country's infrastructure many restrictions upon the economy of India have been removed. Many sectors which were once under the direct control of the government have been privatized to assure that the structure of the economy of India becomes suitable to be in the line with the open economy and emerges as an integral part of globalization with ease. In fact the three concepts i.e. liberalization, privatization and globalization have provided a new direction to the concept of structural reform.

Scholars share different views on this particular issue. It has been found that in the initial stage the process of reform had to tackle different obstacles. It was argued on the part of the conservative economist that once the economy of India was exposed to the liberal assumptions of the economy, the very vitality of the so-called nationalistic economy would be at stake. But these resistances could not stand in the way of exposing the economy of India to such liberal assumptions. In 1991, with the inception of New Economic Policy (NEP) the state functioning of India with its economy was given a new direction and a new shape as well. By the end of 2008 it has been found that the necessary adjustments in the process of reform have not yet been given a sound shape. Still there are many sectors which have not yet been put under the rubric of reform process with a view to providing the utility and benefit of such reform in a country like India.

Hence, it has been argued by the pro-globalization scholars that the complete infrastructure of globalized open market has not yet been achieved. It is being argued that at present for resorting to globalization through reforms, India has been able to enjoy a better standard of development. But the scholars of pro-globalization are still not fully satisfied with the reform activities of India. Causes are not so difficult to understand.

The proposed study aptly takes into consideration the question of globalization. Under the globalized perspective state is a capitalistic state which aims at removing all sorts of obstacles for making a free market leading towards the process of globalization

through the building of a common economic pattern for the entire world. In this context, India's response to such an important issue i.e. free-market economy is of prime importance.

The proposed study seeks to present the degree, nature and course of response on the part of a country like India in an elaborate and comprehensive manner. It also takes into consideration the question of the utility of the adoption of such economy for a country like India.

In the present research work a macro level study about the changing role of state and market in India in the context of structural reforms since 1980s has been initiated by dividing it into seven chapters.

In Chapter-I there is an introductory presentation about the present work. There is a statement of the problem in this chapter. It follows the presentation of the review of the literature and objectives of the present study. Research questions that the present work seek to answer and the research methodology that it follows also find their places in this chapter. Finally, there is a description of the chapter wise plan of the proposed study.

In Chapter- II there is a theoretical debate as regards the role of state and market in the attempt of experiencing development for any country in the world.

Chapter-III deals with the techniques and the nature of the state intervention that India opted for bringing development right from her independence.

Chapter-IV discusses the concept of globalization and the background which paved the way for India to opt the path of liberal (open) economy.

Chapter –V takes into consideration the process and politics of structural reforms in India.

In Chapter-VI the impact of economy reforms on India's socio-economic political conditions has been taken into consideration at length.

Finally, Chapter-VII summarizes the main findings of the study & suggestions.

At the time of writing this library based research work I have largely taken the help of different newspapers, journals, periodicals, books etc. available in the central libraries of North Bengal University, Burdwan University and Krishna Chandra College. I received a lot of help and cooperation from all the staff working in those central libraries.

In preparing this research work I owe a profound debt to my esteemed supervisor Dr. A. K. Datta; Professor, Department of Political Science, North Bengal University, without whose proper guidance and effective supervision it would have been quite impossible for me to complete the work. Apart from this my parents, family members, friends and well-wishers have been great sources of inspiration in the process of the completion of this research. No word of gratitude is good enough for all of them.

Special debt is due to my wife as she has been encouraging me for the last seven years for the completion of this thesis.

Mr. Sanjoy Pal who showed a great amount of perseverance and patience at the time of typing the thesis must be thanked by me for his job.

I owe an apology if, by chance any error crept into my writing. Hope I would be excused.

Rintu Kumar Biswas

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ABBREVIATIONS & ACRONYMS

01.	ASSOCHAM	Associated Chambers of Commerce
02.	BIFR	Board for Industrial and Financial Reconstruction
03.	BJP	Bharatiya Janata Party
04.	BOP	Balance of Payment
05.	CACP	Commission for Agricultural Costs & Prices
06.	CAG	Comptroller & Auditor General
07.	CIA	Central Information Agency
08.	CII	Confederation of Indian Industries
09.	CMP	Common Minimum Programme
10.	CPI	Consumer Price Index
11.	CPI (AL)	Consumer Price Index (Agricultural Labourers)
12.	CPI (IW)	Consumer Price Index (Industrial Workers)
13.	CRRs	Cash Reserve Requirements
14.	CSO	Central Statistical Organization
15.	DAP	Di-Ammonium Phosphate
16.	DGCIS	Directorate General of Commercial Intelligence & Statistics
17.	DOT	Department of Telecommunications
18.	EAS	Employment Assurance Scheme
19.	EPW	Economic & Political Weekly
20.	FCNR	Foreign Currency Non-Resident Accounts
21.	FDI	Foreign Direct Investment
22.	FERA	Foreign Exchange Regulatory Act
23.	FICCI	Federation of Indian Chambers of Commerce & Industries
24.	FIIs	Foreign Institutional Investors
25.	GATT	General Agreement on Tariffs & Trades
26.	GDP	Gross Domestic Product
27.	GNP	Gross National Product
28.	GOIA	Govt. of India Act
29.	GOI	Govt. of India
30.	HDI	Human Development Index
31.	HYV	High Yielding Varieties
32.	IBRD	International Bank for Reconstruction & Development
33.	ICDS	Integrated Child Development Scheme
34.	ICS	Indian Civil Service
35.	IDA	Industrial Disputes Act
36.	IFC	Industrial Finance Corporation
37.	IFI	International Financial Institution
38.	IIP	Index of Industrial Production
39.	IMF	International Monetary Fund

40.	IMR	Infant Mortality Rate
41.	IOC	Indian Oil Company
42.	IPCL	Indian Petro Chemical Limited
43.	IRDP	Integrated Rural Development Programme
44.	ISI	Import Substitution Industrialization
45.	IT	Information Technology
46.	JRY	Jawhar Rojgar Yojana
47.	KSA	Kurt Salmon Associates
48.	LDC	Less Developed Countries
49.	LPG	Liberalization Privatization & Globalization
50.	MNCs	Multi National Corporations
51.	MODVAT	Modified Value Added Tax
52.	MOP	Muriate of Potash
53.	MOU	Memorandum of Understanding
54.	MRTP	Monopolies and Restrictive Trade Practices
55.	MTNL	Metro Telecommunication Network Limited
56.	NABARD	National Bank for Rural Development
57.	NAS	National Accounts Statistics
58.	NASDAQ	National Association of Securities Dealers Automated Quotations
59.	NASSO	National Sample Survey Organization
60.	NDA	National Democratic Alliance
61.	NEP	New Economic Policy
62.	NHDR	National Human Development Report
63.	NICs	Newly Independent Countries
64.	NIEO	New International Economic Order
65.	NRIs	Non-Resident Indians
66.	NSDPs	Net State Domestic Products
67.	NSE	National Stock Exchange
68.	NSS	National Sample Survey
69.	NTPC	National Thermal Power Corporation
70.	OECD	Organization for Economic Co-operation and Development
71.	PDS	Public Distribution System
72.	PG	Poverty Gap
73.	PPP	Purchase Power Parity
74.	PSE	Public Sector Enterprises
75.	PSUs	Public Sector Undertakings
76.	RBI	Reserve Bank of India
77.	SAP	Structural Adjustment Programme
78.	SBI	State Bank of India
79.	SC	Scheduled Castes
80.	SDP	State Domestic Product
81.	SEBI	Security & Exchange Board of India

82.	SEZ	Special Economic Zone
83.	SGRY	Swayambhar Gosthi Rojgar Yojana
84.	SLRs	Statutory Liquidity Requirements
85.	SPG	Squared Poverty Gap
86.	ST	Scheduled Tribes
87.	TNCs	Trans National Corporations
88.	UP	Uttar Pradesh
89.	UK	United Kingdom
90.	UNCTAD	United Nations Conference on Trade and Development
91.	UNDP	United Nations Development Programme
92.	UNESCO	United Nations Educational, Scientific & Cultural Organization
93.	UPA	United Progressive Alliance
94.	URP	Uniform Reference Period
95.	USA	United States of America
96.	USSR	United Soviet Socialist Republic / Union of Soviet Sovereign Republic (erstwhile)
97.	VAT	Value Added Tax
98.	VER	Voluntary Export Restrain
99.	WPI	Wholesale Price Index
100.	WTO	World Trade Organization

CHAPTER - I

INTRODUCTION

It is argued generally that economic liberalization covers many aspects of policy but the central issue at stake is the relative role of state and market in the operation and management of the national economy. It has been found that keeping tune with the assumption mentioned above the contemporary movement in economic policy reform has involved the retreat of the state of India and the shedding of many of its economic functions in favour of the market.

The key feature of the changed world economy as well as of India is the element of the heightened economic globalization which provides new external challenges as well as opportunities for development. Economic globalization here refers to the integration of economic processes across political borders so that the behaviour of the economic agents is oriented to the global market rather than particular national markets.

The changed environment in the context of liberal economy has put much emphasis upon economic globalization. The scholars are of the conviction that economic globalization and economic nationalism are the two fundamental forces that have been shaping the world's economic terrain over the last few centuries. The two forces are obviously related to each other, with globalization opposing and provoking economic nationalism as well as transforming and transcending it, even as its apparently inexorable path of expansion and possible eventual triumph has been continuously interrupted and redirected by nationalism. Both contending forces are integrally linked with markets and states for both have been fundamentally rooted in the rise of markets and states in the modern era. As a result of this fundamental questions remain, for the developing world including India near the end and the beginning of the twenty first century

precisely the relationship of globalization and nationalism to economic policy reforms.

In exploring the fundamentals and the nature of state intervention and market in the context of the structural adjustment programme in India the present work would attempt to focus on the following issues: (1) the rise and the expansion of globalization ; (2) the nationalist shaping of markets by the state of India in their external role in relation to other states, with particular emphasis on national security and economic autonomy; (3) the continuing centrality of economic nationalism especially by the state of India, in the context of the post-war deepening of globalization; (4) the nationalist shaping of markets by states in their internal role within society, highlighting the relationship of the structural characteristics of states to the potential for effective economic policy reforms and (5) the degree and the nature of state intervention in the settings of structural adjustment programme for putting the market to a conducive liberal shape for the spontaneous growth of the market in the state of India.

1.1. STATEMENT OF THE PROBLEM:

The concept of economic reform and structural adjustment programme has been core to the thinking of development since 1950s. However, taking reforms or adjustment programmes as the instrument for generating spontaneous development at length prompted great debate among the various scholars. Against this perspective, the fact stands as such that most of the countries, developed or developing or even less developed attempted to undertake reform process within their respective institutions concretely. The process of reforms found its ways both in command economies, state oriented economies and partially in developed capitalist countries across the world. In the context of the operation and management of the reform process the core as well as the vital issue has been the relative and the mutual role of the state and the institution of the market in the wake of development and the management of the national economy.

Initially, the idea of structural adjustment was not meant for the less-developed countries at all. The objective was to restructure the economy of the OECD countries, the most developed countries of the world, following the emergence of oil crisis and huge deficit on the balance of payment of the united states and the expected dismantling of multi-fiber agreement and the European steel price rising. Only afterwards, the emphasis was changed and the burden of adjustment to the new world economic situation, arising from the variety of developments in the 1970s was shifted to the not too broad shoulders of the less developed countries. Adjustment got priority over other policy objectives such as poverty alleviation and redistribution.

Under the structural adjustment programme the institution of state has assumed a bigger role from the curtailed role of the state. It works instrumentally for having economic transformation. It works as the protector of law and ensures national security. Above all, the institution of the state on the ground of its economic tasks should provide human capital formation at length. Universalisation of literacy, priority extension of technical educating and access to safe drinking water and health facilities by all are seen as major governmental areas of activity. Another major task of the state is to create and maintain an incentive structure and environment that is conducive to production under private ownership. Financial reform is therefore, an integral part of the overall reforms package.

Fiscal reforms too are an integral part of the adjustment package. The programme demands that the tax structure should be transparent and simple, not arbitrary or dependent on the whims and caprices of the taxing authorities and not oppressive. The rate of taxation should be low enough to encourage compliance and to avoid the growth of 'black money'. But this role has been greatly challenged by the delicate growth of international civil society where non-governmental organizations, TNCs, MNCs or other sort of organizations have grown. Therefore, in the context of the structural adjustment programme,

the exploration of the dichotomy roles of the state and the market become significantly important. Against this background the thesis seeks to explore:

1) The nature and the extent of structural reform, and the benefits of the process in India;
2) The immediate impact of the structural adjustment programme upon the society and the market of India ;
3) The impact of structural adjustment programme on the 'poor', 'the new poor', who become the object of persecution, marginalization and exclusion. Finally, it looks at the sustainability of the 'Reform Process', without basic structural changes in society and economy and suggest possible measures.

It is obvious that while the major structural changes have brought benefit to the economies, there are still some significant gaps which need to be addressed. Experiences in South Korea or Bangladesh have shown that without proper structural changes in economic seciors or policy priorities it is difficult to sustain the process of reform. The state can operate as an agent of economic transformation in collusion with civil society where market has a palpable role to the extent of providing subsidies to the poor or building up of network of social safety measures. Such measures are essentially in the hands of the state. Where vast riches of wealth coexist with the abysmal poverty and destitution, development can not be sustained.

State intervention in India got a new momentum since 1950 with the establishment of planning commission. The analysis in this context must take into consideration the political institutional structure that was designed by the first generation of Indian leadership after independence. The most important institutional parameters in this connection were the frame work of parliamentary democracy and the nature and characters of the Indian federal system that found their formal recognition in the constitution of India that came into operation effect from January 26, 1950. Parliamentary democracy, predominantly on the

British model, was adopted in India not so much on account of the familiarity of the western educated elites who played the main visible role in articulating the goals of the national movement, but seemed to serve the interest of the dominant classes of the big business and also educated elites who had dominated the Congress Party to whom power was transformed more by way of regulated compromise settlement than through genuinely revolutionary freedom struggle.

The imperatives of fulfilling the aspiration of the people of the newly emergent nation state indicated a sharp and decisive break from the colonial economic structure imposed upon the country in the past. It was a challenge to the economists and planners as well as to the leadership to chart the course of development from a poor agricultural economy to a powerful self-reliant industrial and economic power. The early planning framework established by these pioneers has gone down the history of economic thought as an outstanding example of vision coupled with technical excellence.

The concept of welfare state influenced the leading leaders of India to a greater extent. State controlled developmental urge made India bound to go for the introduction of mixed economy. However, socialist thinking was also very much responsible for the introduction of mixed economy in India. However, the socialist perspective in the Soviet line was not realized. The development of the society through the mobilization and the domination of the public sector were conceived by the policy makers of India.

For having a sound state controlled policy for the development of the country several five year plans were launched in India aright from 1951.

Market under the canopy of mixed economy was very much controlled by the machineries of the state. The private sectors were not given that amount of freedom through which it could establish the supremacy of the market force at length across the country. Public sectors being subsidized enjoy protection from the government and being the monopolistic position affect or destroy the competitive character of the market. The situation ultimately could not provide

market force, the necessary drive to boost the economy in India. Rather it created some pockets of development, and regional imbalances.

One striking fact that emerges from an overall assessment of India's planning policies, strategies and techniques from the first plan to the eighth plan is that progressive refinement of planning techniques has gone hand in hand with the increasing divergence between the targets and achievements of each successive plan. The subsequent economic history shows a relatively dismal record of awareness and creativity in economic management. It illustrates the extent of inertia in Indian planning and policy making and its insensitivity to structural issues. Policy making did not emanate from an overall macroeconomic perspective, but got fragmented into sectoral domains and this ultimately led to the structural distortion of the economy of India. Bureaucratic forces in the name of intervention on the part of India could not prove its utility for providing a true structure for the betterment of the country.

Failure of the machinery of planning in India for bringing desired goals and also the failure of the bureaucratic machinery made India thinking to search for another model of development.

A series of disasters- an international economic recession, following the second oil price hike and gulf war, slump in exports, rising in interest rates and inability to service foreign debt, a severe balance of payment crises, high inflation rate of 12%to 14%, a large fiscal deficit - prompted the government to launch a major credible fiscal adjustment and macro-economic stabilization. The process started in 1980's in many Asian countries whereas in India, it was only in 1990s that the process was formally inaugurated. A wide ranging pattern of ' economic reform' was set in motion–the principal objective of which was stabilization, liberalization and globalization (Liberalization, Privatization and Globalization mentioned as LPG)in consonance with the IMF- World Bank conditionality. The need for structural changes and bringing about broad socioeconomic transformation was felt in the earlier decades, but unfortunately due to lack of

consensus and political will, and a series of political instabilities within India such attempts were throttled. Ultimately, on 24th July, 1991, the new Indian government that came to power launched the structural adjustment programme (SAP). The main objective was to dovetail planning and market so that they are complementary to each other. The macro-economic policy framework consisted of stabilization measures, structural adjustment measures and complementary social measures. Liberal thinking of 1980s, the concept of political economy also moved the decision and the policy makes of India. Market force with its overwhelming victory for bringing development in open economy in most of the developed capitalist countries attracted the attention of the decision and the policy makers of India. Some of the scholars in India also argued in favour of the introduction of free competitive market in India. They argued that the economic reform activities on the part of the state in the name of the state intervention should be started with due importance. To adjust the economy of India with the rest of the world, the concept of liberalization, privatization and globalization should be realized at length. Justification of economic reform in the developing countries including India can be made on the following grounds.

First reform is desirable because free markets introduce much more competition, which is believed to spur growth in productivity and hence in income. Economists believe that competition enhances productivity because first principles of neo-classical economies strongly suggest it and because there is empirical evidence to support it, although this evidence is based on a few cases rather than comprehensive cross-country data.

Second, the agenda for reform, though extensive, has attracted a wide consensus among development economists and practitioners. Because competition is the crucial ingredient of reform and strongest dose of competition is likely to come from outside the economy, the reform agenda is closely associated with the outward-looking or export oriented strategy of development.

Third over several years a well implemented reform should raise average income. Despite popular belief to the contrary, evidence is mixed that stabilization and structural adjustment necessarily lower incomes in the short run, especially if the correct (though difficult) comparison is made with the situation as it would have been without reform.

Fourth reform ought to improve the income distribution in many circumstances, especially in Africa and Asia where economics are characterized by small farmers and a labour surplus.

Fifth, in the context of growing market and addition of labour force in India, a greater openness in the market would contribute to increase competition and productivity; this in turn would ensure qualitative and quantitative expansion of 'public goods', throughout the country.

The last few years, especially after the initiation of economic reforms in India, have been a lot of soul searching with respect to the development strategy that had been followed in this country since 1955. To be fair there has been misgivings in certain quarters regarding the path that India has charted out since 1991-92 as well. These misgivings and apprehensions have been shared across the ideological spectrum; the left views the importance being given to markets as an abdication of its responsibilities by the state; the right or the other believes that markets still continue to be shackled and the state has still not relinquished enough of its controls for the market to really deliver benefits.

However, the main objective of the smooth and effective intervention on the part of the state would be to make the market of India a true helper in the process of preparation of a global market. India's finance minister during his budget speech 1993-94 added that this strategy must be supported by essential reforms in economic policy and economic management as an integral part of the adjustment process, reforms which would help eliminate waste and inefficiency and import a new element of dynamism to the growth processes in our economy. The thrust of the reform process would have to increase efficiency and

interventional competitiveness of industrial production to utilize for this purpose foreign investment and foreign technology to a much greater degree that we have done in the past, to increase the productivity of the investments to ensure that India's financial sector is rapidly modernized and to improve that performance of the public sector so that the key sectors of our economy are enabled to attain an adequate technological and competitive edge in a fast changing global economy.

1.2. REVIEW OF THE LITERATURE:

An overview of the literature bearing upon the present study can best be presented in the following manners:

(a) Literature (to some extent) relating to the question of state intervention in terms of regulated economy (Planned Economy) in India before the inception of New Economy Policy (NEP) since 1991.

(b) Literature relating to the role and performance of structural reforms in the context of the changed role of the state and the market in India since the inception of New Economic Policy (NEP) since 1991.

With reference to first category C. D. Desmukh in *Economic Developments in India: 1946-1950,* (Asia Publishing House, New York, 1957) starts with initial approach of the major economic events of the period and also major political events that vitally affected the economic climate of the country. The author takes up in detail the periods 1946-49; 1950-52 and 1953-66; each characterized by certain distinctive features. To conclude, Deshmukh summarizes and synthesizes the more important elements essential for development and the lessons of the past experience.

In the book namely *India's Five Year Plans: Ninth Edn.,* (Calcutta, Joydurga Library 1986) Prof. Dhiresh Bhattacharya incorporates the latest developments in the field of planning policy in India starting from a general theoretical discussion of the nature and necessity of economic plans. The author surveys Indian planning and its progress through the years and offers his criticism in regard to

the investment patterns, financial policies and the techniques and objectives of all the five year plans. In this edition he has also added a comparative study of economic planning of Russia, China and India.

The book intends to enable the student to grasp the principles and problems of economic planning in the Indian context, to impress upon him that a plan is not simply a catalogue of development projects but something more unified and purposive and to encourage him for himself about the requirements of a well balanced economic plan for India.

Sukhamay Chakraborty in *Development planning: The Indian Experience,* (Oxford University Press, 1987) presents a synthetic overview of the Indian experience of development planning. The author presents an analysis of what led India to opt for development planning in the first instance and also discusses the difficulties encountered. The authors opine that India's initial choice of development strategy was not only justified but in some sense a natural one and although marred by inadequacies of design and implementation, it constituted a major effort to reshape India's economy and society. He also emphasizes on stating that the way out of the present problems lies not in giving up planning but in giving it a new content.

Charles Bettleheim in *India Independent,* (London, 1968) takes Marxist dimension at the time of analyzing the nature and course of planning in India. He criticizes the point that the regulated economy of India in terms of planning will bring development for the people of different sections in the country. He mentions that Indian Economy is caught between feudal modes of production and capitalistic modes of production. The launching of different five Year Plans in this economy seeks to fulfill the interest of the dominant classes in the society. These vested interest seekers virtually eat up the vitality of the economy of any country, he opines.

With reference second category Ruddar Datt and K. P. M Sundaram in the important book entitled *Indian Economy,* (S. Chand and Company Limited, New

Delhi, 2000), highlight the problem of growth and present a new approach to the study of the Indian Economy. There is clearly an attempt to discard the traditional approach to the subject and present a development oriented study of the Indian Economy.

In Part-1 a good amount of discussion about the existence of the trap of under-development equilibrium, the basic characteristics of the Indian economy, national income and its components, consumption pattern etc. have been incorporated.

In Part-II of the book there is a broad discussion about the planning and its problems. The rationale and philosophical basis of Indian planning and at the same time the ideological background to planning have been discussed. The concepts of privatization and economic reforms have been discussed in brief. An assessment of the economic reforms has been attempted in this part. A review of the planning period of Indian has been endeavored here too.

Part-III, Part-IV & Part-V of the book is devoted to the study of Agricultural sector, the Industrial sector and the Tertiary Sector of the Indian economy respectively. The problems of Indian labour have been discussed in part V.

Readers find that the problems of transport and communications, the foreign trade of India and its balance of payments position, the growth of Indian fiscal policy, the history of Indian currency, the role of commercial banks and the influence of the Reserve Bank of India in developing an organized money market in India find their places in part-VI. At the end of the book a brief survey of the problems of Indian public finance has been attempted.

The updated statistical data furnished in the book has provided an important source for carrying out research work relating to India's economic development strategy. Use of some mimeographed research articles has standardized the book.

The Intelligent Person's Guide to Liberalization, (Penguin Books India Private Ltd, 1996), written by Amit Bhaduri and Deepak Nayyar provide a good basis for proper understanding of the nature of liberalization, privatization and globalization. The entire subject matter of the work has been divided into six important chapters. The book gives importance on the fact that history should be given due importance as important lessons can be learnt from it. The authors at the time of explaining the importance of both the institutions i.e. state and market suggest that zeniths of any sort of political ideas are very dangerous. It is a danger from which neither the left nor the right is immune. The authors are convinced that people do not know certain matters of economy, polity and society.

In the above book one may find that there is repeated emphasis upon the importance of democratic institutions with the prerequisites of transparency and accountability because they force self-correction, another name for the ability to change when an iterative experiment goes wrong. It also helps the readers in getting convinced that doubt is as important as knowledge in the design of economic and social policy.

With the object of analyzing the task of economic development in India in a broader perspective the authors Jean Dreze and Amartya Sen in their monographic work namely *India: Economic Development and Social Opportunity,* (Oxford University Press, 1995) state that in the process of economic development in India the social as well as the economic opportunities have central roles. Facilities offered by the mechanism of market or generated by the institution of the state have not been the key issues in this book. Instead the authors devoted themselves to explain the fundamental role of human capabilities and their dependence on basic education, health services, ownership patterns, social stratification and accessibility of the weaker sections to the social opportunities etc. Readers may undoubtedly find that a large part of the book

deals with the role of social and political movements, particularly in confronting deep-seated inequalities.

In order to supplement the empirical arguments presented in the monographic work at the end of the work the authors present a substantial statistical appendix which can be treated as an important source for carrying out any sort of innovative work relating to the social and economic developments of India in future. The readers can not refrain themselves from admitting that it has made people aware of understanding the obstacles to economic developments in India and the basic failure of public policies to remove them. The cross country analysis initiated in the book helps the readers in having comparisons of India's achievements with those of other countries, including the ones that have skillfully used market opportunities and international economic integration, such as South Korea and other economies of East Asia and South East Asia and more recently in post reformed China. On the basis of comprehensive studies of the Indian development experience there is an interesting comparison on three Indian states (Kerala, West Bengal and Uttar Pradesh). This provides empirical data to have a better understanding of the variations of social opportunities exist in different states within the country in the context of recent economic developments in India.

Scholars are aware of the fact that the adverse impact of the conflict in the Gulf put India's fragile economy to deep crises in August, 1990. In order to get rid of the crisis, in July, 1991 new economic policy of the country was initiated with great expectations. The introduction of New Economic Policy gave rise to a debate about the directions that the economy had been following and the likely impact of current policies on India's economic future. In *The Indian Economy - Problems and Prospects,* (Penguin Books India (P) Ltd. 1992) by Bimal Jalan there is a series of essays written by eminent scholars (like Bipan Chandra, Raja J. Chelliah, Pranab Bardhan, and Koushik Basu etc.) and these definitely contribute to a great extent to the debate about the directions of the economy of India to be

followed. The series of essays cover both the short term and long term aspects and attempt to answer the questions that many are asking: where is India and where should it go from here? This can be treated as an attempt to take a look at the current economic crisis in a long term historical perspective. No doubt such perspective is of great importance for understanding the origins and causes of the crisis as well as its possible solutions.

Prof. Amiya Kumar Bagchi published a very important book on globalization namely *Biswayan: Bhabna-Durbhabna,* (Volumes-I & II), [(A collection of essays on globalization in Bengali), National Book Agency Private Limited, 2002]. In the book the different dimensions of globalization have been taken into consideration. Different eminent scholars of both national and international level have expressed their opinions about the concept of globalization keeping in mind its relationship with technology, agriculture, services education, culture, market etc. A great deal of discussion has also been made on important topics like 'Globalization and Woman', 'Globalization and Environment',' Globalization and Democracy' at length. The causes of the economic crises during the early period of 90's and the reasons why the Third World countries including India tilted in favour of so called globalization and the process of international economic integration have also been highlighted .

Prof. Atul Kohli examines the role of the state in the developing world (the periphery) in the book entitled *State Directed Development, Political Power and Industrialization in Global Periphery,* (Cambridge University Press, 2005). The author makes a comparative analysis of states as economic actor(s) in developing societies.

Scholars often notice that some have more successful than others in promoting industrialization. Some elements in the states' relationship with competing classes (labour, business etc. for example) enabled some states to promote industrialization successfully, while others could not. The author provides a 'historical orientation' of how these states acquired their 'core

character' long before they started to intervene in order to promote development. To be particular, the author has taken into consideration the deep impact of the colonial rule and tradition. It is the typology of the author, depending on how the authority of state is organized and used in the developing world upon which the choice of state is based.

Categorically the author points out that both the 'cohesive-capitalist' states South Korea and Brazil which were under the control of military dictatorships for long periods share organizational and class characteristics of the fascist states in inter-war Europe and Japan. In the case of India, Kohli opines that it is a fragmented multiclass society. Unlike neo-patrimonial states these states are real and modern. They command authority and leaders are accountable generally for policies and performance. However, unlike in cohesive states the authority of fragmented society rests on a "broader class alliance." This results in their inability to "define their goals as narrowly or pursue them as effectively as cohesive capitalist states". They also tend to be 'middling performers' because they have to surrender themselves before competing class interests. The study makes a comparative analysis of state intervention in four large and significant countries Nigeria, South Korea, India and Brazil. Choice of these countries is deliberate in order to explain the variation in the efficacy of state intervention in varied context.

The work is very significant as it places the role of the state at the centre of discussion on modern capitalism and industrialization. In the process it rescues us from the debate from the historical and political perspectives that are raging. The Korean case best illustrates this. The author points out that 'statist scholars' have demonstrated quite convincingly that state intervention played a crucial role in the East Asian Miracle.

But the interesting thing to note about the book is that it could not answer a few important questions. These are:

i) Why is a relatively more vibrant democracy like the one in India unable to promote development?

ii) Why was the Indian state unable to act decisively by setting the contradictory positions of the different social classes?

The emerging global economy calls for a restructuring and reforming the national economic policies of the nation states across the globe. But this necessary adjustment is not as simple as privatization, liberalization, marketization, globalization or whatever other slogan that is found attractive and marketable for the time being. The scholars must have a proper understanding of the far reaching changes taking place in the global economy and intelligent response to them with a clear perception of social priorities. Against this backdrop C. T. Kurien's article "Indian Economic Reforms in the Context of Emerging Global Economy" in *Economic and Political Weekly;* (April 10, 1993,) provides substantial information for such understanding. In the article the author traces out the roots of the present global economy. He also points out the reasons of India's integration or response to the present day emerging global economy.

David B. H. Denoon in his article "Cycles in Indian Economic Liberalization, 1966-1996" in *Comparative Politics,* (October, 1998) presents the history of liberalization periods in India in three important stages. These stages are 1966-68, 1983-87 episode and finally 1991-94 episode, each episode has been discussed in its historical perspective and there is a discussion of the logic as well as the motivation which worked behind each of these three stages with substantial information. The author also points out the theoretical approaches to the political economy of India.

In the article "Dynamic Growth in China: Lessons in Economic Reform for Other Developing Economies" by Wing Thye Woo presented in a seminar on Structural Adjustment and Policy Reforms: Perspective from International Experiences, (August 23rd, 1994) there is a discussion about the high rate of growth of China and the transformations of its economic structure since

economic reform started in China in 1978. The author points out that as a result of the impressive growth (9.5% per annum) and structural transformation there is a growing perception among the scholars concerned with the economic policy reform, that China offers valuable lessons to the design of economic reform strategy particularly to a populous country like India. He points out that there are three important lessons commonly drawn from the Chinese experience. These are:

1) Agricultural sector reforms should precede industrial sector reforms i.e. there is an optimal sequence to the implementation of reform.
2) Since the State Owned Enterprises (SOEs) can be reformed satisfactorily, privatization is superfluous.
3) Economic liberalization should precede political liberalization.

The author, in this paper, challenges the validity of the above three lessons and concludes saying that India not only has the potential to achieve the same impressive result that was found in case of China. He argues strongly that India can do so at a faster pace at the time of exercising reform activities in the attempt of integrating its economy with the so called global economy.

Bata K. Dey in "Liberalization and Human Management Concerns" attempts to endorse the desires of liberalization process with few reservations. In the article there is a discussion of the possibilities it offers in improving human factor in the process of the management of government and business activities. The author at the same time, points out the manner of responding thereto through reorganizing organizational structures. In the article the core of the discussion revolves around the value and importance of various human dimensions at the time of exercising economic reforms. Bata K. Dey illustrates through exhibits, features of changes required in new organizational structure.

Vijoy Joshi and I.M.D. Little in their important work namely: *Macro Economics and Political Economy* (1994) puts focus first on stabilization. At the time

of analyzing the stabilization measures in the context of India they argue that the fiscal adjustment of this country requires both a substantial extension of the coverage of direct taxes and the enhancement of user charges on water and electricity, the low prices on which mainly benefit the poor. Both are critical of the government of India at the time of analyzing the structural adjustment programme of country. They opine that the programme is not clear sufficiently as regards the future time path of trade liberalization. They oppose the concept of minimal role of state of western style in the context of liberalization wave. Rather they advocate a bigger and effective role of the state by way of formulating and implementing plans and programmes for those who will be affected adversely after the introduction of the economic reforms in the context of globalisation.

In his important work *Globalization and Nationalism* (Sage, 2001), Baldev Raj Nayar discusses that the democratic structure of India appears to be emerging as a key explanatory variable in the recent period of economic liberalization in the 1990s.He argues that even in the peak hours of globalization, the role of the state is not going to be minimized to a great extent. Rather in the process of determining the natures, scope, pace and sequencing economic policy reform the institution of state is going to play the key role. Market is not in a position to play the master role here. To survive and be effective too in the high time of liberalization it is necessary for the state to cope with challenges arising from globalization by way of enhancing its regulative and transforming capacity.

Terrance J. Byers in an edited volume entitled *The State, Development Planning and Liberalization in India,* (Oxford University Press, 1998), opens up discussion of the various issues that are relevant to the present liberalized environment prevailing in India. In the context of the debate relating to liberalization and its consequences, most of the contributions made by the eminent scholars are of great significance. The author himself, in his own article, makes a critical attempt to discuss the concept of liberalization. In the

introductory analysis he also discusses development strategy of India before the inception of structural reforms since 1991.

In his book *Unfinished Business: India in the world Economy*, (Los Angeles, 1999) Deepak Lal initiates a discussion of the transition of India from a planning to a globally integrated market. An outline of the growth performance of the country in the long run historical perspective till about 1985 has been provided at the out set of the work. In several articles, the author discusses the situations that impelled the country to go for the incorporation of structural adjustment programme within the economy of India. He also points out the areas where India has to initiate structural reforms for alleviating the mass structural poverty of India.

Prof. Baldev Raj Nayar in his important edited work entitled *Globalization and Politics*, (New Delhi , Oxford University Press, , 2007); a comprehensive view of the recent debates surrounding globalization and its consequent effects on the socio-economic and political life of India has been provided with proper analysis. Divers view points against the backdrop of political economy of globalization has also been provided in this extensive volume. A fruitful discussion as regards the diffusion of globalization and its causes and consequences is there by the eminent scholars from the different fields (social sciences, policy makers and media specialist) in a well articulated manner. All their views on the role of ideas, interests and institutions in the adjustment to globalization have been presented in the book. In the introductory discussion the author makes an attempt of providing a broad over view of the nature and development of economic globalization and India's experience with it. Readers may find that in five broad sections: nature of globalization both in its past and contemporary incarnations; the nature of economic strategy in India that preceded globalization; the shift to economic liberalization and the stimulus for it; the consequences of globalization and the associated process of economic liberalization on India's relationship with the world; and the impact of these

processes, internally, on India's economy, society and polity - all the various readings offered by the different scholars have been organized in the work in a coherent manner. No doubt that the present volume will be of great interest to advance students and scholars of politics, economics and political economy as well as to journalists, policy makers and the informed general leader as the contributions made by Montek Singh Ahluwalia, Sanjaya Baru, Jagdish Bhagwati, Amartya Sen and Joseph E. Stiglitz among others through their writings are of high importance and significance.

By situating the concept of globalization in the broad sweep of modern history over the past half-millennium, Jeffrey G. Wiliamson makes an attempt to of advance an understanding of globalization in the article: "Winners and Losers over Two Centuries of Globalization". To him the proper cause of the international economic integration (i.e. globalization) is to be traced in the availability of market price convergence and at the same time he asserts that all expansions of trade and capital flows does not necessarily signify international economic integration. Since the historic voyage of Columbus, Williamson has presented the past half millennium into four main episodes, two of which have favoured globalization while the other two were restrictive. The episodes are: 1) Anti-global restriction (1492-1820), the first global century (1820-1913), Anti-global retreat (1913-1950) and the second global century (1950-2002).

Dividing into five successive phases, the economic growth of the contemporary world has been examined by Angus Madison in the article: "Why and When did the West Get Rich"? In a larger historical context, the modern economic history has been re-translated into strict chronology in the following successive phases in the analysis of Maddison: a) the period from 1820 to 1870 marking the initials phase of capitalist development and characterized with the slow economic growth; b) 1870 to 1913, labeled as the old liberal order and featured with the modest economic growth, c) the period from 1913 to 1950 the period witnessed the collapse of liberal order, d) 1950 to 1973 characterized as

the golden age by Maddison in view of the rapid per capita income growth and e) 1973 to 2002, the period marked with a new liberal order where the growth has been second best.

The two broad themes regarding globalization have been highlighted in Deepak Nayyar's edited volume *Governing Globalization*, (Oxford University Press, 2003). In the first theme the contemporary globalization has been viewed as recurrence of an earlier phenomenon that had been experienced before for several decades prior to world War-! (1914-1918) which had centered on integration of the world economy throw the cross-border flows of trade, investment and labour. The fundamental asymmetry pervading the governing international regimes and the consequences of globalization has been taken into consideration in the second theme. He argues that the process of globalization is likely to widen the gap between the Less Developed Countries (LDCs) and the Advanced Industrial Countries (AIC) in long run, in terms of development.

Prof. Amartya Sen takes globalization not as a new phenomenon at all in his article on 'Global Inequality and Human Security'. Instead he is in favour opinion of enlarging the scope of globalization expansively to encompass all human interactions over thousands of years. Differing with Nayyar he agrees that globalization generates some sort of benefits for the developing blocs in the world. He concentrates more on the ethical and fair distribution of the benefits to be generated by the process of globalization.

Recognizing the benefits of globalization as it provides towards the economic development of the country and therefore to human welfare the most vociferous critic of globalization, Joseph E. Stiglitz, in *Globalization and Its Discontents* (Penguine, 2002) expressed concern over the unbalanced view that supporters take of the phenomenon ignoring its failures to fulfill the many promises that have been made in the initial stage, particularly as regards reducing poverty. He is very much critical of the way of the implementation of globalization in the developing societies. He argues that the costs incurred by the

less developed countries for incorporating globalization within their economies are more than the benefits provided by it.

Jagdish Bhagwati in the work entitled *India in Transition: Freeing the Economy* (Oxford, Clarendon Press, 1993) does not see eye to eye with the critics who assume that the costs of the incorporation of globalization are more than the benefits it generates in course of its functioning within the economies of the developing countries. He stressed that there is a human face with globalization. It also helps in advancing the achievements of the social agenda rather than threatening them. He argues that if proper public institutions and policies are made available within the structures and the functioning of the economies of the developing nations, the process of globalization is going to be beneficial in all respects - like child labour, poverty, women's rights etc.

In the article entitled "Nationalist Planning for Autarchy and State Hegemony: Development Strategy under Nehru" Nayar mentions the 'Nehru-Mahalanobis Strategy', which prevailed prior to the shift to economic liberalization. The central argument in the article is that it emphasizes the power of nationalism, standing opposed to globalization as a social force .Proper stress has been given to the power of the ideology of socialism to which Nehru was committed and the propitious political circumstances of the particular class basis of the Indian polity at the time of changing the public sector as the mechanism for carrying out the intended industrialization.

Montek Singh Ahluwalia in his article namely "India in Globalizing World" views the process of globalisation quite positively. He gives notes with significance that all countries that have already experienced high growth have done so only by seizing the opportunities thrown up by international integration. To him, the process of economic liberalization in internal variant began in the mid 1980s and was then extended to external liberalization in 1991 in the context of an economic crisis.

Prabhat Patnaik and C.P. Chandrasekhar both summarily reject the approach mentioned above in their well-argued and polished article 'India, Dirigisme, Structural Adjustment and the Radical Alternative". Their first point relates to the causes leading to economic reforms. They accuse IFI as the principal culprit as it undercut any attempt to build a relatively autonomous Indian capitalism through state intervention. They opine that expansive import liberalization and large scale external borrowing during the regime of Rajeev Gandhi eventually led to the economic crisis in the country. In the second place, both the scholars find the economic reforms responsible for slowing down the economic growth, aggravating the fiscal situation and worsening poverty in the society. Finally, they provide a different development strategy. Through the introduction of a trade policy centered on import control and promotion of export of manufactures, and improvement of living standards through land reforms and greater attention to the fields of education and health, a superior alternative to the present economic reform is possible.

Jalal Alamgir, in his contribution on "Nationalist Globalism: The Narrative of Strategic Politics and Economic Openness in India" opines that economic policy has taken an interdisciplinary approach. There has been the integration of economic, military and diplomatic elements in this geopolitical architecture.

Devesh Kapur in a fascinating article on "Ideas and Economic Reforms in India: The role of International Migration and Indian Diaspora", explores the impact on Indian liberalization policies of transborder flows of ideas resulting from both the migration and return of Indian intellectuals and entrepreneurs. Kapoor argues that given the strong selection bias concerning recent Indian migrants (who are drawn largely from the upper strata) and their access to decision-making elites, the impact is at least 'as significant as other factors' that are often advanced in explaining liberalization.

A ring side view of the positions of the different groups of the RSS family on the issue of globalization and how they are related to their variant support bases has been provided by Ashok Malik in his article "The BJP, The RSS (Rastriya Swayamsevak Sangha) Family and Globalization in India". At the time of analyzing the fitful execution of liberalization he shows that the big merchant houses in the country cried for the liberalization episode in India whereas the small scale producers opposed the launching of liberalization episode in India.

A hard-hitting attack on globalization has been provided by B. Vivekananda in his article "Globalization and India". He views globalization from the idealistic perspective of social democracy. He also views globalization as rooted in greed-driven project of the developed countries to exploit, coerce, and dominate LDCs.

Sanjaya Baru in his important article "Strategic Consequences of India's Economic Performance" has elevated the debate about economic reform or liberalization and globalization in India to the strategic level. He suggests that the cumulative improved economic performance of India since 1980 is to be traced to the de-hyphenation of India from Pakistan in international affairs and India's comprehensive engagement with the major powers in the opening years of the new country. According to him through trade and investment the economy of India integrates itself with the global economy and there by is clustered into the power equation of the world in a new way.

There are scholars who often treat the process of globalization as the cause of the erosion of national autonomy. But Prof. D. Nayyar with the help of empirical data opines in a different way in his extensive article "Globalization and India's National Autonomy". Refuting the claim in relation to the economic and political areas he argues that by expanding its capabilities the process of globalization has strengthened the national autonomy of the country. He at the same time does not forget to mention that there has been the exaggeration of the

greater autonomy of India prior to the incorporation of the provisions relating to globalization within the national economy of the country.

The main aim of the inception of New Economic policy in India was the alleviation or reduction of poverty level existing in the society. The most controversial issue in relation to the impact of globalization and by extension that of liberalization is that of whether it has alleviated or worsened poverty. One of the more thorough-going analysis of the issue mentioned above has been made extensively in the article entitled "Poverty and Inequality in India: A Re-examination" written by Angus Deaton and Jean Dreze.

B.B. Bhattacharya and S. Sakthivel in their extensive article "Regional Growth and Disparity in India: Comparison of Pre and Post Reform Decades" suggests that the growth accentuation, albeit moderate, of the reform decade of the 1990s-compared to the pre-reform decade of the 1980s has seen the accentuation of disparities among the states. Similarly results of several other studies have been confirmed by them, certifying in the process that there has been no trend toward convergence.

The impact of economic liberalization for the federal aspect of the Indian polity has been assessed in a beautiful manner by Aseema Sinha in her extensive article "The Changing Political Economy of India: A Historical Institutionalist Approach". She concludes by saying that liberalization has had the radical effect of substantially decentralizing the federation and empowering the state more deeply.

A contrast in the position of labour between the period before and the one after economic liberalization has been drawn by Supriya Roychowdhury in her article entitled "Globalization and Labour". The important evidences relating to the adverse trends for labour in the post liberalization period in regard to the shrinkage of the organized sector, the expansion of the informal sector, the decline in social security and the disempowerment of trade unions have also been provided by her extensive article.

Prabhat Patnaik in *The Marxist, (Quarterly)*, Vol. XVII, No. 02 assesses the effect of liberalization in India for the period of ten years (1991-2001) in a critical manner. Data found in the article will help the readers in analyzing and assessing the years of 'Economic Liberalization' in India. To conclude Prof. Prabhat Patnaik opines that liberalization has to be considered in the light of human face all the time.

Jayati Ghosh in her article entitled "India's structural adjustment - An Assessment in comparative Asian context" in *Economic and Political Weekly* (May 17-24, 1997) seeks to make a reasonable assessment of whether the package of economic reforms being implemented in India, at present, has any relation to the strategies that were allowed for the apparent economic success of other East and South-East Asian countries. The author makes an intensive study on the current issues of policies relating to economic reform across the globe and thereby identifies the important elements of the adjustment strategies followed in some of these countries (South Korea, Hon Kong, Singapore, and China) with some particular reference to some key areas of economic policy. The divergence of these strategies from the standard 'liberalizing' or 'market driven' model of structural adjustment finds their place in the article. Against this perspective a notable discussion of the experience of India of its New Economic Policy (NEP) since 1991 was discussed in comparison with the East and South-East Asian countries.

Biplab Dasgupta in his book entitled *Globalization: India's Adjustment Experience*, (Sage 2005: New Delhi) studies the structural adjustment experience since its inception in 1991 using concrete facts and figures. In relation to the question of globalization with respect to India different issues, for examples, the role of multilateral agencies and of multinational companies and the policies with regard to patents and environment have been raised in the book.

Rao, C. H. Hanumantha and Linneman Hans in their edited work entitled *Economic Reforms and Poverty Alleviation in India*, (Sage publications India Pvt.

Ltd., 1996) introduce important issues relating to the major consequences of the current economic reforms for poverty in India. A minute analysis of all the eight papers presented in the volume reveals clearly that in the light of the experiences of the several countries in the continents of Latin America, Africa and Asia which underwent the adjustment process during the 1980s and evolving the relevant theoretical framework in contrast to the present structural adjustment process in India. For receiving latest information on the stabilization and structural adjustment measures undertaken in India, and on their impact on the balance of payments, growth, employment, inflation and poverty the papers analyzed in the work are of immense importance and significance to a great extent.

1.3. OBJECTIVES OF THE PROPOSED STUDY:

State intervention in the context of structural reforms has posed a new dimension to the question and the method of state intervention both to the developed and developing countries in the world including India. The proposed study takes into consideration the various perspectives of the concept of state intervention and intends to show the degree and the nature of intervention on the part of the state in all national economies. The proposed study also intends to show how far the interventionist state can perform its role as an instrument of economic transformation in the contemporary world.

Earlier, the rise of socialism during 1920s in the state of the USSR (erstwhile) and other East-European countries provided a different dimension to the question of state intervention for realizing development. The socialist school insisted on considering the question of economic development through rigorous state controlled planning.

But the collapse of the Soviet Union (erstwhile) and changes in the communist governments in the East-European countries during the late 1980s put a setback to the concept of regulated economy. On the other hand the tremendous economic development experienced by the South-East Asian countries having followed a market oriented economy during the same period

unleashed liberalization wave to be exercised through the structural reforms across the globe. State centric subsidized economy has no place in the contemporary world. The process of liberalization marked a radical departure from the earlier stand point of the concept of state intervention so far as the question of bringing development through bureaucratic intervention is concerned.

The biggest task for the policy makers and executioners of public policy in India is the transformation of Indian economy from command to market, from controlled to decontrolled, from closed to open in the context of structural reforms initiated in the country since the inception of New Economic Policy in 19991.

The suggested study seeks to make a comprehensive analysis of the question of reforms in the context of structural adjustment programme (SAP) in India since 1980s. The study shows the degree and the nature of the interaction between the state and market in the context of globalization wave and also tries to give opinion upon the possible victorious to be found out of the interaction between the two important institutions i.e., state and market in India.

1.4. RESEARCH QUESTIONS:

The proposed study has some important objectives to fulfill. Keeping in mind the stated objectives the suggested study would explore the following research questions. These are:

i) What are the theoretical foundations of the concept of state intervention vis-à-vis market?

ii) How did the early concepts of state intervention and welfare state change its direction, attitudes and assumptions during the transitional period from 1951 to 1991?

iii) Why did India with its socio-economic political structure fail to actualize the benefits of development through the direct intervention of the government during the periods from 60s to 90s?

iv) What are the structural, functional, attitudinal and behavioural changes which are of utmost necessity in the context of liberalization, privatization and globalization?

v) What is the implication of NEP in the context of India's future?

vi) How far is it relevant to bring about changes and undertake the reform in the affairs of the state for adjusting Indian economy with the global economy?

vii) What is the impact of the reform process in the last fifteen years? Has it been able to broaden the scope of market operation? Or exclusively has it restricted the role of state?

viii) How far India could integrate with the global economy, considering the large structural weaknesses in its domestic sectors.

1.5. RESEARCH METHODOLOGY:

The study intends to examine the contexts and process of economic reforms in India since 1980s. With the shift of priorities, India's economic development altered its priorities - it moved from a planned economy to a broader market level economy. Although planning and the role of the state were not abandoned fully, the Structural Adjustment Programme and economic reform in 1990s took India from a rather closed, state controlled public sector to private entrepreneurship based capitalist development. The impact of the reform has been a mixed one. While a group of scholars claim that India's credibility as an economic power has increased, other claim that the rampant opening of economies, liberalization, privatization and globalization have opened up the development process to extreme level of internal and international 'exploitation' both by the multinationals and foreign companies.

In the context of the above problematique, the thesis intends to understand the broad framework of capitalist development, examining different dimensions of the reform process. In the course of the study, both the theoretical and empirical literature would be explored. The time series data would be used

to study the impact of the economic process (between1980 & 1990 and again between 1991 & 2001 etc.). The study intends to explore both primary and secondary sources, analyzing them in the context of macro-economic and micro-economic indicators. An effort would be made to examine the impact of the reform on the role of the expanded market and the nature of competitiveness faced by the economy, in the context of global access to opportunities. The work proposes to be historical, descriptive and empirical; it would attempt to understand the changing role of the market as well as the role of the India's capitalist state.

A cross-country analysis would enrich the entire gamut of study while specific case studies like Thailand, South Korea, Mexico, Bangladesh would be taken up to enlighten and explain the crisis and experiments to the reform process.

1.6. CHAPTER-WISE PLAN OF THE STUDY:

A well articulated and comprehensive research work in the field of social science must proceed systematically. The systematic presentation of chapter-wise plan of any proposed study adds comprehensiveness to any proposed study and makes it more scientific. The present research work seeks to present the chapters discussed in the study in the following manner:

1. Introduction - Statement of the Problem - Over view of Literature - Objectives of the Proposed Study - Research Questions - Research Methodology followed for the proposed study - Plan of the Study (Chapter wise).
2. State and Market: A Theoretical Controversy.
3. Development Planning and State Intervention in India
4. Globalization: Why India Resorted to Globalization.
5. The Politics of Structural Reforms.
6. Impacts of Economic Reforms: Pre and Post Reforms Scenario.
7. Summary and Concluding Observations.

CHAPTER - II

STATE OR MARKET: A THEORETICAL CONTROVERSY

2.1. INTRODUCTION:

Under the changed scenario marked by the collapse of socialism, the uninhabited play of the market forces in an atmosphere of crude inequality and vulgar homogenization cuts across national frontiers, meaning the exact opposite of what Tocqueville, Marx, Mill or the utopian socialists would have imputed to it. Under the present circumstances the institution of state is finding a different role to play. Given their historical liability, social scientists can not but trace the historical continuity in its thematic. The conceptual baggage built up around the recent clamour for economic reforms (that demands a new relationship between the state and the market) also addresses itself to explain the logic and machinations of capitalism as a global system. The point of difference lies precisely in the fact that under the new dispensation, such concepts are sung with unpretentious and unapologetic connotations; unpretentious because of the objectivity with which these depict the socio-economic realities emerging on the horizon; unapologetic, because these are not burdened with any legitimizing concern, particularly, for those whose survival is being threatened by the post-reform society. [1]

A complete swing of the popular mood has taken place right from the beginning of the Second half of the twentieth century. Scholars in political economy are convinced that the role of the state in bringing development has experienced a dramatic change. There is a move from the widespread belief prevalent in the 1950s, that the state could do nothing wrong to conviction fashionable in the 1990s, that the state can get nothing right. But a minute analysis will reveal that

the reality infact is more complex. Simplified ideas reduced to catchy slogans are somewhat like pet notions that may be in or out of fashion.

Both the ideology and the reality are equally responsible for bringing about this dramatic change so far as the question of the new role of the state is concerned. Capitalism became triumphant as it had been able to pave way to the collapse of communism. Scholars like Fukuyama in this context felt that this happening is so momentous that it has been described as the 'end of history'! The market economics of East Asia epitomize success whereas the planned economy both in the East Europe and in the erstwhile Soviet Union showed a remarkable failure. The market failure shines when it is compared with the failure of the state. One has to admit that market failure is also a fact of life. The high levels of unemployment in Western Europe where capitalism had its genesis clearly strengthen this point. But over enthusiasm for economic liberalization has reinforced the asymmetrical view of the state and the market. No doubt, the state has been painted as black and the institution of market as white by the over-simplified rhetoric of liberalization. But for the grey areas no room is left at all. [2]

Ideologically such oversimplification may be convenient. But for having a clear thinking it does not at all .Confirming to the fashion of the time, inconvenient questions may be initiated. Will it be appropriate to pose the problem simply as a choice between government failure and market failure? Both the ideologues, left and right are inclined to do so. The reality is that this is not right as it creates a false debate which leads nowhere. Obviously a question arises- is it necessary to redefine the economic role of the state particularly in India? Such rethinking is of absolute necessity. The basic hypothesis in this context is simple and clear. The state and the market are in general, complementary rather than substitutes. Co-operation rather than conflict should define the relationship between these two important variables. More to say is that a one shot relationship is not a solution for these two institutions rather an

evolutionary relationship change oriented over time in adaptive manner can be a better solution. But the question arises is this feasible in terms of politics given the nature of state in India? [3]

2.2. NATION-STATE AND DEMOCRACY:

2.2.1. ACCOUNTABILITY, SELF CORRECTION AND ECONOMIC NATIONALISM:

In the contemporary world it is being observed that the global integration of the market is taking place at a great pace. Major actors in the market, the Multinational corporations today find at ease the global reach while the nation state remains local by its very nature. In the context of this global setting, it is understandable why so many observers find the nation state to be an anachronism. Scholars defending globalization felt that as an anachronistic institution the one powerful- nation state seems to have almost outlived its time like the prehistoric dinosaur outlived its life.

No doubt the nation-state is moving inexorably towards its demise in the present era of globalization. But this view about the demise of the nation-state under the pressure of the process of globalization is misleadingly and over simplistic for two reasons.

First, if it is perceived that the state plays along with the market then it is a misunderstanding of the economic role.

Second, the way in which the relationship between the nation state and economic nationalism is evolving over time has not been successfully seen by this pro-globalization school. In different debates one may see that the first aspect is taken into consideration for extensive dissension over the relative roles of the state and the market. For better understanding of the relationship between the state and the market, the two important institutions are to be viewed in terms of the extent of accountability and self correction embodied in the two institutions. On the other hand, relatively little attention from economists and

political commentators have been given to the second aspect as to how economic nationalism is affected by and affects globalization in turn. [4]

2.3. STATE AND MARKET:

2.3.1. ACCOUNTABILITY AND SELF-CORRECTION:

The acceptance of the 'market-culture' as has been emphasized in the earlier discussion depends to a great extent on the participants seeing as justified, on two important grounds:

a) not merely what they receive;

b) but also what is denied to them by the market.

And yet, the market mechanism's most important feature is that it is not directly accountable to the participants, in contrast, the state is. It is recognized that in the name of majority role in any political democracy the majority can not trample on the rights of the minority. And in the same sense, the notion of democratic legitimacy and accountability involves not just majority rule but it is extended to the protection of rights for the minority as well. To the functioning of the market economy similar sort of arguments is to be applied at any cost for the better functioning. If to a significant minority this better functioning of the market economy is marginalized and denied, the accountability character of the state may influence the institution of the state to have intervention in the name of the installation of the legitimacy of the market in its functioning. Failure to follow the principle would bring disastrous result for the political authority of the state as their accountability will be in question. The political authority should never justify such market system which in turn deprives the significant minority almost every thing. In precise terms this is the most important lesson to be learnt from the unfolding experience of the post-soviet reform. Paying little attention to the economic sufferings of the common people in the society and marginalization of a significant proportion of the population for a state undoubtedly discredits

itself to a great extent. At the same time if marginalization occurs through the market process it is a discredit for the market process too.

It has been evident from the different findings that in the most of the countries poor economically in the more extreme cases, not merely a minority but even the majority may be denied the very minimum of economic life through extensive poverty, unemployment, illiteracy and lack of health care. As a result of this fact the problem is acute disastrously in these societies. Fact and data received from the different sources reveal that of some 4.4 billion people in developing countries, almost three-fifth live without basic sanitation, one third without safe drinking water, a quarter lack minimum housing facilities and one fifth of the life beyond the reach of many modern health services. These help a lot in judging the staggering magnitudes of the problem on a global scale. Illiteracy is a common fate to at least one fifth of the children, as they in school do not get as far as grade five (UNDP-1998).

The state seeking legitimacy should fell compelled to act under such circumstances for the state accountable and the market is not characterized with such accountability. In recent years in the attempt of finding out the extent of state versus market failures a great deal of discussion has been carried out. Public choice theories and rent seeking theories as well have helped in drawing our attention rightly to the fact that in many circumstances the failures of the state can be even more severe than the failures of the market mechanism. But one basic issue has been ignored by them. This is the issue of accountability. This accountability makes the state bound to act which are absent in the workings of market mechanism. And for any democratic society this accountability is a basic criterion without any doubt.

However, for any mechanism self corrective in character, the question of accountability is no guarantee. In many cases it has been found though on the economic front a state might continue to perform very poorly yet, it try to improve its image of accountability by taking resources to cruder form of

nationalism like religious fundamentalism or increased military might. Arguments come from the proponents of the market mechanism in a different manner. They argue that the mechanism of market is characterized with self correcting mechanism. But this argument is flawed on two counts. In the first place, the self-correction of the market mechanism based upon a string of unrealistic assumptions which need not hold in practice, especially the fact that the lack of aggregate demand is not subject to automatic self-correction what conventional theory here claims to show is the efficient allocative equilibrium properties of a well-functioning market (e.g. the so-called fundamental theorem of welfare economies), when by adequate aggregate demand, full employment of resource is ensured. In the second place, the speed of adjustment to the equilibrium may be too late or slow to be of practical relevance even after granting such allocatively efficient equilibrium. So there is nothing in economic theory to establish how close or distant that future might be while the proponents of liberalization in favour of the market might claim that liberalization and integration with the global market is necessary now to reap benefits in the future.

But at least in any democratic society in contrast, the accountability of the government has a well-specified time scale because of the definite time scale the institution of the government is bound to act wisely or unwisely. This formula however, in case of the institution of the market is not exercisable. As a matter of fact, one may easily find out the collapse of bureaucratic central planning. The collapse was largely due to the fact that it was neither accountable nor subject to self-correction within a specified time scale. The same formula is exercisable in case of the application of dictatorial rules. Dictatorial rules that legitimize or try to legitimize seem apparently benevolent in the eyes of the population, are no doubt dictatorial in all the ways because they accept no definite time constraint. Without committing himself to when that future would come a dictator can sell or promise a good future. And in this respect, the trajectory of a competitive

market towards the desired optimum can only be compared with the dictatorial promise. The time constrained political accountability of the nation state in contrast, may force it to act or behave in a manner not necessarily replicated by the market. From this perspective, a fundamental issue, therefore, is not whether state actions are market friendly, but whether they conform to the time constrained accountability criterion of any democratic society found in the contemporary world. [5]

2.4. UNSUCCESSSFUL CHARACTER OF BOTH THE INSTITUTIONS i.e. GOVERNMENT & MARKET:

For quite some time to the economists the term market failure has been a confused talking. But the term government failure has found its place in the dictionary relatively recently. A few scholars argue that the great economist Adam Smith was well aware of it two centuries ago. No doubt that the word failure is used to describe outcomes that are inefficient or undesirable with reference to some idealized state of economy and society. But the fact is that common citizens want to enquire into the question of the future of the state through intervention in simple terms. They are also concerned about the failure of the institution of market in simple way. Therefore, it is crystal clear that if one does not wish to be mystified or fooled by the jargon of economists he or she must follow the above mentioned understanding as it is crucial to follow the debate on economic liberalization.

In many forms, government failure can be observed and many factors may be traced as the causes for such failure. Because of the lack of adequate information about a problem government make mistakes most charitably. It has also been noticed for quite sometime, that governments do not quite realize the nature of the problem. It is not possible for the government to predict or to control the consequences of their actions if they lack adequate understanding and necessary information. As a result of this fact, many problems remain

unsolved through the intervention of the government; instead it may lead to unexpected adverse effects that are unintended. Many a time divergence between the conception and the design of intervention by the government is observed. Perhaps the divergence between the governments made design and the implementation of the policies is even greater. Because of this divergence between the intention and the reality bureaucratic arbitrariness are seen getting upper hands in many ways.

Even with the best of intention on the part of the governments, all these developments may be true. But the government always does not act for the benefits of the common citizens at large. ~~Many~~ More often, it has been found that governments try to protect the interest of a particular section in the society. In the policies of the governments, interests of the classes or groups whom they represent get reflected, precisely it can be stated that they manipulate on behalf of groups who can exercise influence. Being inspired by these reasons conservative economists draw the conclusion that intervention in markets is inefficient because governments are incapable of intervening efficiently. It has been noticed that the existence of market failure no longer provides an acceptable basis for intervention for those who are so convinced about the inevitability of government failure. [6]

However, people do not get worried at the abstractions. The observation and the concrete experience help the common people in the society to have perceptions about the failures of the government. They observe that governments manage inefficiently all the state enterprises in the public sector. More often than not, even the management of the economy by the government leaves much to be expected especially if rates of inflation or levels of unemployment are unacceptably high. To promote the interests of the ruling elite government apparatus is often deliberately used. Nobody is surprised at this development of the state. But the governmental system is also used to further, crudely and openly, the interests of powerful individuals through corruption

and nepotism. The institution of state is used as the private property or even family property in extreme situations.

Interface of the citizen with the state can be traced as the important source of popular disillusionment. The machinery of the government at the time of having intercourse with the ordinary people in the society invariably produces something unpleasant to remember. So far as the question of the function of the machinery of the government is concerned, in India, innumerable instances of harassment can be identified, anyone willing to obtain an electricity connection or settle a disputed electricity bill, anyone who has been to the office of a Municipal Corporation (it does not matter which political party rules it) whether to get a berth or death certificate or to seek permission to build a modest house, anyone who has dealt with income tax authorities who have specialized themselves in harassing the honest tax payers while the tax evaders prosper, anyone running a small business who has to cope with an excise inspector or a factory inspector, anyone seeking reserved berths with Indian Railways, anyone who has applied for a passport or simply wanted to enquire about it at the office of the passport, anyone who has attempted to lodge a report or a complaint at a police station, anyone who has needed a document from a patowari or a tehsildar, any small farmer who has sought to obtain seeds and fertilizers from the block development office, or irrigation water from the local functionary of the canals department or power at a concessional tariff from the electricity board outlet and so on. These dysfunction or better to say the malfunctioning of the state generally make the citizens helpless and their reaction ranges from frustration through agony, anger to despair. This disillusionment that comes from such daily experiences is being capitalized by the pro-liberalization scholars to a great extent. Many of these functions one must admit are common (say birth certificates, passports or tax collection) to the functioning of all government everywhere and it will remain so. The above mentioned task can not be entrusted with the private enterprises. The remedy in this context is to take necessary steps

so that the quality of the level of the performance of the government can be improved to the greatest extent. So, it is clear that when the state intervenes wrongly or the institution of the state tries to perform the functioning of the market, this subset of government failure arises before common citizens in the society. Principally, economic liberalization can address only this particular subset of government failures.

In a country like India such experiences are not uncommon. Other countries in the world also experienced these failures. In the erstwhile socialist countries, the state has taken excessive burden upon it in many fields. But in many important areas it has done too little of what it can or should do. The experience of socialist country is now being reflected in the functioning of the developing blocs in the World. Disillusionment of citizens with governments is found because of such overburden role of the government. As the ordinary people sank deeply into despair under arbitrary bureaucratic controls in these countries (i.e. Third World Countries) free market ideology gathered momentum at fast speed. So it is very easy to understand at present until these government failures began to be overshadowed by market failures. The other side of the hedge, namely the market system, looked much greener (The reformed communists were voted back to power and over-zealous market-reformers lost elections almost everywhere in the erstwhile socialist countries of East Europe including the former Soviet Union. [7]

Most people are familiar with failures of governments through their experiences and it is not altogether surprising at all. People generally take the failures of the institution of market as impersonal and natural and the reason for this is that people are much less conscious of failures of markets. They are difficult to recognize. Many conservative economists argue that market failures appear natural events, somewhat like act of God, say an earthquake or a flood. But an intelligent people will find it easily that the failure of the market should not be treated as a natural event and at the same time he must support the point

that the reasons underlying market failure should not be confined to the domain of economics. Both the institutions i.e. market and state are identical human institutions and for proper and useful functioning of these two important institutions both require careful monitoring and deliberate correction. For having a merit elaboration much importance is to be attached to the particular issue.

Market failures appear before us in different dimensions. In economics one can find a lot of text books to highlight such failures. A few that are often cited have been explained in this chapter. First, because of the lack of adequate competition, a system of monopoly (one producer) or oligopoly (a few important producers) emerges. In this system one can not find the efficient market solutions characterized as optimal. This is not found even in the static world of theoretical economists. As a result of this fact monopolist or oligopolies producer produces less than the demand of the market but the charges too high over their production compared with the competitive situations. Such situations are described by the economists as the imperfect markets. The situation also highlights the contrast with there theoretical idea of perfect markets. Second, an economic activity may impose costs on society which are not reflected in the costs incurred by individual producers. Undertaking those activities, e.g. pollution caused by a chemical plant, on the contrary, it is found that the activities of individual producers may create benefits for society which are not reflected in the price received by producers, e.g. skills acquired by workers in a factory. These effects are not aptly reflected in the market prices as the externalities but the economists are of the opinion that these effects matter to society to a great extent. Third, from the view point of the society there are goods and services which are considered desirable and even essential. But private enterprises can not supply these services as they are not profitable enough or can not be easily charged for e.g. national defence, hospital services, street-lights etc. They are referred as the public goods by the economists. Fourth, there are goods and services which remain unpaid by the individual even after being served by

these goods and services. Museums or seat belts in ears are a few to mention in these kinds of service. To describe those goods and services economists coined the term merit goods (a little reflection would show that there are close links among externalities, public goods and merit goods). [8]

It is obvious that market decisions may widen the divergence between private and special costs or benefits in many economic situations where the whole is different from the sum total of the parts. Overproduction or overuse of goods (too many cars on the roads or too much pesticide in agricultural) inevitably comes out when the firms or households are guided by the profit maximizing behaviour heavily. The trend could impose substantial costs on society in the form of environmental problems. Undesirable social incomes are sure to take place at the atomistic pursuit of self-interest by individual in many cases. But solutions in co-operative manner may lead to unambiguously superior outcomes (common property rights). So there is no doubt of this fact. Market failures arise at a macro level. These failures of the market are discernible only over time and society in long run pay heavily for it. But the interesting development is this regard is that these failure sometimes remain unnoticed by the individuals or citizens who are not directly affected (Note that pollution in big cities has to get really bad before it was taken seriously). One has to keep in mind that market failures are for real and thereby it falls heavily upon the society. Scholars insist on explaining a dimension of market failure as it has received less attention than it deserves. Markets have a tendency of under producing information, access to which can not be limited or priced (similar to public goods). This is described as information failure in the text books. But many more faces of it are to explore. Markets often attempt for the manipulation of access to information. It is often seen that import ant players in markets are trying their level best to suppress information. In the pursuit of profit markets may even attempt the creation of misinformation. Misleading advertisement is a good example in this regard. It is to be noted here that probable information

failure of the market deserves special attention in this day and age when information technology is being revolutionized. All the political parties are now-a-days engaged in such manipulation of information using the so called rules of market. Unfortunately it has become a part of democratic politics in a market economy. [9]

Even more important market failures are there which have been identified by the scholars. The reliance on markets often generates inflation and unemployment at a macro level. In similar fashion it is found, market solutions may increase poverty and inequality among people and regions. This is not a matter of concern for the countries in the world alone. An alarmingly increasing number of homeless people are found on the streets of New York. There are also an increasing number of people begging in the streets of London these days. It is worth noting for an economist that market solutions may lead to under-investment in some sectors (where a country may even have a potential comparative advantage) or under provision for R & D and innovation in other sectors (where technological development again somewhat like public goods and information is essential). It is worth considering an example that is closer to home and easier to understand. Emerging concern in India is also there among some who are enthusiastic about economic liberalization, that too much Port folio investment from abroad is there (in the acquisition of ownership rights in financial assets which generate income for the foreign investor) and too little direct investment from abroad (in the creation of physical assets like factories which generate employment in the economy). Taking it as the logic of market the development is being protected.

Reconciliation of government failure or market failure or judgments about which is worse as if there is a choice to be made is very difficult and this is to be recognized with great importance at all levels. The attempt will mislead us as it diverts the scholars into a false debate. As the facts of life both the failures incase of market as well as of state are to be accepted. Perfection can never be found

either with state or market. No doubt markets are invariably imperfect and governments are without exception fallible. An intelligent task in this context will be launching the devices that will prevent market failures and government failures. One must admit that these failures are not absolute in nature. Scholars are many who will argue that a reasonable degree of correction is possible in both the cases. Only a few dogmatists will oppose the introduction of such corrective measures. Important factor in this context is that learning should be made from the experiences. But at the same time over-reaction is to be avoided cautiously in learning from mistake. Scholars are of the opinion that a step avoiding such swings of under-reaction and over-reaction is to be treated as the best corrective mechanism. [10]

Erstwhile centrally-planned economy exercised by many countries in East Europe may be cited as example, where one ~~can~~ find full reliance on the institution of state. The same is true with many developing countries where state exercises intervention rigorously. No doubt there is a real danger that the reaction and the correction may go too far dismantling of state control and ownership of state obviously will create a vacuum in the socialist countries of yesteryears. It will not be wise to expect that this vacuum will be automatically filled by a well functioning market. It was filled by the rule of a mafia in some cases at least. Any thinking person must keep this fact obviously that a proper functioning of the institution of market is possible only when the other institutions especially the institution of state provides support and proper guidance at times. But this fact is often lost sight of in the heat of the debate on the state versus this market. The state can not do without the market vice versa. The withdrawal of the estate from economic activity is often equated with an escape from bureaucratic controls in many developing countries. But it may unleash a liberalization of corruption if not organized economic crime by a political mafias. The same is true in case of India also. Liberalization has made the situation so critical that the big industrialist now have greased the palms of

the officials with more money to get their jobs done. Even in the heyday of controls of license raj these industrialists had not to pay such big amount of bribes. No doubt that the process of economic liberalization may (or may not) put an end or have reduced the tyranny of the inspector-raj or babu-raj. But at the same the plunders of kickbacks-raj have been introduced by the wave of economic liberalization. The observers are puzzled over this development of the process of economic liberalization in India.

The high priests of liberalization have generated the problems high as there is tendency with them of painting the state in black and the market in white. Pro-liberalization scholars are eying the world in a binary mood. But, surprisingly it is to be admitted under the present day situation that there is no either or choice to be made. It can be argued that on the contrary chances of decrease with the policy failure occur only when we succeeded in making the state and the market complement one another. Precisely this is the general phenomenon in successful market economies. The institution of market must innovate new regulations for helping these strengthening and expanding market process or the scope of the market process as the scope of the market expands under the liberalization paradigm. For instance to avoid the recent financial scam in India, governments should have been equipped with the sound regulations as the role of the market in the stock exchange expanded or as financial institutions were created. For the smooth expansion of the market process such regulations would have been of great use. But, it was found that the priests of liberalization went on a trip of wishful thinking. The pro-liberalization scholars heavily argued in favour of deregulation. They assumed that deregulation was of utmost importance for releasing private initiative at length for realizing economic development through the creation of new financial institutions "No doubt, it released a great deal of private energy and imagination, but of less use and significance. [11]

2.5. STATE AND ITS ECONOMIC ROLE:

Economic theory and economic history play important roles in the process of the understanding of the economic role of the state in the process of development. It can be argued in the form of two basic propositions. First, the state and the market are, by and large, not substitutes, rather in many spheres and activities they must complement one another. Second, the relationship between the state and the market can not be specified once and for all in any dogmatic manner over any period of time. Attempts are to be made so that the two institutions must adapt to one another in a co-operative manner over time. Belief is there also with us that these propositions explain the difference between success and failure. Countries having economic development clearly slow that both the institutions are running hand in hand and they also adapt to one another in response to changing circumstances. During the nineteenth century and by the more recent experience of the late industrializers in the twentieth century the history of capitalism among the early industrializers has categorically made this proposition borne out.

An important note was made repeatedly by the economic historians tracing the evolutionary course of the market under early capitalism that the institution of market could become the organizing principle of capitalism only when it was embedded in the regulatory mechanism of the nation state. It is to be kept in mind rigorously that at each stage when there will be the very extension of the scope of the free market necessitated there must be the imposition of new regulations by the state to ensure further growth of the market. Therefore, when these two institutions i.e. the state and the market are put at confrontation, there will obviously be the misreading of history. Under the circumstances the relationship between these two institutions is to be governed by a kind of adaptive principle in which neither the state nor the market becomes harmful to one another. Instead, a co-operative relationship between these two institutions

will become a great cause for bringing about economic development in all human societies.

Historical lesson provides with many more points for a country like India to exercise the principle mentioned above. But in practice it is being found that the champions of liberalization in India talking rigorously in favour of rapid privatization as the dogmatic leftists find absolute virtue in nationalization. Both make the mistake in their attempts of making one institution dominate the other in an abstract search for economic efficiency. The process destroys development of mutual complementary role of both the institutions. Development of normal checks and balances system also gets diminished. Economic system suffers from the lack of self correcting mechanism even against gross violation of economic principles and things sooner or later go long hopelessly. The reason of remaining laissez faire as a myth rather than the reality of capitalist development is to be traced against this background. The same reason can be considered as the cause of the failure of central planning in socialist economics which looked so good on paper. [12]

Considering the experience of the late industrializers is instructive from this perspective. History of the late industrializers do not justify the point that markets know the best and state intervention is counter productive in the process of industrialization. Proper guidance and constructive support as the experience of the second half of the twentieth century proves have been the key features for building the very foundation of successful development in countries which are later to industrialization. The visible hand of the state is as much in evidence as the invisible hand of the market even among the East Asian countries which are often cited as success stories that depict the magic of market place. The development of industrialization or industrialize capitalism in Japan after the Meoji Restoration in 1868(the concept of revolution from above) or the emergence of capital socialism in China after the modernization and reform programme which was launched in 1978 definitely be considered as unavoidable

inference in this context. Crucial economic role was performed by the state in Korea, Taiwan and even Singapore for realizing huge economic development.

It is the careful and intuitive intervention of the state that helps in creating the conditions for the development of industrial capitalism in the earlier stages of industrialization. Government investment in energy, transport and communication helps in a big way in creating physical infrastructure for giving platform of development. The attempt of the government in this fashion reduces the cost of inputs used by the private sector or increases the demand for goods produced by the private sector. This activity the government provides ample humane resources through education. This attempt raises private profitability lowering the private cost of timing workers. Agrarian reform in the right direction raises private productivity and income in the agricultural sector to foster industrialization through supply demand linkages. The proper reform in the agricultural sector is a kind of institutional changes and can be realized through the intelligent intervention of the government. There is a great need of emphasizing that proper reforms in the agricultural sector, the spread of education in society and above all, the role of state intervention have been crucial for development among late industrializers. The success stories in East Asia to be particular are now perceived as role models. We must not be fooled in any way in this regard. These necessary conditions of the development certainly were not the magic product of market place.

Protection of infant industries through tariffs or other means was provided by the state among the late industrializers in their early attempts of bringing development for the different states. This can be taken as an important illustration of the economic role of the state in the early stages of development. Emerging domestic entrepreneurs in the private sector is protected by the state vehemently from international competition in the domestic market. In this way a mutual complementary role between the state and the market can be found. The objective only can be realized at the withdrawal of the protection of the state

from the infant industries. These infant industries after shaking their protection off must make themselves adults and ultimately capable of competing in the World Market. So, it is to be admitted that an adaptive change is to be taken into consideration for the new roles to be performed both by the market and the state. However, most of the developing countries in the world have not realized the crying need of the hours. As a result of this fact, infant industries in the developing countries grow up as problem adolescents or go from a first childhood to a second childhood without ever passing through the stage of adulthood. Infant industries of this kind in the developing countries must get the protection from the state for ever in part because the paternalistic role of the state does not change adaptively over time. It is the adaptive responsive of state and the market to one another as circumstances and time change upon which the question of success and failure depends. The argument is true in case of any example taken into account for consideration.

Scholars attempting to think of a balancing role between the two important institutions i.e. the state and the market opine that it is not just the degree but also the nature of state intervention that must undergo proper change in the later stages of industrialization. Under the circumstances the institution of state is going to be neither a promoter nor a catalyst. The interventionist role of the state in the market can best be discussed after putting it under the following major banners. These are functional, institutional or strategic interventions. Elaborations of all these sorts of intervention are made below.

2.5.1. FUNCTIONAL INTERVENTION:

This sort of intervention attempted on behalf of the state aims at correcting market failures in so far as prices give the wrong signals. State intervention in this regard may exercise specific or general intervention. Nature of the failure of the price mechanism determines the kinds of intervention. For example, an overnight dramatic or speculative boom in the foreign exchange

market in real estate or in the stock exchange has no basis in the real economy. Normal investors will be misguided from such a speculative rise in prices. But government may play trick with such speculative rises .Pretending in the short run that their liberal policies are playing effective role for generating this optimistic mood in the market, the bubble, however, is likely to burst sooner than later. Strong case for early government intervention in such situations can be cited easily. In general principle it has been found that gross failure of the price mechanism follows a government intervention. But it has to be admitted that the reality is far more complex. Availability of alternative market based solutions or the ability of governments to design and implement correct solution on the basis of adequate information becomes the major and critical question in all such cases. Analytically, however, one may easily find out the logic of this from of intervention expected to be attempted on the part of the state.

2.5.2. INSTITUTIONAL INTERVENTION:

The main objective of this kind of intervention is to govern the institution of market. By setting the rules of the game for the actors the institution of state performs its duty in this regard. To be more accurate and particular one can see that the institution of state is creating frameworks and gridlines for regulating the mechanisms of market and at the same times state is taking the responsibility of creating institutions to monitor the functioning of market. In this context it will be wise to cite a few examples to high light the significance of this form of intervention. It is obvious that for ensuring a level playing field and to pre-empt a free-for-all at the same time, a market economy needs the rules of the game. Hence, it is necessary to take into consideration that the trade policy reform initiated by the state trying to usher in import liberalizations must be matched by a comprehensive system of anti dumping rules for domestic firms to invoke wherever necessary. Another example can be traced to the introduction of private transport system. Any attempt for the privatization of public transport

must have the necessary rules so that the safety of the passengers can be ensured at any cost. The state will take into account the question of the implementation of traffic rules to ensure the safety of pedestrians. The redline buses in the capital of India, or the minibuses in Kolkata simply at the time of operating in a market are not given to the rules. By minimizing turn around time these private operators are maximizing the profits at the cost of inconvenience created by them to the common people in the society. The situation is safe neither for the pedestrians on the road not passenger in the buses. This is clearly a 'free-for-all' not a 'level playing field'.

It must be kept in mind that a market economy must not necessarily go for encouraging profit maximization at any cost. But on the contrary it should attempt to create regulatory legal systems to protect the rights of both entities and individuals. In this context we are to attach due importance to the interests of the unorganized consumers significantly. Industrial deregulations must have corresponding anti-trusting rule. Financial liberalization must get matching regulatory laws. Consumer protection can be achieved when there will be laws that curb restrictive trade practices, ensure quality control and check misinformation in advertising. The functional existence of these institutions facilitates the function of markets in a market economy. Equivalent of a Securities and Exchange Commission, as in the United States, that would detect trading mal practices, enforce disclosure rules and promote private investor's protection before the state go for the dismantling of controls in the domestic capital market in the name of liberalization. Securities and Exchange Board of India for realizing such goals mentioned above has to go a long way as the building of such organization in a market economy is a time consuming process. Honesty speaking the task of creating such regulatory mechanism has not yet been finished. The process of privatization which is natural monopolies has already started in India with telephone services and electric supply. The present situation in India demands from the institution of the state the creation of institutions

either to calibrate competition where there is single producer or to govern pricing and protect consumers where there is more than one producer. Protection of the interests of the consumers is to be ensured against sectional interests of many unrepresentative trade unions by the government at any cost.

On the other hand in any genuine democracy the trade union rights of the workers must be ensured. Selection through secret ballots will ensure that no unrepresentative trade union harasses ordinary consumers. Here, in this context it must be kept in mind, like in other examples, that recognition of workers' rights must go with appropriate regulations for recognizing these rights. Transparency and unpartisan ship must be set at the outset for preparation of such rules of the game between the two important institutions. Experiences prove that this task can be initiated by a government only.

2.5.3. STRATEGIC INTERVENTION:

This type of intervention initiated by the state aims at guiding the institution of market. The intervention is articulated in such manner so that it can have interlinked across activities or sectors with a view to achieving broader, long-term objectives of development. Several types of example carrying the features of this kind of intervention are possible to cite in this context. Deforming exchange rate policy is simply not a tactical matter but definitely a strategic intervention on behalf of the state to get the prices right in a market economy. It is a well known fact that in order to provide an entry into the world market for differentiated manufactured goods, it is necessary for the state to maintain an undervalued exchange rate deliberately over a period of time. The fact is concrete where quality is perceived in terns of established brands but lower prices of unknown brands allow initial access to markets. Under the circumstances foreigners can buy the domestic manufactured goods at a cheap rate if significantly a strategic undervalued exchange rate is maintained. The reason lies in the fact that a strategically undervalued domestic currency makes

the prices of domestic manufactured exports cheaper for foreigners. The situation ultimately by degrees creates their reputation in competition with the established brands already exist in market. The illustration of this kind of strategic intervention can be found with the Japanese cars and cameras in an earlier period and in the later period with the Korean cars. Strategic intervention with interest rates does not help getting it structured in such style so that it will not help allowing market forces to determine the scarcity price of borrowing finance. But very often economists are fond of opining in that fashion. Short term and long term interest rates with its structure may be taken as a strategic instrument for guiding the allocation of scarce investible resources and credit in a market economy, in accordance with a long term perspective of comparative advantage or national properties. Strategic intervention posed in terms of restrictions on the use of foreign brand names is not necessarily symptomatic of an inward-looking attitude. Rather this activity is to be treated as a strategic means of buying time to develop brand names that becomes acceptable in world markets after a time lag, but could never have surfaced in competition with established brands. Such kinds of tactful strategic intervention initiated by the state may constitute an integral part of any strategy of industrialization that endeavors to strengthen capabilities and develop institutions rather than rely on incentives and markets alone. Instances mentioned above concretely prove the point that strategic intervention does not stand in the way of rapid domestic industrialization in any stages of its development. One many easily find that strategic intervention and the initiative of domestic industrialists complementary to each other. Out of the experience of Japan and the Republic of Korea in particular and from East Asia in general there is perhaps the most important lesson emerged with a view to influencing private investment decisions both Japan and Korea put exchange rate policy to the required strategic use and at the same time cleverly manipulated their interest rates as a strategic price. These two countries, in effect, banned the use of foreign brands for a period of time as a strategic means of developing their

own brand names. Only in the realm of industrial policy and technology policy the strategic intervention of the state should not be left confined to. It should be exercised in the sphere of trade policy. Mere a blind reliance on market forces will bring disaster for a country aspiring of economic development at length. Strategic intervention in intelligent manner in the spheres of industry, technology, trade etc. undoubtedly brings efficiency and dynamism in the later stages of industrialization. Enabling Japan and Korea in joining the league of the industrialized nations was possible because these two countries exercised intervention in the above mentioned style very successfully and effectively. [13]

The counterproductive role of state intervention strongly influenced the policy makers in India as in East Europe in the past. This has been the reason of not recognizing the possibilities of a creative interaction between the state and the market. As a result of this fact at the present stage of industrialization and development there is no attempt at rethinking and redefining the role of the state in India. Pro-liberalization scholars in India in practical are high on rhetoric and short on thinking. Liberalizers are of the opinion that foreign investment and multinational corporations will bring about an economic miracle in the process of economic development. They do not consider state as an important actor that can play a crucial role through intelligent strategic interventions in this process of market economy. Instead they consider state to be a passive actor in this context.

But to be practical our rethinking must recognize the complementary role between the state and the market as we should not depend on the speculative miracles. Co-operation, not the conflict should characterize the relationship between the two institutions. Time for a particular period will help in evolving this relationship-economy and the society requires both - the entrepreneurial talents of the private sector and the capabilities of the state. The relationship between the two institutions must be flexible and adaptive as the demands of the economy and the society get changing over time. At critical points of time the

costs of the government failure and market failure are to be assessed because this is the crux of the problem of determining the degree of the complementary relationship between the two important institutions. The attempts will definitely help in minimizing the costs of states' interaction with market and the society will be benefited to a great extent. Costs of state in action at such critical points must also be recognized by those who never tire of emphasizing the costs of state intervention. Reformulation of the questions about the economic role of the state needs to be emphasized in this context. At present intelligent scholars should not drabble their heads in determining about the size of the state (how big?) or the degree of state intervention (how much?). Instead they should insist on determining the state intervention (what sort?) and the performance of the state at various better quality levels (how good?).

The comparative advantage of both public sector and private sector determines the respective roles of the government and the market. As the boundaries change over time as comparative advantage or circumstances change, no hard and fast rules should be there for determining the relationship between the state and the market. But it is to be admitted that private initiative is best for certain things in the society and these things should be left with the institution of market only. At the same time the institution of the state should be left alone for dealing with the other aspects in the society. In addition to all these things there are a few aspects in the society whose proper functioning depend upon the mutual coexistence of the institution of the market and the institution of the state. A few examples in this context will suffice to illustrate to a great extent. Running hotels or producing textiles should not be matter of the concern of the governments in any societies. Private sector is fit and suitable for operating such activities. It is easily observable that as general principles with some exceptions, final goods and services are sold to a large number of consumers and these activities can not be taken as examples of natural monopolistic activities. But one important aspect in this context has to be kept in mind that competition must be

kept alive among the activities of all the private actors particularly in the absence of prohibitive scale economies in the society. Ensuring quality at reasonable prices can not be possible by the regulations of the government alone. Experiences from the past prove this point vehemently. But competition existing among the several private enterprises help in the process of the maintenance of competition in the market, Government's role in this perspective is to monitor that producers in each area do not enter into implicit agreements or form cartels that would jeopardize consumer interests. It is to be kept in mind that consumers' choice must be enjoying their choices as long as there are some producers in each area. Many scholars in this context argue that there are certain public utilities which are natural monopolies, say the railways, and should remain in the public sector. The reason lies in the fact that there are certain sectors like railways etc. where competition in the form of more producers may turn out to be uneconomic if it means a wasteful duplicate tracks or stations. Another fact is that private ownership would reduce or skew the availability of services to users if it invests in or develops the high density routes but neglects or close down low density routes. No doubt, scholars strongly argue, on the other hand that there are some sectors where both the public sector and the private sector, must co-exist as the competition would keep both on their toes. In an oligopolistic market structures this is of great importance because the importance of scale economies limits the number of producers as in steel or petrochemicals. Entry of a few private airlines in the market of civil aviation in India has provided much needed competition to the public sector. The insistence gives a good support of the reason of making arrangements for the competition oriented co-existence of the both public sector and the private sector.

Stress is to be put on two important points at the time of considering any division of labour between the public sector and the private sector. First, it is to be made crystal clear that between ownership and performance there is no unambiguous relationship. Pro-liberalization scholars are very much guided by

the motivated ideology in expressing their views that private ownership always means good performance and public ownership always means bad performance. However, this claim is not well supported by facts. Pro-liberalization scholars would do well remembering the fact that Pan American, a private airline went bankrupt in the heartland of capitalism while Singapore Airlines, entirely state owned is among the best so far as the question of making profit is concerned. Such examples are boundless even in the day of liberalization paradigm. One must admit that competition in the market structure and competence together with accountability in the management than by the nature of its ownership determines the economic efficiency of an enterprise. Second, the comparative advantage of the public sector and the private sector not only differs across sectors but also changes over time. Experiences and evidences from the past proved the point that the relationship between the state and the market had always been evolving and adaptive in nature. Therefore, the respective domains of the public sector and the private sector must function in the same line as the two important institutions i.e. the state and the market function through mutual co-operation without getting overlapped with each other. [14]

Time and the age have come when the relative economic role of the state as a producer should diminish over time in a country such as India. The government must continue without abandoning its effort of developing physical infrastructure at the present stage of development. Concentration at the creation of social infrastructure should be rigorous on behalf of the government at the present stage of time. In the name of liberalization the state (India in the present case) must not abandon its efforts and dilute its role in any way. The demand of the common people is the merger of economic priorities of the people into the development objectives of the nation. It is being noticed at the same time particularly in India, the government is also endeavouring to change the nature and the quality of its intervention in the market, consciously differentiating between the functional, the institutional and strategic aspects. Over different

time horizons the impact of different interventions would be felt. Being influenced from the belief that markets know best or under the illusion that foreign investment would do the tick the institution of government simply must not abdicate its role. Rapid economic development in India can only be fostered when a creative and mutual cooperation between the two important institutions i.e. the state and the market get evolved adaptively over different periods of time on these terms only the debate between state & market can become meaningful and significant also. [15]

2.6. NATURE OF THE STATE IN THE CONTEXT OF PRESENT DAY POLITICS:

At the present critical juncture a lot of arguments have been put forward for redefining the role of the state. Scholars opine that it is greatly needed and desirable also at this present moment. As India has entered into the liberalization paradigm the scope of the market will definitely reach a new horizon after having a considerable extension but the important point is to be kept in mind that in India the economic role (i.e. welfare functioning) of the state would continue to be important for some time to come. Generally to the common people in the society these arguments may appear to be persuasive, if not obvious. But the feasibility of this redefined economic role of the state in India in terms of politics may also appear to be doubtful to the most of the people in the society. Existing nature of our politics in India provides considerable reason for such scepticism and pessimistic thinking among the people at large in our society. Definitely without thinking, it can be argued that the nature of the state determined the ability and the willingness of the state for such functions. Agenda of the state also helps a lot for creating the environment of such functioning. In turn both are shaped by the underlying politics. But irony of the fate is that the recent experience in India does not provide considerable wide crack to get entrance sufficient rays of hope. Under the aforesaid circumstances abandoning all hopes it will not be wise for us to enter into Dante's Hell.

A minute analysis of the Indian society reveals the fact that there have been two important dimensions for determining the nature of the state in India as also its actual agenda. On the one hand there has been the heterogeneous class structure of society overlapping with the divides of caste and religion, on the other hand there is the compulsions of electoral politics in the most poor and populous democracy in the world. Existing sharp social and economic inequalities in the society have been the breeding ground for unequal distribution of political power. Against such back drops by and large the institution of state has represented the dominant interests of the dominant economic and social classes that constitute the ruling elite. Sharp poverty among the vast majority of the common people in the society and the compulsions of a democracy where governments are elected by the people have been responsible enough for moderating this reality existing very badly in the country. Ruling mandate has to be renewed at least once in five years. It is the votes of the poor people in the society hold the tramp card of making election won for any political party whose remote control is at the hands of the microscopic ruling elites of the society. India has been able to distinguish itself from many other developing countries in the world because of the existence of such an important fact of political life in the society. Politicians even can not ignore this crude reality. Distribution of income or asset is something different but the interesting fact with the distribution of votes is that it is always equal in nature in India. In terms of purchasing power in the market it can easily be found that a rich man has more votes than a poor man. But in politics, one adult irrespective of being rich or poor has the power of casting one vote only during election of any kind. Under these circumstances common people in the society most of whom are poor must be empowered to such an extent where they can be able to provide political legitimating for the state of India and this is of great necessity and significance of the present situation current in India.[16]

These conflicting pressures of economics and politics on the state could have been used to provide a healthy system of checks and balances so far as the question of principle is concerned in the context of the age of political economy. These checks and balances are to be exercised in the form of different self correcting mechanisms and it is known to scholars as the essence of democracy. But unfortunately it has meant the worst of both worlds in practice. A cynical politics of soft options has perpetuated the vested interests of the dominant classes or the ruling elite in the society. The process has made the state encircled and paralyzed from taking hard decision for the benefit or welfare of the majority of the people in the society. The vicious cycle of the ineffective mechanism does not make the state willing and able to smash the toes of the rich and powerful sections. The support of underprivileged at the same time has bred a competitive politics of populism and this is of great necessity for getting the legitiamtion from the people to make the deceased mechanism capable of fulfilling the interests of the dominant elite. Around election times political parties functioning in India have been clever and tactful enough to woo the people with sops. In this game both Left and Right are equal so far as the question of wooing the people with sops is concerned. Hypocrisy is easily found in this process and this is nauseating enough. Scholars may easily find out that antagonistic attitude on the surface is there so far as the question of the relationship between the state and the industrialist (pro-capitalism) is concerned and this is getting operated through a maze of controls. But unfortunately the fact is that beneath the surface there is a symbiotic relationship and it is an operation through a maze of corruption. It has been found that in terms of rhetoric the relationship between the state and the market has been very close. This can be realized as it has been voiced through catchy slogans about poverty eradication (garibi hatao) or affirmative action (reservations in jobs) or class struggle (power to the people). But these activities have not been able to divert the activities of the dominant elite in the society from achieving their vested and

narrow interest. The situation has left hundred of millions of people unfed and unclothed though repeated promises have been made by the policy makers over the last five and half decades. In this respect it is worth mentioning that both the Centre and the States are equally guilty. Though it is very interesting to see that in the centre there has been the rule of a single party i.e. congress party for most of the time yet the situation has not been changed from being deteriorated as the time progressed. Different political parties who held the ruling machinery for different states from time to time have also not been able to abridge the gap between the rich and the poor so far and the question of equitable distribution of resources finds its place only on paper. All the political parties are in the same boat as all of them are well up in expressing the hypocritical politics of populism.[17]

A minute analysis of the current political situation in India shows that a means rather of sharing the spoils in conformity with the dictates of politics has been provided by the state. Growing random populism has been the major goal of this process. As there has been no transparency and accountability the aforesaid system could have been able to prosper for a time and then survived. As the time progressed the system became increasingly strained and ultimately brought into disrepute as the system had not concrete foundation of integrated network of actions. Through the constitutionally granted mechanism i.e. the electoral process the people of India over the past five decades have brought down governments to begin with in the states and later at the centre to convey their unhappiness or vent their anger. But to their utter surprise the people of the country witnessed that more the things changed the more they remained the same so far as the question of their unhappiness is concerned. The situation has given birth to the origin of a widespread disillusionment that no political party in India irrespective of their ideology is concerned about the development of the common people in the society. Even their political leaders also do not bother about the situation. Both the government and the state have lost their credibility

to the general citizens in the country. To describe the political reality in India it is worth mentioning here the truth of the old maxim that you can fool all of the people for some of the time or some of the people for all of time but you can not fool all of the people for all of the time. [18]

There has been no change in the nature of the state or in the nature of politics in this country. Such was the background against which economic liberalization in India has been initiated at full length. The proposed escape from bureaucratic controls has led to a liberalization of corruption and it should come as no surprise. The system of laissez fare policy at full scale neither has been able to unshackle the elephant nor has been able to uncage the tiger. Rather, a bunch of corrupt politics and bureaucrats will find their heydays in pocketing the benefits sharply in favour of them. A movement simply from the old world of licenses or permits to a new world of percentages or kickbacks will not be able to change the 'neta-babu' raj in India. State intervention regime during the imperative planning was corrupted vehemently by this raj and apprehension is there until the nature of politics gets changed in India this 'neta-babu' raj will equally do the same damage with the market forces. Important lesson from this discussion is this effect of neta-babu raj functioning in the wrong way.

There is no denial of this fact even after having all the forces at our command that the liberalization effort or episode will go into destruction as the state failed in its earlier episode of intervention. The reason is always all the same. A state unable to run enterprises successfully is also not able to regulate, let alone governor guide markets. So to have a change in the realms of economics there must have a proper change in the sphere of politics before hand. This process will continue simultaneously to be business-as-usual. With or without liberalization does not make any difference to these net as and babus as they will do the same things until the aforesaid change is made successfully with the system at full length in the society.

State of politics in India at present is clearly in a glooming and critical condition. No doubt that there is reason for pessimism about the future but to be glooming there are not sufficient amount of reason for it. And as a result of this fact there is no reason of giving up the hope. The reason lies in the fact that if politics is the art of the possible, change is in the domain of the feasible. Naturally under this circumstance curiosity must rise among the people about this positive view of the state which puts forward this glimmer of hope for the curious readers particularly. It is crystal clear to the scholars that the state of India is not made up of plato's guardians. But there are concrete facts current in the society which clearly shows that a nexus between politics and crime exist in the functioning of socio-economic-political system of the country. An organized mafia group equivalent to that of an organized Sicilian Mafia determines the activities of the governmental process of the country. Or at least, as a few scholars may argue, not as yet. The economy, polity and society are all characterized by diverse forms of inequalities. All these developments have played a crucial role in shaping the nature of politics current in the country. In terms of conventional categories analytical in nature at either end of the ideological spectrum the reality is much too complex to be capsuled. This is because the society of India is characterized by diverse cultures (traditional and modern), diverse divides (caste, class and religion) or even diverse centuries (nineteenth of not the middle ages and twentieth) co-exist. Neither an idealistic view of the state nor a fatalistic view of the viable in such a diverse context exists in India at present. Rather a realistic view of the state is more effective in this context to overcome the present critical situation in the country. The view not only recognizes the many revealed weaknesses of the system but also at the same time takes into consideration the question of the possibilities of exploiting the little potential strengths still left in the system. Overwhelming diversity in India is having both the weaknesses and the strengths mingled with. [19]

No doubt that democracy is the paramount strength of the system. Only a few countries are there in this world where the institution of democracy has deep rooted impact both upon the polity and the society. Despite such adversity mentioned above only the exercise of democracy has brought a special recognition or identity for the country and it continues to be there. It is a fact that the existence of checks and balances in a democracy easily helps the system in paving the way of having an influence on the nature of the state and the nature of politics. Order of the day at present with the political system of India is that it must be overwhelmingly characterized with the concept of feasibility. Only through the introduction of transparency and accountability into the system this much needed feasibility can be infused. There exists meaningful democracy only in that case. This arrangement helps the system creating self-mechanisms which are capable of learning from mistakes. It is to be admitted that only transparency can not make the system feasible. Accountability combined with the transparency can only bring the much needed result for the system. But transparency must precede accountability because transparency can only be achieved when all the activities are characterized with accountability also.

Indian political system, one may easily find, there is little transparency with it. Truly speaking there has been no transparency at all right from the functioning of Indian political system coming to the conclusion that we have to wait for a scandal to surface before information is provided'. The same tradition is going on even during these heydays of liberalization paradigm in India. To elicit information from the government about liberalization being exercised in the country at length the people of India have to wait for a scandal to come out. Time after time the experience repeats itself and also with distressing frequency. The stock scams, the Enron Deal, the MS shoes fiasco, the Bailadila mine episode are a few to mention in this regard and one can easily multiply these examples with the progress of time. Persistent press or parliamentary committees were set up every time as the information has to be cajoled, squeezed or forced out of a

reluctant government though the government claimed to be democratic in nature. But the story does not end here. Surprisingly it has been observed that the executive does not share information with parliament in the business of government. It has been noticed that liberalization for which a sustained political support is of great importance and significance has been introduced in the country almost by stealth. An open debate in parliament followed by an enactment of legislation was not there before inception of liberalization paradigm in India at full scale. Rather it was launched in the country through the promulgation of ordinances soon after parliament has adjourned or just before it is convened. As a result of this fact the amendment of the patent laws which has been the most striking example in this regard ultimately met with a filibuster in the Rajya Sabha. It is easy to understand in this context that this lack of transparency on the part of the government gave birth to the rise of large scale doubts among the mass in general. This unscrupulous initiative on the part of the government can never help in the process of generating much needed popular political support for the successful operation of liberalization mechanism in the country. Government's doubtful character can also be traced to its reluctance to share its assessment of the results of Uruguay Round of multilateral trade negotiations with the Parliament or the people to allow some time for public debate before the acceptance of substantial of international obligations. These activities of the government have created an atmosphere of unfaith for which there is speculation and allegations that perhaps in pursuit of hidden agenda the government was compromising with the national interest.

The story drags the government to the circumstances where it has little to hide or nothing to fear from the scrutiny of the public. There one can find that a clear natural instinct with the government of its reluctance so far as the question of sharing information with the public is concerned. There is a perception working inside the government that the most able civil servants and ministers are these who divulge the minimum information in providing responses to the

raised questions in parliament during different sessions. Interesting in this context that many variants are at work around this particular theme. As a rule there is a tendency with the government not to have the information disclosed to the common people in the society. Rather the government tactfully tries its level best to keep the information away from the public by invoking secrecy laws. Sometimes the government takes the shield of public interest and does not share information with the public. People are often misled by the government as it provides information in a few cases on a selective basis. This tactics more is concerned with the concealment than revealing the information for the betterment of the system. A minute analysis of the system reveals the fact that a privileged few inside the government in the attempt of gaining their vested interest closely held and manipulated the important information as a source of power and thus stands strongly in the process of the successful democratic function of the system. For personal economic or political gain the more dishonest among them frequently play a powerful role in restricting information from the public. This narrow and harmful exercise does not serve the interests of the people at all. But it may suit the convenience of the government in power to a great extent in many ways. [20]

Another important development that the country has generated out of the system is the lack of accountability to the public. With the passage of time one may find that it has made disappearing even the little accountability that the system had in the past. It has generated feeling among the common people in the society that individuals in public a office are at liberty and they are no longer be treated accountable for impropriety, wrong doing or dishonesty on their part. As there is no transparency with the functioning of the system one can never be sure how much one knows. The present condition only can generate suspicious behaviour. There are politicians in the country who went into oblivion because they were known to be corrupt. But irony of the fact is that these politicians are rehabilited as ministers in government with port folios that are known to be

profitable in nature. People find the ministers who are indicted by some form of public scrutiny continue unashamedly in office and it is very unfortunate to speak that no force can drop them. No force is strong enough to make them bound to resign from their posts. As they have largesse to disburse some political leaders become powerful and even king makers in the system. The same truth is also applicable with the civil servants in our country. Right from proverbial chaprasi, babu or inspector to the highest level in the civil service system have provided an innumerable cases of corruption. They have combinedly worked in such a manner that corruption has become important integral institution with the system. There are rare cases where people find that civil servants are being punished or left alone dismissed for corruption. People find helplessly loyalty to the masters help the corrupt and plant to prosper smoothly. There are people among the civil servants who are not willing to back the system and look the other way to survive. But unfortunately these few are not being rewarded properly because of their competence and honesty. As a result of this fact the system becomes an open ground for the corrupt politicians and the civil servants to loot indiscriminately. When the system is pushed finds some sacrificial lambs for the altar who are often no more than petty functionaries. But this only proves the rule with a few exceptions. [21]

This type of accountability based on corruption or immorality is no doubt narrow to a great extent. It is noticed that for the consequences of their actions in the discharge of their public responsibilities- individuals and institutions are equally accountable in any democracy. But unfortunately accountability in this shape looks like a mirage in the country. [22]

All these developments make the system functioning in wrong ways. But surprisingly there are a few scholars (?) who describe the situation as system failure without any hesitation. This belief makes it clear that the responsibility for such failure goes to the divine authority. No human error is responsible for such dysfunction. Interesting feature of the system is that though the things go wrong

under their supervision neither the ministers nor the civil servants are held responsible for their unscrupulous actions. For example, one may easily recall the financial scam of 1992 which was by far the biggest financial scam in independent India. But as the disturbing sequences of developments unfolded, to our utter surprise we found that without any hesitation the finance Minister made the following statement:' But that does not mean that I shall lose my sleep because the stock market goes up one day and falls the next day' (quoted in the report of the joint parliamentary committee to enquire into Irregularities in Securities and Banking Transactions, Lok Sabha Secretariat, December, 1993, Volume-1, p. 211). Because of this statement at the time of enquiring into the scam the Parliamentary Committee was led to observe: "It is good to have a Finance Minister who does not lose his sleep easily but one would wish that when such cataclysmic changes take place all around some alarm would ring to disturb his slumber. As the norm in any Parliamentary system the Minister is always accountable in the sense of constructive responsibility. Parliamentary committee also did not hesitate to emphasize this point and concluded reporting the responsibility and accountability of the Finance Minister to the Parliament can not be ignored and denied". But unfortunately government dared ignoring this point foolishly. In other countries if these sorts of situations arise ministers do not have second thought to resign. Officials are also found indicted in the wake of the similar scandals. If one considers the example of a sequence of air crashes or railway accidents it is clear that the ministers for civil aviation or the railways are not directly culpable but if the question of constructed responsibility is takes into consideration as an inseparable part of democratic value ministers of either ministry can not ignore their accountability to the people at large. In the past even in India there were incidences where one many easily find that following such events ministers spontaneously resigned from their portfolios. But to our utter surprise we find today that such practice is obsolete in nature. [23]

No doubt it is hardly surprising that ministers and civil servants are not accountable for the outcome of policies during their tenure in this milieu. From the dirigisme of the past to the economic liberalization of the present there works an irony about the transition and some times it may have escaped attention. There is no change in the dramatis personae though it may be odd. Scholars who use to advocate for excessive and rigorous state intervention (which has been inappropriate in the present day corium stones) have changed the colours at present. Even the high priest of liberalization now preach to us saying that they committed sins in the past and need reform at this hour of time. No matter, whether in the industrialized or the developing countries such a change in the policies would almost usher change of persons. Absence of accountability is making this thing possible in India too. [24]

In the context of economic liberalizations it is also being emphasized again that accountability is not simply or primarily even a moral issue only. At more terrestrial levels in is characterized with many implications. Taking into consideration the question of accountability for the poor performance or the low profitability of public sector enterprises definitely there are scholars who will prove this point in many ways. There are many straight forward reasons to prove the point why the debate sounds hollow. Until and unless the ministers or bureaucrats in charge are not seen accountable by the public at large we can not expect to hold pubic sector workers or management accountable or punishable in any way. Accountability from the top is desirable not from the bottom and it is more convincing. There are grounds where the architects of liberalization lament about stating that the workers and trade unions in our country are indiscipline to a great extent and this undisciplined behavior pattern stand in big way in the successful operation of market economy for the state. If the same standards of rigour are applied to politicians and bureaucrats (as also their gold men) in high places this problem can also be dealt with effectively. [25]

Though not a saving grace of the system one may find that the Indian media has, in a sense, been an insurance. It has been possible for the media to provide some checks and balances mechanism for the benefit of the country. Investigative journalism in India has exposed many scandals before the public. Debates in parliament have been initiated following the reports in newspapers. Some notion of accountability in the public eye has been created by the media through the writings in different newspapers and it is a well known fact today that it has played a vital role during election time. But limitations to this process are to be recognized at the same time with due importance. Because, there are cases where one may easily find that the intimidation of the state is powerful in influencing the media and many media agencies are often co-opted by the patronage of state. Unfortunately the latter is happening frequently. Another important factor is that public memory is short and newspapers come out every morning. Disasters of today often overtake the scandals of yesterday. More important is that only literate can make use of the writings of newspapers. Wide reach and a powerful influence are there with the electronic media but it is more or less captive of the government and even the satellite television is not free from controls and therefore, can not claim to be immune. Transparency gets eroded and accountability gets diminished further as the government exercises control over the electronic media directly or indirectly. Is there any reasonable economic argument can be put forward by the so called advocates of liberalization paradigm in India for such government control over the electronic media in the country? [26]

Extracting transparency and accountability inch by inch is simply very difficult from an unwilling government and every body will accept it. Nothing but the introduction of genuine transparency, accountability in our system is capable of changing the nature of politics. Government should take the prime initiative in bringing in such transparency and accountability. This is of great importance for the successful operation of the democratic structure in the

country. Disclosure of the information should be taken as a rule but not as exception. Movement from secrecy to openness in government can help in the pursuit of transparency. Government should take initiative so that information be made available by the government not only to the parliament and the media available but also the interested citizens. Constitutional recognition of the Right to Information through an amendment by the government is a positive and concrete step in this regard. Accountability can be ensured through the creation of 'Ombudsmen' like institutions at every level empowered with the investigation charges of corruption against those in government. At any cost it must be ensured that the guilty is punished and justice must be seen to be given credibility of our political system can be ensured only through these means in the eyes of public. But we should not be pleased only with these sorts of arrangements. If the things go wrong under the supervision of the ministers and the civil servants it is desirable that in terms of constructive responsibility they must learn to be accountable. It should be made crystal clear that accountability would mean that there are rewards for integrity and ability and at the same time there are the provisions of paying penalties for dishonesty and negligence of duty in public life. Slowly, but surely there will be a change in the culture of politics at the infusion of these provisions with the system in a big way. [27]

Scholars opine that if necessary actions in right manner are initiated in the society for the restoration of transparency and accountability beyond the government to political parties then there will be change with the nature of politics presently current in the society. So far as the question of Indian experience is concerned it has been observed that for any political party in India transparency is not convenient as it brings with the threat of accountability. Therefore, on the agenda of political reform all the political parties keep silence as all are sailing in the same boat. If the concept of transparency is to be ensured then all the political parties will have to go for the disclosure of all contributions received and expenditures incurred by political parties in the form of audited

accounts available for public scrutiny. If steps are taken to make the provision of public findings if not fully but at least partially for elections and also to have more realistic ceilings on electoral campaign expenditure then certainly the attempts of achieving both transparency and accountability will be facilitated. Honest sharing of information will play an important role in infusing transparency into the present system. Political parties must ensure their manifestos should not by only mere posture before the elections only to change their stance after the event. Their manifestos must convey the message that they mean what they say and say what they mean; all the political parties must go for shunning off the politics of opportunism at any cost. Rather they must try their level best to stick to the politics of ideology with some value with it. Transparency with good amount of accountability can be ensured in the country in his way only. [28]

No doubt there is a possibility of changing both the culture and the nature of politics in India. In the political system of India the introduction of transparency and accountability is only a beginning in this quest. Scholars opine that this is necessary but not sufficient. This beginning must be initiated at present in the country. Underlying there are two reasons for this optimism. First the country is in a transition period from a political system in which there was the domination of a single political party i.e. congress to a political system in which there is the domination of at least three political parties i.e. Bharatiya Janata party, Janata Party and Congress at present at the national level and there are many more political parties are in fray at the regional level. [29]

Opposition political parties are having a lower stake in keeping the system devoid of transparency and accountability when they are out of power. A higher stake of transparency and accountability is seen among the political parties in coalition particularly when they are in power. The reason lies in the fact that all the political parties when they go for the formation of a coalition government generally take the concepts of transparency and accountability as

the basis of a stable coalition. Necessary stage for the beginning of the new era of transparency and accountability can find its place in the era of opposition politics and coalition politics. The said process has the capability of capturing the popular imagination and therefore, it can easily get momentum. [30]

Second, there is no denial of this fact that since independence with the span of the time of five decades the democracy of the country has acquired maturity and has also been able to get its root enrooted at the level of the common and even wretched people in the country. The same is true to a great extent with the polity of the country also. [31]

A widespread disillusion is there in the society but at the same time there is also political consciousness among the voters as they cast their votes taking into consideration the ideology and the performance of the political parties functioning in the polity of India. Increasing, almost silent, participation and mobilization by the people in the democratic society is clearly discernible in the political system of India and there are many evidences to prove this point. [32]

In the ultimate analysis one must admit this fact that the self-correcting mechanisms to our democracy can be infused only with the help of the sanction and concrete will of the common people in the society. Scholars opine that this process is time consuming in nature. War of the India's economic development can only be won when there is the introduction of transparency and accountability in all possible government transactions at full length. All other attempts of making India economically developed can only be possible when the very reform and change start working in the process of bringing transparency and accountability in all walks of life of Indian society. Only in that case there will be the rise of the sun of socio-economic as well as political development for the country in a new way for the years to come. [33]

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CHAPTER - III

DEVELOPMENT PLANNING AND STATE INTERVENTION IN INDIA

3.1. INTRODUCTION:

The problem of bureaucratic non-performance has acquired a unique dimension of far-reaching implications in the planning and implementation of the socio-economic goals of the society. In many emerging and developing states, the existence of suitable governmental machinery to carry out continuing public functions with minimal efficiency is a basic requirement of progress and political survival. The prompt achievement of planned goals and resolution of basic problems is dependent on the presence of reservoir of competent and resourceful officials and their ability to perform essential tasks of government. In this chapter, an attempt has been made to describe the role and performance of governmental mechanism in India in the context of the administrative state, the emerging socio-economic milieu and the national political ethos has been analyzed. Such an exercise requires an examination of (first) its historical legacy, its profile in general, and the political context in which it works, and secondly, its characteristics and behaviour in the light of the maladies from which it suffers. Finally, a very modest attempt has been made to suggest measures aimed at rejuvenating governmental machineries so as to inspire confidence in the public about its ability to work for the fulfillment of the socio economic needs and aspiration of the people.

In this context it was to be admitted that the changing role of the state in the 20th century was characterized by the expansion of state activities both in the North and in the South. In the present understanding a modern state is supposed not only to protect the freedom of individuals but also to guarantee social security, increase its affluence and social progress. The role and performance of Indian State has to be understood in its initiative of deploying administrative

mechanism (bureaucracy) in realizing the desired development for the country. In this context it is necessary to put some highlights on the concept of 'development'.

'Development' is a continuously changing and dynamic concept. Since the beginning of civilization it has been taking different shapes and dimensions. The nature of development as seen in the early 1990s differs considerably from that was seen in the early 1950s or from that was in the 19th century. "Development never will be and never can be defined to universal satisfaction", states the Brandt Commission Report. Similarly Uphoff and Ilchmen point out that development is probably one of the most depreciated terms in social science literature, having been used more than it has been understood. [1]

Many have defined 'development' in terms of increase in national economy, some others include social improvement and still others think of it in terms of increase in the capacity of political system. There are others also who make no distinction between development and modernization. Thus, development is a complex phenomenon comprising many dimensions -social, political, economic, and administrative and so on. Scholars now speak of "economic development", "political development, "social development" and so on. In the context of public administration, scholars read, talked about 'development administration' and 'administrative development'. Thus, economic, political, social and administrative development may be viewed as emerging from development without being development. So, while defining the concept of development, it is necessary to take an integrated approach. [2]

According to Colm and Geiger, development means change plus growth. Weidner defines it has 'a process of growth' in the direction of modernity and particularly in the direction of nation building and socio-economic progress. To T.N. Chaturvedi it is a process which stands for, 'transformation of society'. Fred W.Riggs defines development in terms of rising levels of autonomy for discretion in the sense of ability, to choose among alternatives, not, of course, in the sense of

caution or moderation. He introduces the concept of development as an increase in the level of discretion of the social system". His, definition first stresses 'the growth' made possible by the autonomy of the social systems which (social system) can transform or reshape their environments. Second, it emphasizes, 'performance values', that is increasing inefficiency, reducing costs, improving the machinery of production, of government, of administration. Third, it stresses 'justice, values of freedom, independence, equality, change even revolution.' Fourth, it seeks to restructure 'the social system'. Fifth, it involves 'levels of diffraction' which is a necessary condition for achieving autonomy. Riggs says that 'development then involves the ability to choose whether or not to increase outputs, whether or not to raise levels of per capita income, or to direct energies to other goals, to the more equitable distribution of what is available, to aesthetic or spiritual values, or to qualitatively different kinds of output. [3]

Hahn-Been Lee defines development 'as a process of acquiring a sustained growth of a system's capability to cope with new; continuous changes towards the achievement of progressive political, economic and social objections. Lee sees development both as process and purpose.

In brief, development is a process of improving the well-being of the people. It is about raising the standard of the people, improving their education and health and also opening out to them new and equal opportunities for a richer and more varied life. Better health–a longer life with less sickness is crucial to a better standard of living. [4]

However, the role and performance of the bureaucracy in India can best be discussed by dividing it in to three main phases. The first phase starts from 1947 and ended in 1950. The second phase starts from 1951 with the inception of imperative planning for economic development and the third phase concerns the post -1991 economic reform era governed by the New Economic Policy (NEP) of 1991, inaugurated by Dr. Manmohan Singh.

3.2. SECTION A: The First Phase (1947 to 1950):

With the attainment of freedom from the British in 1947 India started its journey with an under developed economy. While there were frequent invasions before the British, the British invaders settled in India. The difference of the British conquest was marked with a difference with other invaders. The domination in India by the British led to the emergence of a new political and economic system whose interests were rooted in a foreign soil and whose policies were solely and crudely guided by those interests.

At the first attempt the disintegration of the village community was made by the British conquest. The reason lay in the fact partly by the introduction of the new land revenue system and partly by the commercialization of the agriculture in India. The peasantry of India faced untold exploitation at the cost of this new land revenue system & commercialization of agriculture. At the same time the country was consequently plagued by frequent famines. There was structural distortion of the economy at the introduction of the policy of the British. The British initiated several projects like the growth and expansion of Railway or the spread of irrigation or the expansion of education or the creation of new revenue settlements or the promises made by the British Government through several Acts like GOA-1919; GOA -1935 etc. Yet, all these projects and promises aimed at the attainment of one supreme goal i.e. to accelerate the process of economic drain out from India. Such exploitation could never be tolerated by the masses of any dependent country. The same was true in case of British India. Nationalist movements reached it zenith under the heroic leaderships of Mahathama Gandhi, Subhas Chandra Bose, and Jawaharlal Nehru etc. and ultimately the British had to recede from the sub-continent. But the imperialist British divided the sub-continent into two hostile countries, viz, India and Pakistan. The hostility between the two countries did a great damage in rebuilding the economies of the two nations and making them appearing as strong countries in the international power polities of the world. After the

attainment of independence, India tried to appear as a strong nation in its own designed way with a parliamentary democratic set up in the country. The first few years from 1947 - 1949, economic developments in India can be described as the years of missed opportunities. There was a misreading of the immediate post war trends in the then economic situation and the expectation of a widespread depression on the cessation of war expenditure was shared by most economists and makers of economic policies, not only in India but also in more advanced countries in the West. In India misconceived need to forestall any cyclical tendencies was predominant in the framing of post war economic policies. The magnitude and the explosive force of latent inflationary pressure were nowhere fully realized, the incident led to a loosening of the reins too early in the day. The ambivalence in India between the need for development expenditure on the one hand, and inflation and speculation on the other would have emerged in any case, as in all under developed economics. But the gain which was received at the inception of 1947-48 by inflation combined with the disturbed political situation and chronic shortage of food and cloth, certainly made it difficult for planned development in India. [5]

Economic theorists failed to realize the impact of a major War [World War-II (1938-1942)] on economic behavior, apart from its devastation effect on production and conservation of physical resources. The observation of First World War (1914-1918) - economic maladjustment and unemployment which, in Britain, led to the crisis if 1921, was in many ways, too distant. The latest cool headed study of large -scale economic problems that involved fluctuations and stimulation of demand and national income was the body of doctrine emanating from Keynes' General Theory; to this was almost synchronously added the experience derived from the program of the New Deal in the united States. Against this background, whenever any post war development was taken into consideration, the threat from the shrinkage of demand owing to curtailment of defense expenditure and from frictional unemployment during the period of

reconstruction and recon version naturally occupied the foreground. Numerous problems like the problem of pent up demand and the danger of latent inflation, were not so prominently studied or sufficiently understood. Thus, scholars argue that, at this juncture, economic theory was not able to give an unerring guidance in respect of immediate post-war trends and policies. At the same time, the need to channel, to direct and administratively to restrict demand was not fully emphasized, with the result that there was a general slackening of controls. [6]

India was impelled to introduce development plans at the end of War, not only because of the need to readjust her economy after the tensions and distortion of War, but also because of her vital need to initiate much basic construction in order to reach a minimum level of economic growth and production. These development plans were set up with the target of "a doubling of the present per capita income within a period of fifteen years. To achieve increase it was proposed that the plan should be so organized as to raise the net output of agriculture to a little over twice the present figure and that of industry including both large and small industries to approximately five times the present output ". The Planning and Development Department was also given the tasks of collating and coordinating schemes, particularly with a view to "rapid progress in industrialization". This was also the time when the legislation to set up an Industrial Finance Corporation was drafted with the help of Reserve Bank of India. Commenting on the planning, Sir Archibald said, "No Government, whether central or provincial can afford to contemplate with complacency the onset to deflation or allow purely financial considerations to stand in the way of maintaining the economic health of the country."

It would however, be unfair to say that this attention, paved the need to avoid deflation was so exclusive as to have led to a disregard of the danger of inflationary price movements. In order to realize the contemporary analysis of the economic situation, one can hardly do better than quote this passage from the budget speech mentioned above.

While India has been spared the material destruction that has befallen many other countries, she has suffered in full measure, and in some directions in greater measure than others, the economic consequences of war. Her industrial equipment has been worked to the very edge of breakdown and there is a large backlog of maintenance and replacement to be made good; more than that, the development of her economy and even her construction are being delayed through her inability to obtain the necessary capital equipment owing to destruction and unsatisfied demands in the supplying countries. Civilian building has been almost entirely neglected for over five years. In India, as elsewhere, there have occurred large shortages of consumer goods, caused on the one hand by the failure of supplies from overseas and on the other by the diversion of a large part of her productive capacity to war purposes. Outstanding examples are textiles and food grains, though there are many examples.

Finally, as elsewhere, the purchasing power in the hands of the public has enormously increased and here, too, the consuming public is anxious to make effective use of its spending capacity. In other words, there are still pockets of inflationary forces which require to be closely watched.

In one important respect, however, the situation in India resulting from the cessation of hostilities differs from that in other important belligerent countries such as the United Kingdom and the United States. In largely agricultural countries, such as India and the Middle Eastern States, war expenditure, though in absolute amounts much less than in the industrialized stats in the west, has had proportionately greater effect in stimulating the growth of national income. It follows that, with the fall in war expenditure which is now inevitable, greater proportionate effort will have to be made if the national income is not to fall too far below its war -level. In other words, deflationary tendencies will, in the absence of countervailing measures, begin to manifest themselves before long. It must, there fore, be the object of the Government in the coming year, with the help of the public and the business community, to avoid

the Scylla of increasing inflation and the charybdas of too precipitate a deflation."

However, in this analysis another important factor that is observable, that the peculiar inter-relation between prices, incomes and employment in an under-developed and unevenly organized economy are not fully appreciated even, if the conclusion is correct. In the first place, the interconnection of rising employment and rising money incomes is not so direct or immediate as in more developed economies. Inflation and heavy unemployment and under-employment can and do co-exist in India. Another example of this frictional aspect is the immense rise in price levels which can take place even without the influence of any monetary factors, the inelasticity of supply of primary commodities in the short run and speculation which battens on this inelasticity always upsets many plans to restrain prices. Finally, in the case of India, there was and has continued to exist a persistent shortage of many essential goods. This always puts a limit to the extent to which the traditional Keynesian techniques to stimulate demand to initiate and encourage investment and thereby increase national income through increase in employment, can be used as well as the sequence in which these can be introduced. It so often happens that steps to encourage investment themselves lead to an outsize inflation, in the end leaving a permanent increase in the cost of living and almost no favorable effect on employment and incomes of working people. The answer to this is not reduced investment but more sustained and balanced investment. That is where the under developed economics have to go beyond the Keynesian solution: that is where well-conceived properly co-coordinated planning comes in.

Notable episode - interesting as an attempt to sail away from the Scylla of inflation was the series of events touched off by the High Denomination Bank Notes (Demonetization) Ordinance during the period of independence. The move was not revolutionary attempt and even its purpose as minatory and punitive gestures towards black marketing was not served with great impact.

The absence of a fool-proof administrative method by which a particular note brought by an individual could be proved as the life savings of the hardworking man who presented it or established as the sordid gains of a black marketer. The other weakness of which considerable advantage was taken was the exemption of the Princely States from scrutiny or questioning when such notes were presented by them. In fact at last the technique proved to be of conversion of varying rates of profits and losses than 'demonetization'

However, the first budget of independent India for 1947-1948, was made with the expectation of a depression rather than the persistence and predominance of inflationary conditions. Smartly allied to the various proposals regarding tax concession and government spending was the policy of cheap money. This too was a technique involved from the study of business cycle and its use was more manageable in Western with well-developed money markets and credit system. Cheap money policies were more attractive to such governments not only because of their anti-cyclical influence but also because of relief in the payment of interest on current borrowing as on accumulated debt. In India, the national debt was relatively smaller; the main justification for cheap money would be its utility in facilitating and cheapening credit. [7]

The Government of India acted in favour of the system of cheapening the money, and during the beginning years of independence specially before the launching of planning commission, special attempts were initiated so as to bring the long term rate of interest within the range of 2 ¾ % to 3% per annum. Regarding cheap money, as Governor of the Reserve Bank expressed his views in the course of his speech at the Annual Meeting of the shareholders held in the current years of independence. [8]

"A cheap money policy involves Government regulation of economic activity, though the extent to which such regulation becomes necessary will vary with the political and economic conditions of each Nation----------the Rates of Government borrowing have steadily declined ----------although

.....the benefits of cheap money have yet to percolate to the same extent to the other sectors of our economy, particularly agriculture....."

"I should like to refer to a further aspect of the policy of cheap money, viz, repercussion of the continuance of that policy on the stock exchange and security markets of the country. These markets have been experiencing boom conditions in recent months and it will be apparent that in the absence of outlets for investment particularly in view of the difficulty in obtaining suppliers of capital goods from source overseas the continuance of cheap money unrelieved by increased investment and enhanced production can only aggravate the inflationary potential in the country".

A few days after the statement was made the boom conditions initiated by the 1947-1948 Budget and fostered by the redemption and conversion operations from the beginning year of independence lost their moments with the realization that there was to prospect for further cheapening money. The speculative buying for capital gains soon changed to selling for consolading profits. Disturbed political conditions further affected the confidence and the pressure of selling grew inexorably. The gilt-edged suffered a sharp decline in prices and from September on wards, the Reserve Bank brought Government securities on an almost unprecedented scale. Prices of Government had to be maintained to prevent capital losses to those who had entrusted their money to the Government.

Against this back ground the Govt. of India formed a committee with Sir Purshotamdas Thakur as its head. The other members were Shri G.D. Birla, Sir Shri Ram, and Dr. V. K. R. V Rao. Under its term of reference the committee was asked to examine the existing and prospective position regarding food grain in India, in the light of the consideration of production, procurement, imports , distribution and controls and advise Government:

i) on the measures which can be taken to increase domestic production and procurement;

ii) to extent to which reliance can and should be placed on imports; and

iii) in the light of the above the modifications which may be necessary in the food grains policy so far pursued.

In its interim report it concluded that an entirely new approach to the food problem was necessary based on two objectives; first' the dependence of the country on imports from abroad should be liquidated by orderly and planned stage. Secondly, the commitments undertaken by the Governments of the country under the present system of food controls involving as they do an undesirable degree of dependence of the people on administrative agencies of Governments -should be liquidated in similar orderly and planned stages. The committee did not fail to realize, the dangers of hoarding, speculation and a steep rise in price as a result of the remove of restriction on movement and prices. Keeping it in mind, while recommending, Dr. Ram Monohar Lohial, also a member of the committee, made a separate note stating the fact that there should be removal of all controls except on prices and complete stoppage of imports, he suggested replacement of the private trader, wholesale or retail, by grain banks owned by Gram Panchayets and run by trained officers. Even in the committee's final report, signed towards the end of April 1949 Dr. Rao, appended a note to point out the need for a short term policy of increasing food production, reading this report now, its deficiencies may seem magnified against the perspective of bitter experience. Nevertheless, not-too-critical faith in the ability of free markets to deliver the goods as well as an almost amateurish attitude towards statistics pervading it should have been apparent even in the charged and chaotic times of 1947. I shall quote one sentence, I hope not too unfairly, from their final report. "After a careful consideration of the matter, we consider that the country must set itself a goal of increasing production by 10

million tons annually, as soon as possible, with a view to placing the Food Economy on a sound footing." Sound footing indeed!

As it happened, the recommendations of the Committee particularly the vital one about decontrol and de-rationing, seem to have considerably influenced the deliberations of the Central Government and Provincial Governments and the ultimate decision to decontrol. It is also intriguing to examine the effect of Gandhiji's view that controls had led to fraud. Corruption and greed among the people that they had to recover their lost initiative and to help themselves even if they made mistakes. This view found a response in all those who found themselves helpless in devising any method of mending the evils resulting from controls. In fact Mahatma Gandhi was responsible for this bold and spectacular step principally.

Eventually, Government took decision on four main counts:

a) gradual curtailment of Government Commitments by withdrawing rationing in the reverse order to the original process of extension ;

b) to reduce the dependence on imports from abroad and to put greater emphasis on procurement within the country;

c) to give provinces greater freedom with regard to prices to be paid for procurement consistently with keeping them within reasonable limits for the consumer and;

d) to watch developments and keep in readiness a reserve of grains to meet emergencies. [9]

It is however, important to realize that the decision regarding decontrol was not taken either in haste or without deliberation. There was a widespread feeling of disappointment and defeat at the important manner in which the existing system of controls was operating. In accordance with the decision if the Government, sugar and food-grains were freed from control early in December, 1947. Cotton and cloth were decontrolled in January, 1948, prices of all consumer

goods rose; the general price index, which was 302 in November,1947, rose to 3423 in February, 1948. In his Budget Speech on 28th February, 1948, Sri R.K. Shanmukhum Chetty had said, "The effects of this policy (of decontrol) on the internal sources of supply still remain to be seen but if the expectation behind this policy that it would bring more supplies to the market and to that extent, reduce our dependence on foreign imports is realized, it would completely be justified".

However, all the decisions mentioned earlier could not bring the desired positive result for the country to a considerable extent. The reasons were numerous to count. Firstly, through the year of 1948 the country traversed an anxious economic course. It had to perform the almost overwhelming task of bringing succour to the displaced persons from Pakistan and to assist in their resettlement and rehabilitation. Secondly, while decontrol failed to increase the availability of the supply of food-grains, larger quantities of food-grains had to be imported from abroad. The incident led to the increase in the price index. Thirdly, it was apparent fairly early in 1949 that the anti inflationary policies of Government were not making much headway. There was not much lee-way for it to curtail its own expenditure, for in the major heads of expenditure (defense, food subsidies and relief and rehabilitation of displaced persons) immediate economies were precluded by the circumstances. Fourthly, Rupee was overvalued when it was decided to devalue in consonance with Britain and thirty-odd countries. Lastly, not leastly the role of bureaucracy was a major handicap for the development of the country to the desired end. The bureaucracy in India is the product if two different sets of influences: British traditions and the democratic welfare system. The British who ruled India from a far for almost a century, established a system of bureaucracy whose two outstanding features were its elitism and loyalty to its colonial masters. The system dates back to the North Cote Trevlyan Report of 1954 which demonstrated Lord Maculey's profound belief in English liberal education. The belief resulted in the

recruitment of a band of administrators from Oxford and Cambridge designated as the Indian Civil Service, the ICS and called all rounders by the champions of system and amateurs by its critics. The advent of independence and the concomitant change in the role of government to include the functions of a welfare state produced the second set of influence. The rapid technological progress attained since then led to a proliferation of Para state organization such as public corporations, nationalized industries, public enterprises and voluntary organization supported by public funds. Those expanding frontiers and the new tasks of the government required an administrative state able to handle social, economic, political, scientific problem in the context of both national and international setting. Bureaucracy thus becomes one of the chief instruments in the hands of government to deal with the challenges of the new political order, and socio-economic imperatives. But unfortunately the bureaucracy in India failed to realize this new role and could not perform the instrumental role in bringing the desired degree of development any way to a considerable extent during the period between 1947 and 1950. [10]

3.3. SECTION B: The Second Phase (1951 to 1990):

The second phase of developmental strategy in India began with the setting up of planning commission in the year of 1950 through rigorous state intervention. The country during this time was very much eager to give the people the benefits of development as it promised during the freedom struggle. It will be very relevant in this context to clear the meaning of development again in nutshell. Scholars are of the opinion that the term development is multidimensional in nature. To Palmer it is an overall process, with significant social, cultural, political and human as well as economic dimensions. Its use seems to be equal the more prosaic growth or change or transformation and has become increasingly complex in its application.[11]

Development is a goal oriented process. Development is equated with economic growth, social transformation and nation-building. National development is the major goal of most developing societies. The single goal subsumes myriad of goals, such as economic and social progress, political modernization, nation-building, mobilization of natural and human resources, reducing the levels of unemployment and poverty etc. [12]

The developing societies are goal oriented societies heading towards modernization. The concept of development got tremendous momentum when the newly independent nations had sprung into international forum being thrown off the yoke of the colonial rule after the completion of the World War-II (1938-1945). The crying need of these newly emerged societies was the rapid economic growth through the rigorous implementation of state mechanism. The success of imperative planning in the U.S.S.R (erstwhile) also added greater importance to the concept of state controlled development measures. The existence of socio cultural varieties in these countries also drew the attention of western scholars to a great extent. Scholars of developed Nations appeared with various prescriptions of development (like Development Administration) for bringing development for these newly emerged societies. [13]

Regarding the general approach American and representatives of other developed areas contend that the development of the underdeveloped areas could take place on the same line as the development of the so called developed societies took place. It was largely through the initiative of the private capitalists that the colonial economies had grown. None of them required even initially the importation of large amount of foreign capital. Thus the thesis of the representatives of these countries should stable conditions, assure private capitalists from abroad and encourage domestic private enterprises to function actively. Within their own areas, if they did this, economic development of these societies would proceed in natural and normal way.[14]

Apart from passing the general analogy of the development in the colonial countries, representatives of these countries urged a broadly cautious attitude in planning for development. The same is true in case of India. Before, the inception of New Economic Policy (NEP) -1991, the strategy for receiving the benefits of development in India for the mass was conceived in terms of several Five Year Plans, starting from the year of 1951.

The decision to set up the planning commission was announced by the Minister of Finance in the Budget Speech on the traditional eve of 1st March1950. It may be proper with a view to understanding the manner in which it has worked since then -to recall its major terms of reference:

1. to make an assessment of the material, capital and human resources of the country, including technical, personnel, and to investigate the possibility of augmenting such resources as were found to be deficient in relation to national requirements;
2. to formulate a plan for the most effective and balanced utilization of these resources;
3. to fix priorities and define stage for the carrying out of this plan, and to allocate resources accordingly;
4. to indicate factors tending to retard economic development and to determine the conditions which in view of the current social and political situation should be established for the successful execution of the plan;
5. to determine the nature of the machinery necessary to implement each stage of the plan;
6. to appraise periodically the progress achieved and recommended such adjustment of policy and measures as might be necessary.[15]

3.3.1. THE ROLE OF THE STATE:

The political institutional structure that was designed by the first generation of the leadership in India after independence is a must to be taken

into consideration at the time of analyzing the development strategy, experiments and experience of India. The framework of parliamentary democracy and the nature and the character of the Indian federal system are the most important institutional parameters in this connection. All these parameters found their formal recognition in the constitutional apparatus of India that started its journey from January 26, 1950 with operational effect in India. Parliamentary democracy predominantly on the British model was adopted not so much on account of the familiarity with the Western educated elites. They played the main visible role in the articulation of the goals of the national movement but seemed to serve the interest of the dominant classes of big business and also the educated elites. Congress Party was dominated by these educated elites and rather than though genuinely revolutionary freedom struggle the power was transformed more by way of regulated compromise to these elites in the society.[16]

However, one interesting point is to be noted here that although India took the path of parliamentary democracy under the canopy of the concept of liberal democratic political ideology yet it did not infuse the concept of capitalistic modes of production whole heartedly for achieving its economic goals. Rather the country tilted in favour mixed economy for economic growth. The basic objectives of the Five Year Plans read "Development along socialist lines to secure rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of values and attitudes of a free and equal society". It is argued that by controlling the financial system, viz. insurance and banking, the state could endeavor to direct investment in socially desirable channels. Besides, in a poor and underdeveloped country like India, market forces based on profit motivation can not, by themselves, induce the private sector to move into infrastructural development (which involves heavy capital investment, long gestation period, low rate of interest etc.). Accordingly, the state had to promote

infrastructural facilities like hydro electric Projects, irrigation, road, railway transport etc. and create conditions conducive to a higher level of investment so that national and per capita incomes of the people could be improved continuously. This was an important reason for the creation and dominance of Public Sector in India [17].

In the first and second five year plans and the Industrial Policy Resolution of 1956, the first and possibly only comprehensively articulated development strategy for the country was to be found. However, through the formation of the National Planning Committee by the Indian National Congress in 1938, the initial attempt at developing such a prospective was made. A sharp and decisive break from the colonial economic structure imposed upon the country was indicated in the imperatives of fulfilling the aspiration of the people of the newly emergent state. In fact, the act of charting the course of development from a poor agricultural economy to a powerful self reliant industrial power was a challenging task to the economists and planners as well as to the leadership. As an outstanding example of vision coupled with technical excellence, the early planning framework established by these pioneers has gone down the history of economic thought. [18]

There has been a progressive refinement of planning techniques and it has gone hand in hand with an increasing divergence between the targets and achievements of each successive plan. This happens to be an important and striking fact that emerges from an overall assessment of India's planning policies, strategies and techniques from the First plan to the Eighth plan. In the subsequent economic history of the country there exists a relatively dismal record of awareness and creativity in economic management. The extent of inertia in Indian planning and policy making and its insensitivity to structural issues can be traced to this dismal track record. It can be noticed that from an over all macro economic perspective the policy making did not emanate. Rather it got fragmented into sectoral domains. First Five Year Plan's (1951 -- 1956)

projections were derived from a simple application of Harrod Domar Growth Model. But in the true sense there was no theoretical under pinning or visualization of the future, being in the nature of summarization, compilation, co-ordination and rationalization of schemes of development already under taken. In the broad sense two types of investment were focused by the First Five year Plan. These were agriculture and some areas of infrastructure like the transportation and communication. In the attainment of these two important goals the plan ended with a great success. In this attempt the plan was aided more by natural causes than anything else. Rapid modernization through massive investment on heavy, basic and machine building industries based on Fieldman -Mahalanobis, two sector models was the core of strategy adopted in the Second Plan (1956-1961). But late professor Sukhamay Chakraborty opined that the development model of India of the mid-fifties could better be as a variant of the Lewis model. In the scheme of priorities agricultural productivity was relegated to the fifth position. There was not any consistent, clearly defined model of development in the Third Plan (1961-1966). The simple linear programming and demonstration planning model of development of Professor J. Sandal, an expert of the United Nations was taken into consideration by the planners at the time of plan formulation. The general pattern of development followed in the Third Plan necessarily flowed in the large part, as the planners themselves had admitted reportedly, from the basic approach and experience of the Second Plan. The planners of the country thought a bit push was necessary for launching the country into the take off stage and self sustained growth after being influenced to a great extent at the argument of Rostow during the early 60's. On a large scale import of food grains under PL- 480 program the country entered into an agreement with the United States to give effect to the assumption mentioned above. For the promotion of growth in India Dr. S.R. Sen stressed the importance of maintaining a cheap food regime because of some exogenous and other factors like the two wars with China and Pakistan in 1962 and 1965

respectively with a consequent sharp increase in defense spending, successive monsoon failures and sharp cutbacks in public investment, the very optimism of the planners about growth floundered on the rocks. [19]

In 1965-1966 growth really turned into decline and the economy of India slided into the reverse gear since then. The year proved to be a turning point year in the planning of India. As the planning policy of the country was based on models of development unrelated to the reality of India and a strategy of growth that had accepted at least tacitly, a framework of dependency and a basically colonial pattern of administration and plan implementation ,the result of this kind was rather inevitable in nature. During these critical years, all the manifestations of what Gunner Myrdal had called a 'soft state 'to describe the nation building experience of India, had come into full play.

To deal with the abnormal situation, the country entered into the era of 'Plan Holiday' first abandoning the draft of the Fourth Plan in 1965-1966 as emergency devices. Among the policy makers in the government the realization had downed now that the first three plans had led to the growth and improvement of economic conditions of certain sections of the people. At the same time over the vast stretches of the country, large sections of people had remained submerged in the most abysmal poverty.

A new planning strategy come to be adopted for the Fourth Plan (1969-1974) with the declared objective of rapid economic development accompanied by continued progress towards equality and social justice at the induction of Professor D.R. Gadgil with the planning commission of India. Without giving up the heavy industries programme the Gadgil strategy started pursuing a new agricultural strategy. Notable fact was that though at the level of principle the critical importance of land reform had been denied by the new strategy yet it welcomed the technological modernization. The impressive achievements of the Green Revolution during the 60's might talk strongly in favour of this strategy. But there is no denial of this fact that the recipients of the achievements of this

Green Revolution were the microscopic few in the society. To the rest of vast people in the country the success story proved to be a mirage. At this stage it was quite evident that the planning efforts had failed to formulate, articulate, and implement the distributive goals in the society. Overemphasis was put upon the output goals while the marginal reorganization was kept reserved for the social goals. The importance of this strategy lies in the fact that significant lessons were learnt from it and the need for a rethinking about development as a concept and a strategy was clearly felt. In the academic forum as well as by the policy makers in the government the question of an appropriate model of development for the country was taken in right earnest and also with great importance. There was a ferment of thought and the viable alternatives were sought for the country.[20]

3.3.2. MARXIST CRITICISM OF THE PLANNED DEVELOPMENT FROM 1951 to 1974:

After the attainment of freedom being thrown off the yoke of the colonial rule, the country started its journey towards development both economic and social since August 15, 1947. The start was not rapid in character and until now growth has been slow and far away from the expectation so far is the question of providing distributive justice is concerned. The present model of growth is marked by serious disproportions leading to a crisis in the balance of payments of the country. On the foreign trade and also on the balance of payments of the country the increasing disproportion with the economy of India has cast an unfavourable effect to a great degree. Industry experienced a higher rate of growth than the agriculture. In the attempt of satisfying the growing need for agricultural produce the growth has not been consistent and rapid.

There has been unequal development in the society. But the overall progress has been fairly impressive despite the future perils which have been engendered because of the unequal development. The origin of this development can be traced to the policy of state capitalism which was put into action in 1951

with the inception of state regulated (planned) economy and really gathered way after 1956 through the Industrial Policy Resolution. In accomplishing two tasks which are essential to a development policy in India, however, the state capitalism has not been succeeded. [21]

There is a tendency of importing the financial resources from the socialist countries in the recent years. However, the amount of credit provided in the developing blocs including India is only a fraction of the sum lent by capitalist countries. Two important reasons can be cited as the cause for the inflow of increased aid from the socialist blocs.

Firstly, the aid from the socialist world aimed at the improvement of the industrial infrastructure of the country and thereby helped her self equipment capacities. A major weakness of the economy of India is its insufficient equipment capacities. Secondly, the capitalist countries started increasing their aids in the name of the financial assistance in India as the socialist countries expressed their interests in the development of India.

To avoid a serious crisis in the past foreign assistance from the capitalist countries had been larger than the socialist countries and thus helped .The aid helped a lot in lessening the danger from the insufficient agricultural output. But it did not help much in solving the problem of the country permanently. Major handicaps for India becoming more economically independent were the slow progress in agriculture and disproportions in industry. There has been a steady rise in her foreign debt. India had to allow foreign private capital to strengthen its hold on the economy as the loans accorded by the United States and by the World Bank have forced her. The greatest danger to the future of the economy of India and to her independence could be traced to the financial measures which had enabled foreign capital to do so.

However, it seemed improbable that the rate of growth between 1951 and 1966 could be maintained in the next few years despite the growth of productive

forces during the first three plans, the structural changes which have been made and the volume of foreign financial assistance. [22]

In the light of past experience, however, the target of the fourth plan seemed extremely unrealistic since there had been no fundamental changes in social, political and economic affairs. Serious inconsistency of the high rate of expected growth between 1966 and 1971 was a matter of great concern .For the attainment of the high rate of the expected (targeted) growth (10%), there must had been the increase of agricultural productivity by 5% a year. It was very difficult to see how it could be done in the prevailed circumstances.

The estimates for the increase in unemployment and the statement made by the end of the Fourth Plan India would have made considerable progress towards self-sustained economic growth were unrealistic equally in nature. Both for the productive structure that would be attained and for the balance between internal and external investment financing, this appeared to be unrealistic too. To attain this goal the country in fact, would have to call upon for high financial aid to an unprecedented extent. Therefore, it seemed unlikely that there would be any further increase in the rate of the growth of the country. [23]

India would soon find herself burdened with debts she could not possibly repay if the costs increased at the present speed and at the speed which was expected in the future, and if the country could not provide much more from the internal resources. It was observed by the scholars in the country that the principal creditors of the country were beginning to be able to impose the economic policies they had thought suitable. The economic growth of the country would in fact be reduced unless the social and economic structures underwent important and necessary changes as the results of these last few years had shown. It was deserved that during the recent years these sorts of results had been obtained in good condition of internal political stability, internal collaboration and few purely technical weakness. These results brought serious threat to the development of the Nation in many ways.

The fault of this dismal record lay in the social and economic structure of the country. Other reasons were the maintenance of semi feudal relations over large parts of the countryside, the power of commercial and money lending capital in vast sectors, the strength of the monopoly and foreign capital of India in Industry and in Banking etc. As the results of these facts, the resources of the country were not used to the full strength, investments were badly distributed, the majority of the completely or partially landless peasants were underpaid and most of the poor peasants with small pieces of land could not find employment with all the year round. Production was reduced to a great extent because of the existence of the present structures in the society. The same structures were also responsible for the prevention of the expansion of the domestic market rapidly and healthily. Behind the weakness and insufficiencies of recent industrial development the prevailing structures were to be blamed squarely. [24]

3.3.3. DEVELOPMENT EXPERIENCE IN INDIA FROM THE FIFTH PLAN ONWARDS:

Two important elements were taken up into consideration upon which the planning model of the Fifth Plan (1974-79) was based on. These were a Harod Domar type construction showing the relationship between investment and its resultant outputs along with a Liontief type intersectoral transactional model. It is to be mentioned in this context that the problem of poverty eradication was catapulted into the forefront of political discussion for the first time in the planning history of India. Growth with redistribution was the strategy and the slogan of the planning commencing from 1974. Not only for India but also for the world the period of the 1970's caused a lot of inconveniences. During this period the major events included the prolonged agricultural failure of 1970, the Bangladesh War of 1971, the first oil-price shock of 1973-74, the emergency of 1975-77, the first Janata Government of 1977-79, return of the Congress (I) Government in 1979-80, and the start of the second oil-price shock in 1979.

Approach to the Fifth Plan had to be redrafted because of the above mentioned developments and as a result of these incidents the strategies to achieve its ambitions 'redistribution objectives' had to be diluted considerably. Under this critical juncture there was an introduction of a decentralized planning technique with rural orientation by the Janata Government. A new system of rolling plan became operational effective during 1978-80 after the Janata Government had scrapped the Fifth Plan. But there was not any mentionable progress to be registered during the tenure of the Janata Government. This new phase in the planning process of the country merely got short circuited at the fall of the Janata Government. The Sixth Plan's earliest version drawn up for 1978-83 was recast in the light of the policies and programmes of the new government headed by Smt. Indira Gandhi. To confirm that the period of the Sixth Plan would be up to 1985-86 a decision was taken up at the central level. Two prolonged strategy was out lined by the new plan. These were:

a) Creation of the conditions for an accelerated investment growth output and input through the simultaneous strengthening infrastructure for agriculture and industries; and
b) Generation of the increased opportunities for employment, especially in the rural areas and the unorganized sectors and to meet the minimum basic needs of the common people in the society through the launching of special programmes. It followed the introduction of a number of poverty eradication programmes. Emphasis had to be shifted to improvement of the productivity of the lands available in the country through the greater diffusion of technological improvements as it was quite clear before the policy makers of the state that with a growing population and limited natural resources, the state did not have and still does not have too many options to be opted for. [25]

The formulation of the Seventh Plan (1985-90) was made under the dispensation of the Prime Minister Rajib Gandhi on the important following bases. These were to be counted as under:

a) strategies for poverty alleviation;
b) strategies for employment generation;
c) strategies for agricultural development; and finally
d) Strategies for industrial growth.

But the desired result generated out of this plan did not tilt in favour of the masses in the society. Rather in actual practice a very decisive turn was given by this plan in favour of the rich and sought to promote culture, borrowed from the west, American management practice, consumerism and elitism. The plan did not tackle effectively the nagging poverty and unemployment, the policy of liberalization, especially the policy of import liberalization that took place since 1979 and more particularly after 1984, immensely benefited the gainers from the 1970's redistribution, the urban capitalists, bourgeoisie and the emergent industrial and urban middle classes and demanded a consumption pattern which could not be met without the inflow of imported capital and intermediate goods, which had been restricted earlier. A minute analysis would reveal the fact that this policy of liberalization had been an outcome of pressures exerted by these groups and partly of the pressures of the multilateral aid agencies, although the ostensible argument was in terms of increasing the competitiveness of the economy of India. The only obsession of the planning commission seemed to be with technical growth models and growth rate. Whatever growth took place as the fruits of the planned economy did not trickle down to the poor as it was expected for. Only the top ten percent of the total population could be benefited from the out comes of planning made so far. This development planning process has been labeled as 'top ten percent philosophy' by the veteran journalist Nikhil Chakraborty.[26]

The earlier approach paper to the Eighth Plan (1990-95) was scrapped by the newly Constituted Planning Commission under the newly elected National Front Government in December, 1989. Under the headings of 'Towards Social Transformation' the new approach paper indicated significant departures from the objectives, properties and planning methods adopted hitherto. The area of emphasis was retargeted. It aimed at putting emphasis on the content of development rather than the growth rate at present. The specific attention was also put on the aversion of irreversible damage to the environment and especially to the resource base of the poor. Objectives of the planning were sought to be achieved through the participation of the common people in the society in farming and implementing development programmes through a system of open and democratic decision making starting from the grass-root levels. On the areas like employment and poverty alleviation there was big thrust with the expectation that it would generate additional demand for mass consumption of goods, the supply of which must expand. In the following manner some of the major implications of the planning might be counted for :

i) completion of democratic decentralization within the first year of plan;

ii) acceptance of integrated local areas planning approach to rural development for which fifty percent of the resources would be earmarked;

iii) emphasis on agriculture as a more stable and productive occupation through various measures;

iv) remunerative prices to farmers in general and diversification of agriculture into more remunerative enterprises;

v) promotion of adequate production of mass consumer goods, particularly through labour intensive manufacture;

vi) thrust on exports in order to reduce dependence on external savings and forcing exchange earnings; and

vii) enforcement of the strictest possible economy both in government expenditures and in import so that additional internal and external borrowings are reduced significantly. [27]

However, the development activities of India in the planning process starting from 1951 to 1989 can best be presented with the help of some statistical figures. These are as follows:

Table: 3.1

Estimates of the Marginal Rate of saving in the Indian Economy: 1950-1985

SL. No.	Period	Marginal Rate of Gross Saving
01.	1950/51 - 1960/61	20.0
02.	1961/62 - 1969/70	18.2
03.	1970/71 - 1979/80	26.3
04.	1980/81 - 1984/85	21.4

Source: Estimates are based on date available in the various issues of National Accounts Statistics, Central Statistical Organization, Department of Statistics, Ministry of Planning, New Delhi.

Table: 3.2

Rate of Gross Saving in the Indian Economy, 1951 - 1984.

Sl. No.	Year	Marginal Rate of Gross Domestic Saving
01.	1951/52	9.5
02.	1952/53	9.0
03.	1953/54	9.3
04.	1954/55	11.2
05.	1955/56	12.8
06.	1956/57	12.9
07.	1957/58	11.8
08.	1958/59	11.5
09.	1959/60	12.3
10.	1960/61	13.1
11.	1961/62	13.8
12.	1962/63	14.0
13.	1963/64	14.2
14.	1964/65	14.6

Sl. No.	Year	Marginal Rate of Gross Domestic Saving
15.	1965/66	15.2
16.	1966/67	15.3
17.	1967/68	14.8
18.	1968/69	14.8
19.	1969/70	15.8
20.	1970/71	16.8
21.	1971/72	16.8
22.	1972/73	17.7
23	1973/74	18.0
24.	1974/75	19.3
25.	1975/76	20.3
26.	1976/77	21.6
27.	1977/78	23.1
28.	1978/79	23.2
29.	1979/80	23.4
30.	1980/81	22.6
31.	1981/82	22.5
32.	1982/83	22.3
33.	1983/84	22.3

Source: Estimates are based on the data available in National Accounts Statistics, (Jan, 1985), CSO, New Delhi; and Quick Estimates of National Income, Consumption Expenditure, Saving and Capital Formation, 1984/85 (Jan, 1986), CSO, New Delhi.

Note: The rate of saving is calculated as percentage of gross domestic product at market prices and has been calculated on a three-year moving average basis.

Table: 3.3

Trend in Growth Rates of Investment in the Indian Economy 1950/51 to 1983/84 (Per cent Per annum)

Sl. No.	Sector	1950/51 to 1959/60	1960/61 to 1969/70	1970/71 to 1982/83
1.	Total Investment	7.42	4.94	4.94[a]
2.	Public Sector Investment	14.20	3.42	6.87[a]
3.	Private Sector Investment	-	5.99	3.39[a]
4.	Sectoral Investment	-	-	-
5.	Agriculture	-	-	-
	Total	2.89	5.81	4.68

Sl. No.	Sector	1950/51 to 1959/60	1960/61 to 1969/70	1970/71 to 1982/83
6.	Public Sector	-	4044	6.48
7.	Private Sector	-	6.38	3.95
8.	Mining	-1.09	4.56	17.20
9.	Manufacturing Total	- 11.41	- 5.14	- 4.83
10.	Public Sector	-	5.33	9.22
11.	Private Sector	-	4.93	2.70
12.	Electricity	16.96	7.71	8.65
13.	Railways	15.93	-5.06	3.88
14.	Communications	3.18	9.57	8.55
15.	Other Transport Total	- 10.10	- 3.76	- 3.01
16.	Public Sector	-	8.64	1.24
17.	Private Sector	-	1.31	4.12

Note: Computations are based on the data on gross domestic capital formation at 1970/71 prices available in National Account Statistics, CSO, New Delhi.
[a] 1970/71 to 1983/84

Table: 3.4

Rates of Growth of Price Deflators in the Indian Economy, 1951 to 84 (Per cent Per annum)

Period	Wholesale price index	GDP deflator		Investment deflator
		Market prices	Factor cost	
1950/51 - 1959/60	0.64	0.43	0.37	2.86
1960/61-1969/70	7.41	7.54	7.47	6.30
1970/71-1979/80	8.85	7.78	8.12	9.69
1970/71-1983/84	9.10	8.21	8.46	10.36

Source: Based on the data available in various issues of National Accounts Statistics, CSO, New Delhi, and revised index Numbers of wholesale Prices in India, Monthly Bulletin for March 1985, office of the economic adviser, Ministry of Industry and Company Affairs, New Delhi.

Note: Estimates are trend growth rates based on semi-long functions.

Table: 3.5

Trends in Indian Exports, 1970-85

Sl. No.	Year	Value of Exports Rs. Crores at Current price	Quantum index of exports [a]	Net terms of trade [a]
1.	1970/71	1,535.16	106	106
2.	1971/72	1,608.20	107	116
3.	1972/73	1,970.80	120	124
4.	1973/74	2,523.40	125	106
5.	1974/75	3,328.80	133	77
6.	1975/76	4,036.26	147	70
7.	1976/77	5,142.30	174	77
8.	1977/78	5,404.26	168	95
9.	1978/79	5,726.07	180	90
10.	1979/80	6,418.43	199	66
11.	1980/81	6,710.70	238	58
12.	1981/82	7,805.90	198	76
13.	1982/83	8,803.31	210	79
14.	1983/84	9,872.10	n.a	n.a
15.	1984/85	11,554.78	n.a	n.a

Source: Economic Survey (various issues), Ministry of Finance, New Delhi.

Note: One crore equal ten millions.

[a] Base 1968/69=100

n.a. = Not available

3.4. SECTION C: THE THIRD PHASE (1991 TO PRESENT DAY) :

3.4.1. DEVELOPMENT EXPERIENCE IN INDIA IN THE POST-1991 ECONOMIC REFORMS ERA:

Post independence period of India was one on the classic cases of dirigiste economic development. Not only was the state highly interventionist, but the economy acquired sizeable public sector, especially in areas of infrastructure and basic industries. The mixed economy which came into being, together with the fact that the polity was characterized by multiparty parliamentary democracy with a largely free press and significant freedom of expression invented the

Indian experiment with a novelty and uniqueness which attracted worldwide attention and gave rise to a vast theoretical literature. Not only did a rich literature on development planning take shape within India, starting with the celebrated plan models of P.C Mohalanobis who was a pioneer theoretician of Indian Planning but the class-nature of the Indian state, the class character of Indian planning etc. became a matter of intense debate, especially in Marxist and radical circles both within the country as internationally. [28]

During the early 1980's and the early 1990's in nearly every developing country of the world, short-term stabilization measures, liberalization efforts and economic reforms have been considered, attempted or adopted. Despite its different variations in the details of the programme being sponsored, all the programs virtually aimed at a reduced role of the state in the economy, particularly in the area of expenditures and ownership of productive enterprises. They have focused their attention on market mechanism, especially in the areas of exchange rate adjustment, trade, liberalization and the use of subsidies. Such a strategy under the rubric of Structured Adjustment Programme (SAP) has made use of trade, fiscal and monetary policies to restore balance of payments, equilibrium and stimulate growth in developing societies.

Structural adjustment was thus conceived in terms of reducing a country's balance of payments deficits, by curbing domestic demand and stimulating exports. The aim was to curtail domestic output to reduce demand for imported raw materials and investment goods. While the emergence of the acute economic crisis in the late 1970's and the early 1980's in most developing countries provided the immediate justification for the adoption of the new adjustment policies, some other major weakness in their development policies which constituted structural barriers to efficiency and sustained rapid growth were also responsible for this trend. These included excessive taxation of agriculture, indiscriminate protection of industry. Over-valued exchange rates, extensive state intervention in resource allocation by administrative means, inefficiencies

in state enterprises and widespread corruption and management. The adjustment has far reaching ideological implications in moulding development policies.

Different countries in the various regions of the world responded to these policies in different and even contrasting ways and for diverse reasons .Policy changes in most Asian and African countries occurred due to the continued economic crisis because of the weakness in their former policies of economic management and the pressures exerted by creditor countries, commercial banks, international financial agencies, and transnational corporations. India responded to the structural adjustment programme only in 1990's.

The new strategy for development for India was found in the New Economic Policy (NEP) adopted in the month of July 1991.The policy marked a radical departure so for as the question of state's intervention in the nation building process of the country was concerned. India turned a new page in its administrative history with the adoption of New Economic Policy thereby committing herself to liberalizations, privatization and globalization, thus making a quantum jump from the hitherto dominant role of command economy. Therefore, India's transition in 1991 to a regime of Structural Adjustment was an event of great historical significance.

The basis of Indian New Economic Policy formulation was radically altered in July, 1991. Following this a whole range of new policies govern the country's economic life .The rapidity and the sweep of the changes not only left the common men confused and bewildered and even most economists do not fully comprehend what is going on .It could have been different if a wide ranging debate had preceded the implementation of the new package of economic policies .[29]

The very concept of new economic policy was characterized by three important dimensions. These were liberalization, privatization, and globalization. It opened up floodgates for the Multi National Corporations

(MNCs), Transnational Corporations (TNCs) and almost completely privatized the production and distribution system. It constituted a complete departure from the policy perspectives of the fifties. Foreign exchange crisis was described as the crux of the present grave economic crisis which led to the devaluation of the rupee, sending out gold and new look budget (1991-'94) was adopted to suit the philosophy of the International Monetary Fund from whom large chunk of fund was borrowed. Debate still persists today whether the foreign exchange crisis was really so crucial for the functioning of the Indian economy, and if with some corrective measures, and without undertaking such a somersault an economic policies as was done, the situation could have been retrieved, while the problem of poverty and unemployment deteriorated during the eighties and looked more serious, economic problems were mounting rapid and excessive privatization led to an accentuation of the unemployment problem in India despite the measures announced by the finance Minister, Dr. Manmohan Singh in his budgets. [30]

The new economic policy of 1991 brought into being another silent revolution, a new freedom from the past, orthodox and strain-jacketed ideology and protective economic strategy. Liberalization broke the barrier; it opened up the economy, it exposed the world market, it unleashed competition, it made Indian economy one of the global players. The new policy has in one stroke, brought in an environment characterized by among others;

i) Decontrol and Delicensing ii) Debureaucratisation ; iii)Denationalization and Privatization; iv) Internationalization-fluidity in geo-economic reality; v) Globalization of competitions; vi) Financialisation; vii) Technology invasion; viii) Information explosion; ix) Communications revolution; x) Transnational organizations; xi) New skill generation and diversification; xii) Quality concerns; xiii) Time cost schedulisation; xiv) Organizational restructurisation; xv) Human administration.

There may be indeed are many other impacting factors which must follow the trail of liberalization since 1991, there has been conscious effort made by the

Government of India to change the forces of macro-economic policies, so as to make them, consistent with the larger programme of economic reform. [31]

In the Indian economy, public control and planning always played a crucial role in defining the limits of market based activities. The current phase of economic reform sought to alter the Division of Labour, so to say between the market and the state. The compulsion to under take the changes was largely due to the pressure of the IMF and the World Bank. It was also, however, determined by the pressures from a growing and articulated middle class with growing internationalities. [32]

Economic policy reforms consist of two distinctive standards, stabilization and structural adjustments, based on prescriptions from the IMF and the World Bank. India began both these programmes in 1991, stabilizations deals with demand management while structural adjustment deals with the sectoral policies designed to address problems of the supply side in the economy. Structural adjustment entailed major policy shifts to allow markets to determine prices and reflected scarcely values even when the prices were controlled. This means allowing markets the freedom to allocate resources and getting prices right. It also entailed a shift of resources from government control to private needs, in short, privatization. These changes in turn imply that the government must redefine its role in the development political and carry out institutional and factor market reforms consistent with its new role. Simultaneously, trade liberalization meant a systematic shift of resources from the non-traded to the traded goods sectors. These reforms were expected to take time, careful sequencing in terms of timing and magnitude of change, depending on the country's level of political tolerance for rapid change, and the perceived level of costs of rapid change, and the perceived level of costs of adjustment. [33]

To facilitate such changes and build the desired and required climate of macro-economic stability, the programme of stabilization was carried out as a

precondition. Stabilization sought to use macro economic fiscal and monetary policies to deflate demand and short turn aggregate supply.[34]

It is clear that the objective conditions of the economy of India are quite different today from what they were in the mid fifties and it is sheer mistake to expect that a strategy which was valid then would still continue to be valid now. What happened, however, is that only periodic marginal adjustment to certain policy parameters have been made from time to time for addressing short-run problems. It is obvious that such patchwork tinkering will not do any more. The Indian economy suffered from want of a viable development strategy that is suitable for the objective socio, economic condition of the country. Such a development strategy must address the minimum socially necessary objectives. Poverty and unemployment continue to be the most crucial persisting problems which are intimately interlinked. Poverty is a widespread phenomenon and the kulakisation of Indian agriculture poses grave implications for such poverty of disadvantaged groups.[35]

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CHAPTER - IV

GLOBALIZATION: WHY INDIA RESORTED TO GLOBALIZATION

4.1. INTRODUCTION:

It is argued by scholars that the rapidly changing global economy is the compelling reason for the sweeping economic reforms initiated in the country. The reform process has now got into second phase with the full convertibility of the rupee on current account transactions and the slashing of custom duties to a great extent, in particular, both of which emerged as special measures taken in the budgets initiated by the Union Government since 1991. The efforts are now being made to integrate further the Indian economy with the emerging global economy.[1]

What exactly is the nature of the global economy out there? Who are the main participants in it? What are their agenda? How does the national economy of India get integrated with it? No doubt there is a considerable body of literature on some aspects of it, as for instance, on Transnational Corporations (TNCs) or Multinational Corporations (MNCs) who, it is generally accepted, play a crucial role in the emerging global economy. But what is the nature of the engagement between these bodies and the national economies? The Economist's special survey on the world economy made in September, 1992 asserts - Twenty years from now economists will think of the 1980s not as the decade of the international debt crisis, nor of the dollars boom and bust, still less of Reaganomics and 'monetarism'. All these mattered, but none of them marked decisive change in the forces that drove the world economy. Yet, the 1980s did witness such a change. During these years many of the boundaries between national financial markets dissolved, and a truly global a capital market began to emerge. It is for this that the past decade will be remembered. Is this a valid

claim? And if an integrated global economy is emerging in the financial sphere what are its implications for the 'real' economy? [2]

These are some of the questions which have been raised and analyzed in the following sections .It will also consider how the global economy impacted on the economy of India as she responded to structural adjustment programme - liberalization, privatization, and globalization.

From 1970 onward ----- the developing world witnessed a wave of economic policy reforms with one country after another taking recourse to the liberalization process. The process has been described by many critics as an act of imposition exercised by the International Financial Institutions. The reform process initiated by the developing world had been preceded by a quarter-century of state-directed efforts of economic development, during which time the goals of economic self reliance and Import Substitution industrialization (IST) were the hall marks of development strategies in the less developed countries. These goals seemed particularly justified, given the long experience of these countries with colonialism and the agricultural nature of these countries. Besides these, there was intellectual support for them from Keynesianism and the new discipline of development economics, especially in view of the historical memories of the massive market failures of the Great Depression Years (1930-1940). However, the present globalization wave has overtaken all those developments. [3]

Three reservations need to be enumerated here.

The first is that in the context of the international economy the relationship of one of its units with others is of a 'between nature' as, for instance, the Indian economy in relation to the US Economy or the Indian economy in relation to all other economies. It is in this latter sense that the recommendation is being made that the Indian economy must be opened up to global economy out there. But the concept of the global economy is an inclusive one. The Indian economy is within the global economy, and as such may share

some of the characteristics of the global economy and the global economy may reflect some of the features of its constituent unit, the Indian economy.

The second reservation is that the units of the emerging global economy can not be treated as similar or homogeneous in nature as the emerging global economy consists (at least) of national economies and multinational corporations. Hence, it is important that the global economy should be conceptualized as consisting of heterogeneous units which distinguish it clearly from the existing conceptualization of the international economy as consisting of homogeneous units.

This distinction will be sharper if the third reservation is taken into account which is related to what was already referred to as the agenda of the units. Within the conceptualization of the international economy, which is concerned with trade, it may be legitimate (definitely convenient) to depict all units as having the same agenda, but intuitively one can see that national economies and MNCs can not be treated as having similar agenda.[4]

The characterization of the 'global economy' given above is not an end in itself. Its purpose is to serve as an aid to the understanding of what is happening around the world. A quick review of the developments in the world economy since the end of the Second World War (1938-1945) may be helpful. Recalling the collapse of world trade, the competitive devaluations (beggar thy neighbour policy) and the spread of the depression of the interwar period, that United States and the United Kingdom, as the emerging victors of the second world war set out to create a world in which the countries did not close their eyes to the repercussions of their actions . That was the under lying principle of the Bretton Woods Conference of July 1944 which set up the International Monetary Fund (IMF) whose responsibility was to maintain a fixed exchange rate system with provisions for dealing with temporary balance of payments problems of member nations and the International Bank for Reconstruction and Development (World Bank) to provide long term capital requirements. For the first time, therefore, two

international agencies were set up followed by a third, the General Agreement on Tariffs and Trades (GATT) in order to permit national economies to pursue domestic policies of their own almost autonomously, but providing for free trade and free exchange rate with a view to paving the path of globalization.[5]

The changed world environment, right from the beginning of 1970s has given birth to the waves of economic policy reform in the developing world including India. The key feature of the changed world economy is the element of heightened economic globalization, which provided new external challenges as well as opportunities for development. [6]

4.2. GLOBALIZATION:

Globalization is considered as an important element in the reform package being carried out by all the developing nations across the world. Scholars have defined the concept in different fashions. Since globalization is such a pervasive phenomenon, definitions can be either very comprehensive or quite narrow. Some provide a broad definition : 'globalization may be thought of initially as the widening, deepening and speeding up of world-wide interconnectedness in all aspects of contemporary social life, from the cultural to the criminal, the financial to the spiritual' (cited in Basumtwi-Sam and Dobuzinskis 2003 : 35). Similarly, a synthetic but critical account gives globalization as overly abstract description as 'a reconfiguration of social geography marked by the growth of transplanetary and supraterritorial connection between people' (Scholte 2005: 8,86). According to Joseph Stiglitz, "Globalization is the closer integration of the countries and the people of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flow of goods, services, capital, knowledge and people across the borders". The constituents of globalization are:

i) reduction of trade barriers so as to permit free flow of goods across national frontiers;

ii) creation of an environment in which free flow of capital can take place among nation-states;

iii) creation of an environment permitting free flow of technology;

iv) last, but not the least, from the point of view of the developing countries creation of an environment in which free movement of labour can take place in different countries of the world. But the advocates of globalization, more especially from developed countries, limit the definition of globalization to only three components viz. unhindered trade flows, capital flows, and technology flows. They insist on the developing countries to accept their definition of globalization within the parameters set by them. In this connection the definition relating to globalization given by Peter Marcus is noteworthy, "Globalisation is not something new but is a particular form of capitalism, an expansion of capitalist relation ships since ..... there are two distinct aspects to the development of capitalist relations since 1970 that are often lumped together under the rubric of globalization; developments in technology and development in the concentration of power". However, several economists in the developing world believe that these definitions of globalization are all incomplete in nature and in case the globalizer's ultimate aim is to look upon the world as a 'global' village, then the fourth component, unrestricted movement of labour can not be left out. But the entire issue whether debated at the World Trade Organization (WTO) or at other forums blacks out the 'labour flows' as an essential component of globalization.[7]

The concept of globalization which has emerged as an appeal for the developing countries for experiencing the fruits of development for the last two decades has not come to us an evolutionary process of history. The present form of liberalization can be named as 'Neo-liberal Globalization'. International

Monetary Fund (IMF), World Bank and world Trade organization (WTO) propounded the present version of globalization. United States of America (USA), Great Britain etc. took the leading role in propagating the concept of globalization. Scholarly contributions in this field came from the writings of Friendrich Hayek, Milton Friedman and Kenichi Ohmae etc. [8]

4.2.1. A BRIEF HISTORY OF GLOBALISATION:

Globalization which is a more romantic word indicating the desire to integrate nation - states within the overall framework of the WTO, is nothing but a modern version of the 'Theory of Comparative Costs Advantages' which was propagated by the classical economists to provide the theoretical foundations of unrestricted flow of goods from Great Britain to other less developed countries - at that time obviously the colonies. The school argued that international specialization benefits both the countries which enter into trade relations. The present advocates of globalization have brought forth the similar argument in a very lucid manner. They desire of an export- led- pattern of growth to replace the import -substitution trade policies followed previously. The imperialist nations during the 18th, 19th and 20th centuries also emphasized capital and technology flows into the colonial countries. Interesting point in this context was that these imperialist powers could force their will at those times because they had rein of controls at their hands. Minute analysis of all these historical evidences reveal that all these trade, capital and technology flow helped the imperialist nations to drain out resources from the poor colonial nations. In this way the imperialist nations thrived at the cost of the colonial countries as these colonial nations were thrown into the trap of stagnation and poverty. [9]

But the advocates of globalization at present want us to believe that they are sincere now and as a result of these policies of globalization the developing countries would be able to improve their competitive strength and usher in a period of growth. The appeal rose high as the developing nations found the

economic collapse of the U.S.S.R. (erstwhile) and other East European countries like Bulgaria , Hungary, Czechoslovakia, Romania etc. in the process of operating state controlled development through imperative planning having been influenced by the socialistic school of thought in the late eighties and early nineties. As a result of these facts, the developing countries are cajoled and through various kinds of soft and hard pressures are persuaded to fall in line. Consequently as it happened in India, the process of dismantling trade barriers started and every year since 1991 the Finance Ministers have been announcing reduction of import duties and a simplified taxation system. Advocates of present form of globalization argued that this shall enable free flow of goods, capital and technology and thus globalization becomes a motivating force for nations to develop themselves at a faster pace that creates more gainful environment in the world scenario for each economy. For a developing country like India, it opens access to new markets and new technology. [10]

4.2.2. ECONOMIC MODUS OPERANDI OF GLOBALIZATION:

The most common mental image of globalization is the internationalization of the economic system, more specifically about the integration of markets for goods and services; an integration that transcends geographical and political borders. To put it in other words, it aims at the creation of economic system across the world dismantling the national barriers. Some scholars may be tempted to argue that market integration through trade and exchange has been known to human society for a very long time. Indeed, the discovery of the world and the extension of exchange have always gone hand in hand .In true sense the present process of globalization is totally dependent on some of the economic functioning. These functioning may best be presented in the following manner. [11]

Privatization, liberalization, world wide functioning of the Multi National Corporations, internationalization of the systems of production and investment,

structural adjustment programmes being carried out by the developing countries at the direction and pressure of the developed countries through the international agencies like International Monetary Fund (IMF) World Bank etc., introduction of balanced budget by force in the developing countries introduction of aslant trading system at the pressure of the developed countries and finally the open market system are the key features of present form of globalization. The entire process of globalization can be divided into eight important stages (Bagchi). These are as follows:

a) expansion of international trade across the globe;
b) immigration of the people among the different regions across the world;
c) the movement of money and other medium of exchange among the different nations;
d) the introduction of the flow of capital from one country to another country in the process of generation resources through the production in the fields of industry, agriculture and services;
e) the introduction of the movement of finance capital among the different countries in the world;
f) impact of Multi National Corporations (MNCs) and Trans National Corporations(TNCs) over the trade investment and production in the world;
g) the exchange of technology among the different countries;
h) Finally, the expansion of information medium and the application of electronic technology upon the different mediums of information in the different parts of the globe.

One can easily understand the economic functionings of the present process of globalization when all these divisions mentioned above are joined together.

4.2.3. GLOBALIZATION AND THE SOVEREIGNTY OF THE NATION-STATE:

The question of sovereignty of the nation-state is closely associated with the concept of globalization. World Trading Organization (WTO), International Monetary Fund (IMF), World Bank etc. through the investment of capital are trying their level best to fulfill their own interest in the developing countries in the world. Against this current of globalization the nation-states, more particularly the developing countries or the third world countries are virtually helpless and cornered to a great extent at present. The present wave of globalization has given the free permit & license for the speculative capital and portfolio investment to invest it in different parts of the globe. Third world countries at present are in receiving end to retain their sovereignty as nation-states. In this attempt they have been made virtually handicapped the time they enter into the process of globalization. People of the developing countries witness that so many functioning beyond the control of the state are taking place and as a result of the fact these people are suffering a lot from the malfunctioning of the state. In the nineties, the collapse of the USSR (erstwhile) and other socialistic countries paved the way for the USA for having monopolistic control over the world. At present the USA with its hegemonic control is in such a commanding position that it determines the bilateral relationships and the nature of relationships between two nations or among the different nations in the world. USA through its control-network also determines the amount of production in developing countries of the world. This development with the sovereignty of these countries in the continents of Asia, Africa etc. has done a great damage with the liberty of the people in these nations. This, in fact is not only an economic damage. The inclination has attacked the political institutions and democratic rights of the common people in these societies of the developing nations. Education, health and social security measures of the developing nations with the advent of globalization in its polished form are at stake to a great extent.[12]

4.2.4. GLOBALIZATION AND CULTURE:

The present form of globalisation does not only cast its impact on the political and economic spheres, but also at the same time on the civilization and the culture of the developing nations and no doubt this impact is clearly visible. John Tomilsion argued that globalisation and culture, both these concepts are inextricably intertwined with each other. The scholar contends that' Globalization' is at the heart of modern culture, cultural practices lie at the heart of 'Globalization'. Truly speaking in this age of globalization there exists no national food, no national dress. People residing in different parts of the world are now wearing the dresses made of jeans and having cold drinks spontaneously. They are also using mobile phones at random and having fast foods at great speed.

From the above discussion it can easily be concluded that the present activities of the process of globalisation sharply narrowing down the geographical differences among all the nation-states in the world. But the economic operation of the process of globalisation on the other hand is widening up the differences between the developed and developing blocs in the world at present steadily. Whatever the positives aspects are there in the process of globalisation are all being swallowed up by the so called developed blocs in the world as these developed states reside in a comparative advantageous economic position. Developing nation-states in the quest of development are being trapped articulately in the trap of the debt. These nation-states have been made bound to accept adverse conditions at the time of receiving loan cum aid from the agencies like the World Bank and International Monetary Fund (IMF). These countries have been made bound to open up their economics to the Multination Corporations (MNCs) and Trans National Corporations (TNCs) to be exploited and looted at random. Their sovereignty is at bay at the hands of the USA and its followers to a great extent. Western economists like Joseph Stiglitz have admitted "Globalisation is not working for many of the World's poor. It is not working for

stability of the global economy". But there is no question of looking back at present. There is no denial of this fact that globalization is a well established fact across the world. Under the present circumstance, all the nation-states including India should try their utmost to run the machinery of the state in such wise and useful manner so that the maximum amount of benefit of globalisation can be achieved in their own favour at all costs. [13]

4.3. BACKGROUND OF INDIA'S RESPONSE TO THE CONCEPT OF GLOBALIZATION:

The issue of globalization of the economy of India has drawn attention of the academic community in India overwhelmingly. On the part of the scholars several attempts have been made to explain the compelling reasons for India to respond positively to the New International Economic Order (NIEO) and to the prescriptions propounded by the IMF -World Bank to globalize the Indian economy.

Historical evidences prove that after the attainment of freedom from the British imperialist power in 1947, India chose to follow a closed economy approach. Public sector was given commanding height for the economic development of the country and the private sector was allowed to take part in the development process under the control of the government. The aim was virtually in tune with the making of planned economic development armed with regulatory mechanism and controlling powers in order to protect the people from exploitation in the domestic market by the monopolists and externally by foreign investors and suppliers. Given the bitter experiences at the Indians as well as of other colonies caused by the endless dominance and exploitations by the imperialist powers of the West over a fairly long period of time for the benefit of their own economies, the call for NIEO appears to the people of the LDC including India to be a new finer way of exploitation by the developed countries, a way to get rid of the growing problems faced by the rich nations since second

World War (1938-1942). Such a hesitant attitude of the Indian people is not totally unjustified by the reason of the fact that through the so closed economy approach and the growing importance of the public sector, the country has been able to build a sound industrial base, has successfully combated the challenges of famines and draughts and has attained significant growth in agriculture.[14]

But another school of thought argued that planned economy with regulatory mechanism has not been able to realize the desired standard of development. The scholars of this school insisted on opening up the economy of India before World Markets. To consolidate their standpoint this school of thought put forward the success story of the nations situated in South-East Asia. These countries namely Hongkong, Singapore, Taiwan opened their economy through de-administered development mechanism and thereby experienced development to a great extent. [15]

Being influenced by this success story and also being driven by the balance of payment problem, the country has been facing during the late 80's ,the government of India had adopted the policy of economic reform first in 1985 and then in 1991 and thereby leading the country towards the path of liberalization, privatization and globalisation of the Indian economy in order to overcome the problems of slower growth of industry vis-à-vis the whole of the economy to combat the problem relating to poor standard of living, poverty and unemployment etc. with the inception of New Economic Policy (NEP) in July, 1991 there has been a continuous attempt on behalf of the Government of India to transform the economy of India from a controlled economy to an open economy. [16]

But the rather sketchy account of the salient aspects of the transformation that the country has been carrying out during the past four decades or so, evolving a global economy out of an international economy, it is hoped, is helpful to an understanding of the global economic context of the early 1990s which constitutes the backdrop to Indian economic reforms. For understanding

the reasons or the compulsions of India's response to the process of globalisation it is necessary to capture the essential features of evolving global economic environment. [17]

1. National economics with the help of their relationships existing among them still play a major role in the contemporary global economy. But the scholars opine that these relationships are not multilateral in any way. There are four distinct centers of the international economy: North America (led by the United States, Europe (with a unified Germany in the lead), the Far East (where Japan is the major actor followed by South Korea) and the People's Republic of China. A minute observation over the functioning of the evolving global economy makes it clear that these are the active agents of the international economy with other national economies being passive participants in it, of the four, the last has been characterized with some special characteristic features of its own and as a result of this fact the country has not been drawn into the global system as much as the other three. [18]

Table: 4.1
Industrial Production - Annual Average

(Per cent)

Country	1960-70	1970-80	1980-90
United States	4.9	3.3	2.6
Japan	15.9	4.1	3.9
West Germany	5.2	2.3	1.8
France	6.0	3.0	1.3
Italy	7.3	3.3	1.3
United Kingdom	2.9	1.1	1.8

Source: World Institute of Development Economics Research, World Imbalances, (Helsinki, WIDER, 1989).

2. So far as the question of economic activities likes productions, trade and capital flows are concerned the first three accounts for a high proportion. It has been noticed that with respect to capital states like Germany and Japan have emerged as surplus nations and the United States as the largest deficit nation absorbing a major share of the capital available in the global system. For instance

in 1988 Japan had a surplus of some $80 billion, Germany $48 and the NICs of Asia $26. As against this (and smaller accounts from other countries) the United States absorbed some $135 billion. To put in other worlds, "the United States is now absorbing most of the capital exported by all the creditor nations of the world there by crowding out their potential borrowers and increasing world real interest rates." [19]

3. The above mentioned situation has already cast its impact on the trading system of the world at present to a great extent. But the interesting fact which has been noted that in spite of all the trumpeting about 'free trade' as the corollary of the capitalist system, no leading capitalist country has put it to practice to a considerable extent. In the year of 1948 there has been the establishment of GATT. The primary objective was to achieve a freer and fairer trade through reduction of tariffs and diminution of other trade barriers. But enough exceptions were provided for instance, agriculture was kept entirely out of its purview at the insistence of the USA and many European countries. As a recent study observes," The (GATT) system was never based on standard economic arguments for free trade but rather on a kind of managed mercantilism under which countries traded 'concessions' on imports in return for export opportunities". Capitalist bloc has put forward a variety of reasons for the maintenance of this system of concession. Among the many reasons the chief among them being the magnitude of current account deficits of the US which has led to increased pressures for protectionist policies in that country. There has been a tremendous change in the global trade regime in the 1980s. In 1985 the Council of Economic Advisers of the President of the United States reported, "The world is moving away from, rather than toward comprehensive free trade. In major industrialized countries, for example, the proportion of total manufacturing subject to non-tariff restrictions rose to about 30 percent in 1983,up from 20 percent just three years earlier". The process continued for a long period of time. The Economist's survey of the World Trade in September

1990 gave the following information. Many new sorts of trade protection have been proliferating in recent year. One of these devices is what has come to euphemistically referred to as 'voluntary' export restrain' (VER)."Increasingly if a powerful government is worried about the harm that imports are doing to its procedures, especially if it happens to be the American government, it requires another government on pain of retaliation, to restrict its country's exports of the goods in question". During 1970s this practice was largely confined to textiles but notable fact is that VERs recently have spread to the fields of industries like steel, cars, shoes, machinery, consumer electronics and more. Secretariat of the GATT has counted nearly 300 VERs. In this context 'The Economist's' observations about 'Section-301' are worth repeating. "The crowbar in American's toolbox is the notorious section-301 of its trade law. This authenticates the president broad authority to retaliate against foreign trade practices that unfairly discourage American exports. America decides what is unfair, the law is vague on the point." In the year of 1988, Super-301 was made obligatory, again on pain of retaliation for the 'named' countries to reach agreement with the US Trade Representatives within 12 to 18 months. It must be noted here that 'India' is one of the countries undoubtedly. [20]

This practice of protectionism is found not only with the United States of America but with the Asian giant Japan also. Infact, it has been observed that Japan is even more notorious with the difference that protectionism there is domestic policy –the Japanese have 'vehemently and voluntarily' agreed not to use foreign goods if these are produced in Japan also. [21]

4. The global economy formally from 1971 and effectively from the second half of the 1980s, in terms of national currencies, has been functioning without any formally accepted standards or even a lead currency, taking the situation to the same kind of flux and uncertainty that prevailed following the collapse of the gold standard during the inter-war period. The situation has led to exchange rate volatility becoming the order of the day. [22]

5. During 1970s and subsequently during 1980s also it has been observed that transnational and multinational corporations have emerged and evolved as powerful nongovernmental agencies as well as actors in the newly emerged global economy. The prime motive in the process of the operation of these actors is the maximization of financial profits. Production process has been transnationalised by these agencies with no long term commitment to any particular global location and always ready to hop, step and jump to wherever they perceive their advantages to be. Through the control mechanism these agencies always exercise a great deal of control over capital movements, but for reasons, indicated, capital of this kind is especially and essentially footloose here today and gone tomorrow. Critics label this capital as speculative capital functioning in the global economy. Increasingly the TNCs and MNCs are turning to financial activities and their actions have led to a substantial integration of the financial system in the global economy. These agencies take full advantage of the exchange rate volatility with great tact and truly speaking to a great extent, these agencies also generate such fluctuation in the process of their operation in the name of the integration of the global economy. It is not to forget that exchange rates today are much more a reflection of global financial transaction than of trade. With the ability of influencing exchange rates these agencies are in commanding position to cast their impact on national economic policies, especially relating to monetary policies. In the emerging global economy, therefore, these non governmental agencies have a profound influence. This influence is very evident in some respects but in many other respects this influence is subtly hidden. [23]

6. The international economic agencies such as the IM Fund, the World Bank in view of all these changes have lost much of their original mandates, but under the present scenario these two agencies function primarily to protect 'global stability' which can mean only stability that favors those who control the physical and financial resources. In pretending to be guardians of global

interests, they become effective allies of those who are the 'de facto' controllers of the system.[24]

7. The 'South'-poorer or developing countries of the world as a group - have definitely had rough deal in the emerging new dispensation. The report of the South Commission's description consolidates the important observation : "The widening disparities between south and north are attributable not merely to differences in economic progress, but also to an enlargement of the north's power vis-à-vis the rest of the world. The leading countries of the north now readily use that power in pursuit of their objectives. The 'gunboat diplomacy' of the nineteenth century still has its economic and political counterpart in the closing years of twentieth century or even in the beginning of twenty first century. The fate of the south is increasingly dictated by the perceptions and policies of the governments in the north, of the multilateral institutions which a few of those governments control, and of the network of private institutions that are increasingly prominent. And "a network of relationships has been built up among private entities - banks, investment houses and transnational companies- in the leading developed countries. This has served to strengthen the influence of decisions made by private bodies on world economic activity, and to that extent to limit the effectiveness of governmental policy decisions. For the south the result is even further marginalization and greater powerlessness." Neither is this mere rhetoric. If the question of hard cash is taken into account, for instance, it has been noticed that debt related transfers of resources from 1984 turned out to be from the south to the north, the net amount being as high as $163billion between 1984 and 1988. This reverse flow was not only from the south to the north. Net credits from the IMF to developing countries also turned out to be negative in 1986-88.[25]

4.4. GLOBALIZATION: WHY INDIA RESORTED TO GLOBALIZATION ?

It can be asserted that the Narasima Rao government would have embraced liberalization in the chosen form in the absence of the 1991 crises at the encouragement of the IMF and the World Bank.

Bhagwati and Srinivasan put forward the following arguments:

'The fact that the reforms were part of the conditionality that came with multilateral assistance has created the impression that they are the result of foreign pressure. In turn, there is the notion that the ideas and policies being imposed on us are foreign and also that they are ill-designed in consequence for us.'

4.4.1. PRESSURE BY THE WORLD BANK AND THE IM FUND AS THE FIRST PROPOSITION:

'Indeed it is true that without the crisis being on us, the initial adoption of the reforms may have continued to be postponed. Our earlier efforts at initiating them had been hesitant and limited at best. Conditionality played a role, for sure, in strengthening our will to embark upon the reforms. But the seriousness and the sweep of the reforms and the Rao Government's explicit embrace of them as against the earlier 'reforms by stealth', demonstrated that the driving force behind the reforms was equally even overwhelmingly, our own conviction that we had lost precious time and that the reforms were finally our only option'.

It is undoubtedly worth mentioning here that the combination of crisis and conditionality is seen to be significant in translating 'reforms by stealth' into decisive reforms action. [26]

A fine line exists between' having one's will strengthened' and yielding to pressure is to be noted here. That the crisis created an apprehension that certain dramatic action was called for. But such action need not have been the liberalization package opted for. To quite what degree the will to embark upon the radical liberalization existed independently of conditionality, is not clear. An

inquiry into the thrust of the argument of Bhagawati and Srinivasan makes it clear that it did. However, it has been merely asserted by them. In support of their assertion direct evidence has been produced. Rather a different track was followed by them. They make a spirited attempt to argue that such a will has strong Indian intellectual roots in the past in their second proposition. But it hardly disposes of the present argument even if it were true of course. The question remains whether it is true or not. The nature of their claim can be scrutinized in this context.

4.4.2. THE SECOND PROPOSITION:

'The complaint that the ideas being implemented are extraneous does not reflect the reality either. These reforms in our, and indeed in many developing countries' policies, were being advocated from the early 1960s and the proponents, the pioneers, included Indian economist. It is ironic, in fact, that these ideas rejected at the time by our authorities and by many of our economists as well, have now been adopted worldwide but have come to be adopted by us only at the end of this revolutionary change. Indeed, these ideas have been recycled back to us, in many cases, by the staff of the multilateral institutions who learnt them from our own pioneering economists. The claim that the ideas are foreign and hence ill-suited to us is therefore incorrect. In any case it is surely odd and counterproductive to accept or reject ideas based on where they are coming from!'

To say the least in this context, it is dubious in character. On at least three important counts, it is so: on the suggested timing, on the postulated strength of early liberalizing arguments of Indian economists and on the proposition that it was from 'our own pioneering economists' that the staff of the multilateral institutions learnt the relevant logic. [27]

Above mentioned situations earlier prevailed in the global economy, to which the reform measures initiated in July, 1991. The Indian Economy seeks a

degree of greater integration. Scholars of different fields opine that a number of questions need to be raised regarding this proposed integration even when the answers may not be readily available as the intellectuals argue. [28]

First is the question of timing. It has been observed that the scholars favoring the process of globalization have been advising the Government of India to make its economic policies 'outward oriented' to open up its economy to foreign goods and foreign investment and to join in the global movements towards liberalization and privatization. The voices of this school rose high as the fifty years of planned economy could not bring the desired development for the country. Apart from some theoretical considerations, this advice was also based on some empirical evidences in particular, the experience of Singapore, Honkong, Taiwan and South Korea, the Asian tigers who took the advice a couple of decades ago or more and shown excellent results in transforming their economies. Repeatability of such experiences of course, raises many questions. But at least one of this is crucial. Does the global economy in early 1990s provide the same kind of conditions to as it did in the mid 1960s and even the early 1970s? A minute analysis of global economy will reveal the fact the 1960s were years of rapid growth of the global economy as also of international trade. In sharp contrast, the World Bank's World Development Report, 1991, the challenge of development as its theme had this grim picture of economic scene of the early 1990s. [29]

"A seven-year expansion in the world economy came almost to a halt in 1990. Signs of slowing economic activity in a number of large industrial countries became evident as monetary policies were tightened in response to production at near- capacity levels and rising inflation. The slow down became more widespread and pronounced with the Gulf crisis in August, 1990. Increased uncertainty had adverse effects on consumer and business confidence, which in turn led to markedly lower growth of consumer spending and business investment in the industrial countries. The financial requirements of the

unification of Germany and Japan despite the economic slow down in 1990 and early 1991. Real GDP growth in industrial countries slowed down to about 23 percent in 1990 compared with 3.3 percent in 1989 and 4.5 percent in 1988.

Canada, United Kingdom and the United States have been in recession. Growth also has slowed down elsewhere in Western Europe. Equity prices in Japan have fallen by about 50 percent, and the quality of bank portfolios in both Japan and the United States has deteriorated. Although the slow down of the industrial economies is likely to be short lived and shallow, the recovery is expected to be only gradual. [30]

In the developing countries real GDP growth declined from 4.3 percent in 1988 to 2.9 percent in 1990, the lowest since 1986. The main reasons- in addition to continuing macro-economic instability and domestic policy weaknesses- were falling non-oil commodity prices, high international (non-dollar) interest rates, and slower growth in world trade. From the above analysis, it is crystal clear that reasonable thinking would not have favored greater integration with the global economy.

Second consideration is related with the diagnosis of the crisis of the Indian Economy. The point put forward when the reform measures were suddenly announced was that the prudent strategies as claimed by the pro-liberalization school of thought in India of growth of the 1980s and the wise policies derived from them were reversed by two short sighted governments that were in power from December, 1989 to June, 1991. But in true sense, a minor analysis of the evidence available from all official sources will show that the crisis was the direct consequence of the policies of the 1980s. The growth at that period was supported by mounting import surpluses and financed by reckless government deficits particularly in revenue account related to the political decision not to 'hurt' those able to pay direct taxes. The developments were similar to what was being put into effect in the United States at the same time and not surprisingly with the same consequences, viz. alarmingly high debts

both internal and external. But unfortunately no one appeared to be willing to lend support to a struggling India.[31]

The external debt crisis, which surfaced in early 1991, brought India close to default in meeting its international payments obligations. The balance of payments situation was almost unmanageable. The fear of acceleration in the rate of inflation loomed large. The under lying fiscal crisis (an imbalance between income and expenditure of the central government) was acute. The factors that led the economy into such a situation were not attributable to any sudden shock beyond our control such as a series of bad monsoon or a dramatic increase in world oil prices. It was the outcome of persistent mistakes in economic policy that accumulated through the 1980s. Fiscal deficits (the gap between central government spending and receipts) met by borrowing at home mounted steadily. This was coupled with current account deficits in the balances of payments which roughly meant that receipt from foreigners, in hard currencies like the US dollar, were less than payments to foreigners. It led to borrowing abroad which grew steadily larger. The internal imbalance in public finance led to a rapid accumulation of internal debt that the government owed to its people. In addition the external imbalance in the public payments situation meant a rapid pile up of external debt that the country owed to foreigners. It needed no great economic calculation or foresight to anticipate that the country was heading for a debt crisis if policies remained unchanged.

In order to get rid of the critical condition mentioned above the Government of India set in motion a process of macro economic stabilization combined with fiscal adjustment and structural reform in conformity with the orthodox wisdom of the IMF and the World Bank. It needs to be stressed here that this was nothing new. It replicated broadly the pattern of several developing countries in Latin America and Sub-Sahara Africa in response to the debt crisis in the 1980s. All these countries were under similar IMF programmes of stabilization coupled with World Bank programmes of structural adjustment.

These high-sounding words need to be spelt out in Plain English as they constitute a core set of almost common economic policies irrespective of the country and its specific problems. [32]

Third, if the diagnosis was wrong, were the remedies initiated by the country right? In this context the capital flights of October, 1990 to June, 1991 and the consequent sharp fall in the foreign exchange reserves were mentioned as the immediate manifestations of the crisis for which remedial measures needed. The Economic Survey, 1992-93 has how provided the figures. During those months a total amount of $1.33 billion was withdrawn from the Foreign Currency Non Resident Accounts (FCNR), starting with $102 million in October, going down to $11 million in February but picking up again, shooting up to $573 in April, then $228 in May and another $330 in June. Certainly, the cumulative impact of these flights would have been alarming, especially to a new administration. But what was the nature of these capital flights? It has been pointed out that the capital flights started after the World Bank had strongly advocated a 20 percent devaluation of the rupee in a report in October, 1990. Even if there is not enough evidence to suggest that the capital flight was thus engineered. It can be safely inferred that the learned arguments of the bank must have had a bearing on the decisions of NRIs. In any case, if the crisis was precipitated by capital flight was the devaluation of rupee - the first and best way to resolve it? The answer could be that the devaluation was confidence restoring measure and it seemed to have worked because the capital flight was arrested. Perhaps yes, although the evidence is not very convincing. The FCNR flow turned positive in January, 1992, but from there until September, it was again negative. After that till January 1993(the latest month for which figures were available) it remained positive. W ill there be another outflow now that the interest rate has been brought down? In other words how much can one rely on the NRI deposits? Are they being made for patriotic reasons, or are they part of the global phenomenon of transient capital resting in India for a while? [33]

Fourth, other than as a temporary confidence restoring measure what is that the devaluation is expected to achieve? If a look is given into the conventional theory of international trade it is noticed that devaluation is expected to correct balance of payments problems by stimulating exports and curbing imports. Scholars are convinced that latter is almost sure to happen because devaluation will make imports costlier in terms of the domestic currency but the former will depend very much on how price elastic a country's exports are and whether the increase in the volume of exports if it happens is sufficiently large to compensate for the higher exchange value of the foreign currency. Export and import figures available in 1991-92 which show that exports fell to $18,135 million from the 1990-91 figures of $18.491 million and that imports also declined from $26,241 million in 1990-91 to $21, 213 million. Though it is to be accepted that less than one year's figures are certainly not adequate to judge the issue. But the more important question is whether in the kind of ongoing global economy that has been flourishing; a country like India has much of a chance to boost its exports through exchange rates adjustment alone. [34]

Fifth, there is the related issue of the convertibility of the rupee. But one important point has to be kept in mind here again; convertibility will be desirable objective to work towards if the external value of a national currency is determined primarily of its 'real' transactions with the rest of the world. But in the global economy where financial transactions per se, including speculative buying and selling of currencies, are substantially the major component of transactions, is convertibility a virtue in itself? As of now convertibility is limited to current account but if and when it becomes effective on capital account, there is the possibility of speculative buying and selling of rupee to a great extent. The situation will lead to violent fluctuation in its external value. Under the circumstance it can easily become reasonable that rupee will face the similar problems as at present being found with the Italian lira or with the British pound.

Sixth, doubt is over the expectation of taking it as guaranteed that there will be a significant flow of foreign capital into India if rupee is devalued and the process of convertibility are established smoothly. No doubt at the operation of this process some amount of foreign capital will get poured into Indian Economy as has happened in the food processing industry, for instance, to take advantage of India's big domestic market for such goods. But the process will certainly will not help in increasing the exports of the country and in reducing the underlying balance of payments problems. On the contrary, to the extent that payments will have to be made in foreign currency and as a result of the fact the balance of payments position may get aggravated. Some finance capital may also get in as has been happening. It has been observed that in 1991-92 foreign banks had made a profit of more than Rs. 1000 crores in their Indian operations and that profits were far larger than the global rate of profits. [35]

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CHAPTER - V

THE POLITICS OF STRUCTURAL REFORMS

5.1. INTRODUCTION:

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

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

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

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

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

   ii) to achieve full employment;

   iii) to reduce inequalities of income and wealth ;and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The basic argument of this chapter draws on six propositions :

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

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

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

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

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

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

5.2. INDIAN POLITICAL ECONOMY: THEORETICAL APPROACHES:

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

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

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

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

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

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

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

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

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

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

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

5.3. STRUCTURAL REFORMS OF THE INDIAN ECONOMY:

5.3.1 PROCESS OF STRUCTURAL REFORMS IN INDIA:

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

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

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

5.3.1.1. EXPERIENCE OF PAST:

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

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

5.3.1.2. ECONOMIC IMPERATIVES OF INTERNATIONAL CHARACTER:

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

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

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

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

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

5.3.1.3. RESPONSE TO LIBERALIZATION PROCESS:

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

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

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

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

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

5.3.1.4. OPERATIVE TECHNIQUES OF ECONOMIC LIBERALIZATION:

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

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

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

5.4. FIRST GENERATION REFORMS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.4.7. FISCAL POLICY REFORM :

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

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

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

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

5.4.8. MONETARY POLICY REFORM :

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

5.4.9. PRICE POLICY REFORM :

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

5.4.10. EXTERNAL POLICY REFORM :

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

5.4.11. SOCIAL POLICY REFORM :

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

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

5.5. SECOND GENERATION REFORMS:

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

There fundamental objectives of the second generation reforms are:

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

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

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

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

5.5.1. FISCAL REFORMS :

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

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

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

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

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

5.5.2. REFORMS IN THE GOVERNMENT FUNCTIONING:

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

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

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

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

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

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

5.5.3. COMPETITION IN THE MARKET OF THE GOODS:

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

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

5.5.4. REFORMS IN THE MARKET OF INPUTS:

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

5.5.5. INTERNATIONAL FIELD:

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

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

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

Second Generation Reform Measures Taken :

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.6. PROGRESS IN STRUCTURAL REFORM:

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

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

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

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

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

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

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

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

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

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

5.7. MACROECONOMIC VULNERABILITIES AND STRUCTURAL WEAKNESS:

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

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

5.8. MACROECONOMIC VULNERABILITIES:

5.8.1. FISCAL VULNERABILITIES:

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

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

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

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

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

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

5.8.2. EXTERNAL ACCOUNT VULNERABILITIES:

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

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

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

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

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

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

Table 5.1

Foreign Trade

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

* Provisional figures

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

5.9. STRUCTURAL WEAKNESS:

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

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

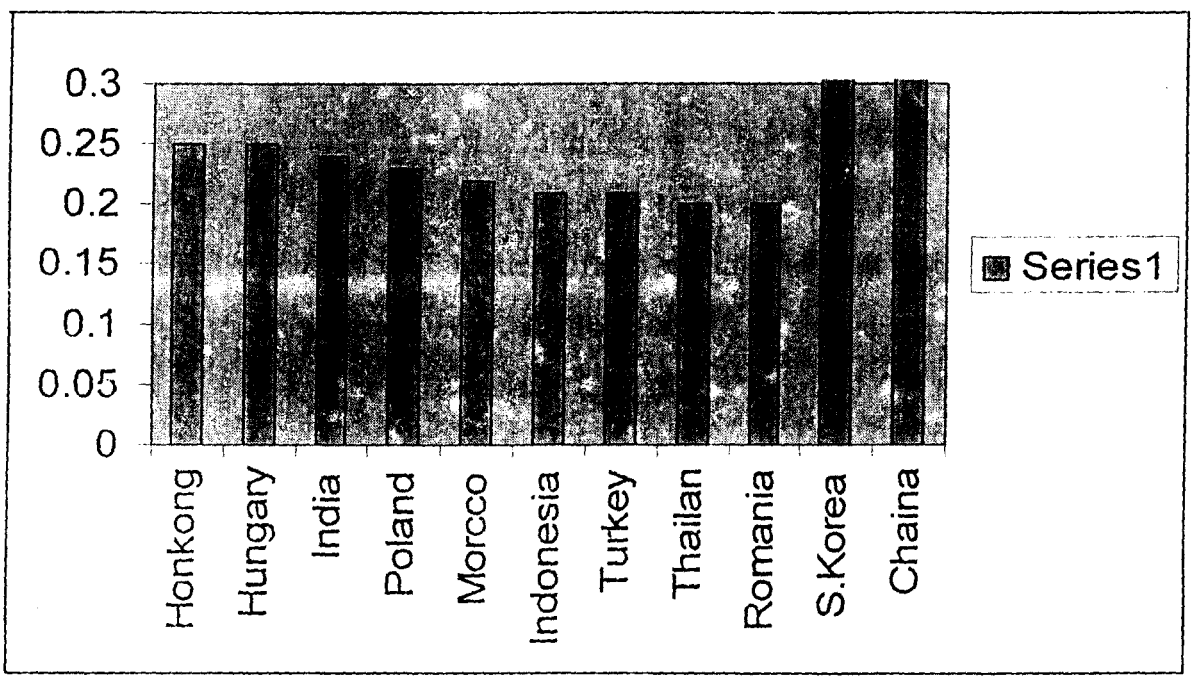
1. Protection levels are still excessively high. Inter-alia, this may not only reduce foreign direct investment, but also its benefits. The progress of the last few years not with standing, India's tariffs are still among the highest in the world.

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

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

Chart : 5.1

International Comparison of Labour Cost



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

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

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

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

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

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

Table: 5.2

Scientific & Technical Workers

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

*EA: Economically active qualified labour.

ST= Stock of qualified labour.

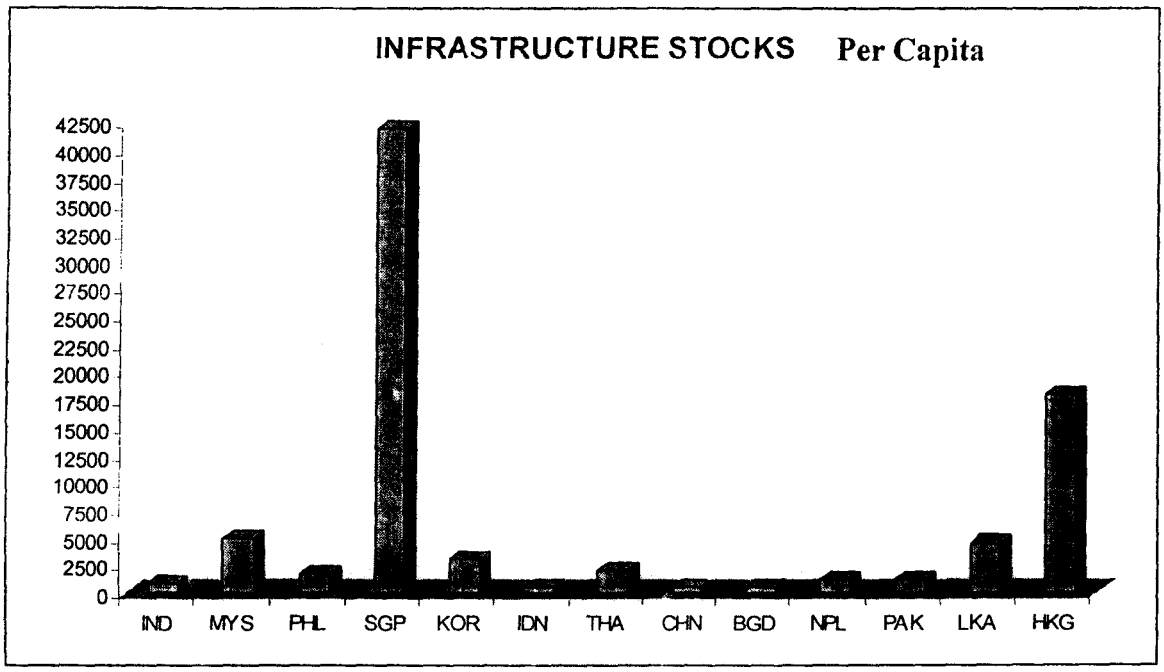
Source: UNESCO Statistical Year Book, 1992, Statistics on Science & Technology of World Bank.

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

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

Chart: 5.2

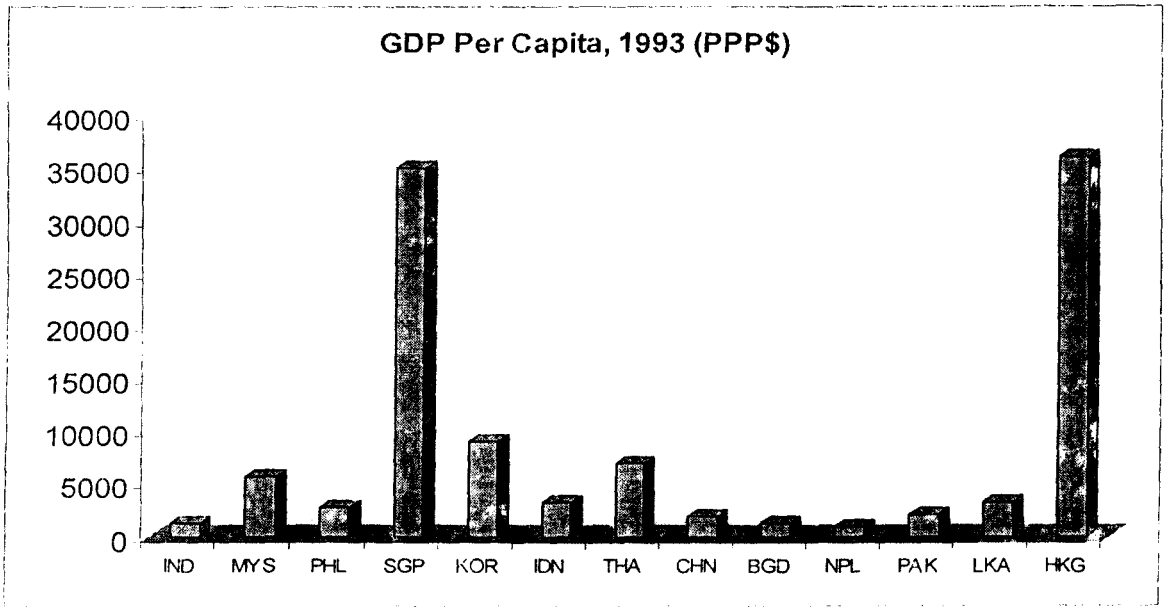
Infrastructure Stocks Per Capita GDP



Source : World Bank 1993,CIA.

Chart: 5.3

GDP Per Capita



Source: World Bank 1993, CIA.

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

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

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

Table: 5.3
International Comparison of Air Port Capacity

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

Source: World Bank 1993, CIA.

d) **Telecommunications:**

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

Table: 5.4
Telecommunications Sector Indicators, 1993

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.10. EMPIRICAL ISSUES:

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

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

5.11. THEORETICAL ISSUES:

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

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

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

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

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

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

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

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

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

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

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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.

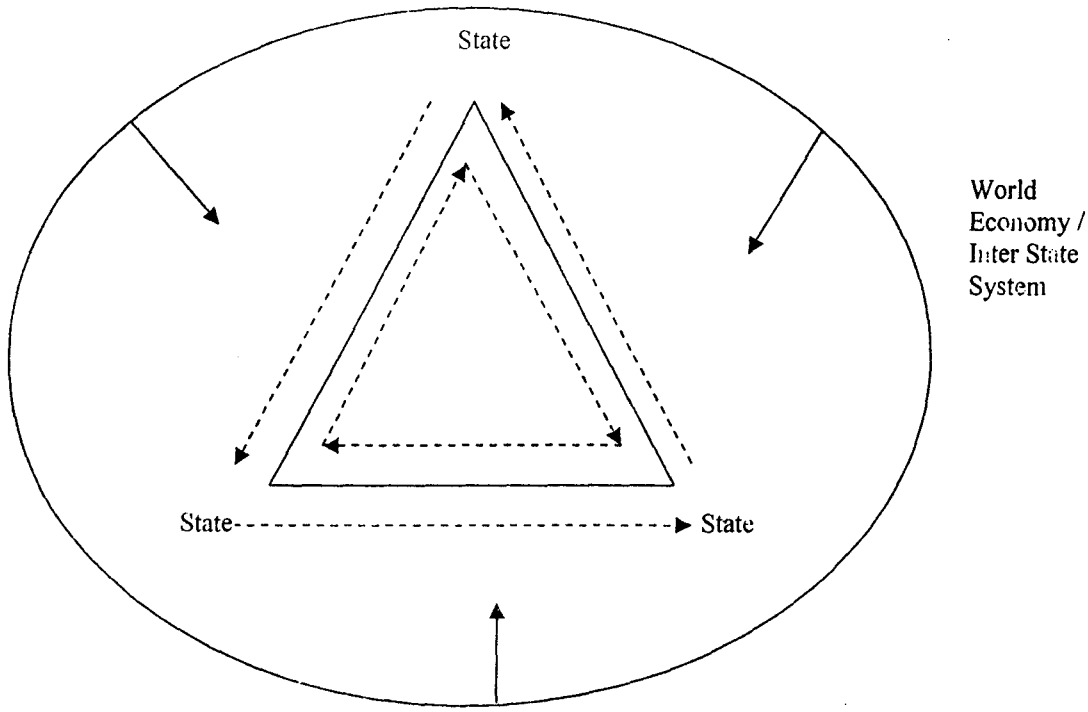


Figure: 6.1: Impact of World Economy on an LDC in pre-reform scenario

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.

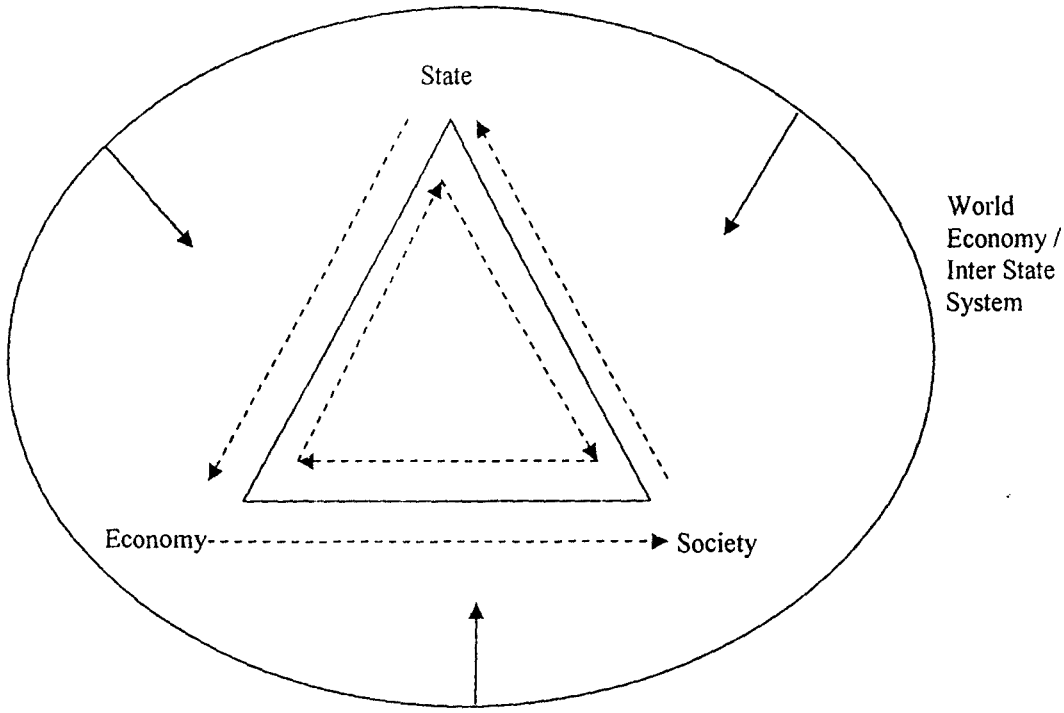


Figure: 6.2: Impact of World Economy (Globalization) on an LDC in the post-reform

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.

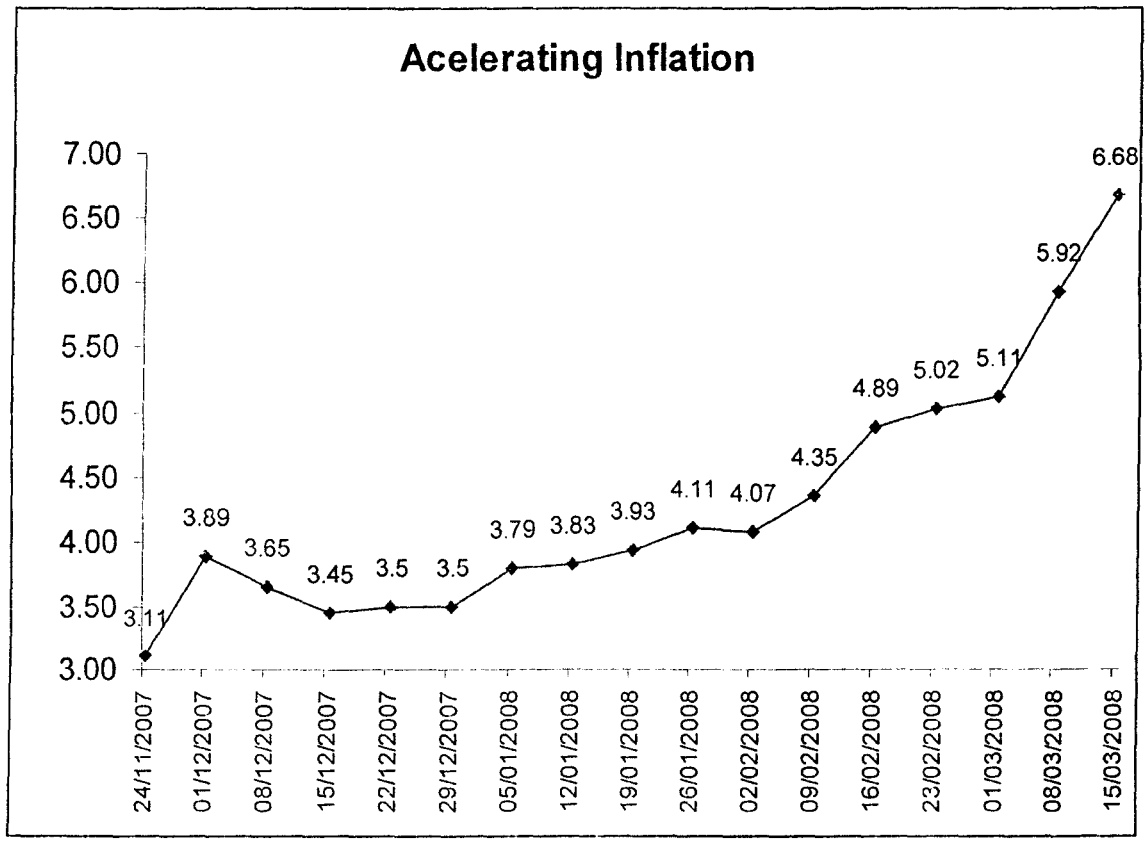
A minute analysis reveals the fact that the part of the reason for this delayed response is that headline inflation figures offered by point-to-point annual increases in the wholesale price index (WPI) capture trends on the ground with a substantial lag. Matters came to a head when WPI-based inflation 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.
4. Ministry of Health and Family Welfare, Government of India.

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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CHAPTER - VII

SUMMARY AND CONCLUDING OBSERVATIONS

It has been noticed that the role of the state in the market is crucial for the attainment of economic development. The decades of the 1960's and 1970's had witnessed economists' obsessive preoccupation with the 'state'. But the decades of 1980's and 1990's are overwhelmingly and distinguishably with market (Von Hayek). This has been a beautiful platform in which equal rights both in terms of access and participation, in combination with the divergent and competing interests, leads to the greatest welfare of all. The concept of destatization which generally seeks to roll back the state ultimately has been responsible for paving the way. It has to be admitted that if the pre-occupation with the state had marginalized 'market,' the pre-occupation with the market society has succeeded in the same scale in marginalizing the 'state'. No doubt this has impoverished the understanding of both the concepts. Embarking on a consideration of the role and effects of either in abstraction will be puerile in nature, as both government and market functioning are socially embedded and can not be separated from the particular social context.

Since the inception of the economic reforms and structural adjustment programme in 1991, the country is well poised to become one of the world's most dynamic economies in the second-half the 1990. These reforms activities strongly rejected the excessive state regulation that the country pursued with the introduction of planned economy in 1951.The reform process initiated in 1991, under the leadership of Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Mahmohan Singh unshackled Indian economy and gave it a new direction. But critical insights into the reform process reveal that this process still has a long way to complete its journey. India's growth potential has been raised

from 3-4 percent to 5-6 percent per year. But the targeted growth rate i.e. 10% every year has yet not been achieved even after 15 years of reform activities. To achieve a growth rate of 10% per year or more, there is no denial of this fact that further reforms activities need to be carried out efficiently and carefully. It is fortunate that economically, politically and administratively the remaining crisis is not out of reach but is within the reach.

There is an unwarranted lack of confidence among many Indian politicians and businessmen about the successful operation of the reform process though there is no concrete evidence of specific policy failings. This feeling did hamper the dynamism and operation of the reform activities in the country. There exists also opposition-stated fear that Indian would not be able to stand up to global competition if the economy of the country is opened up fully. As a result the country remains still one of the most-protected market economies in the world today, with tariff levels that are still high by international standards and quantitative restrictions that still cover a wide range of consumer goods. But it is fortunate for the country that the fears of or over international competition is misplaced. The export boom of China of the past decade based on low labour casts, the availability of managerial and engineering skills within India and the inflow of international capital and technology can be repeated by India with a more open and deregulated economy. America's labour-intensive manufactures in textile, apparel, footwear, electronics assembly, automobiles components and the like have much more to fear from low wage competition of India and vice-versa and it can be cited as a consolation to the country.

There is author school (Leftists/Marxists) who talks of fear that India could be overwhelmed by foreign multinational corporations. The East India Company syndromes are responsible to deepen such fear. But in the context of the present given modern geopolitical and economic realities, these fears are proved to be anachronistic in character. Most of the developing countries including India do not have capital of the international market s and necessary

technology. These entire requirements can be fulfilled if the economy of the country is exposed before the world economy after dismantling all the structural barriers. Thus it becomes very vital in the process of remoulding India as a strong and rapidly growing economy. Having dependence and reliance upon foreign direct investment (EDI) India's neighbouring countries such as China, Indonesia, Malayasia and Thiland have been pulling ahead of India in economic growth income levels and productivity. This has helped them in increasing their security and geopolitical influence in the world community. Contrary to this, India's continuous ambivalence to FDI has exerted a different impact on the economy of the country. It has exacted a heavy toll on the Indian economy. Billion of dollars of FDI are being shifted to its neighboring countries each year, flows that otherwise would have come to India and helped in flourishing its economy. In the year of 1993 India settled for a mere $0.5 billion in actual inflows and commitments of around $3 billion but China achieved actual FDI inflows of around $15 billion in the same year and commitments exceeding $150 billion.

That economic reforms would be socially iniquitous is the third misplaced fear from which the country suffers. In the organized sector of the economy which counts only 10% or less, the country spends tremendous resources and political energy as well to provide social justice to this percent of the workers. This in return creates an indirect result that hinders the chance for other surplus percent of the total population in the country to find gainful employment outside the subsistence agriculture or low productivity. Against this perspective any scholar would endorse in favor of the most of the reforms activities that are now feared or stalled privatization, greater foreign direct investment, labour and reforms with an object of enhancing social conditions as well as to spur economic growth if the reforms activities are to be implemented with a great pace.

The government, in most general terms, will be able to devote more resources and attention to real social needs, such as increased literacy and access to primary health care if it does leave the productive sphere the private sector

(including foreign enterprises). In most of the developing countries there are certain areas like primary education and health which are distinctly provided by of the government. With the increasing availability of international capital for industry and for many kinds of infrastructure (e.g. roads, telecom, ports) following open up it the economy govt. can redirect its own very scarce resources to develop the much needed primary sectors. Through out the developing world this kind of policy shift is underway since the early '80s'. Eduard Aninet, Economy Minister of Chile put emphasis on the increasing expenditure of the government on education following Chile's extensive privatization programme in recent years. Again, with the stated purpose of allowing the government to refocus its efforts where they are most needed- in education and upgrading skill. The Economy Minister of Argentina, Domiago Cavallo similarly recently announced a new and extensive wave of privatization.

For India to make a full-fledged opening to the world, it is surely a more propitious and suitable time. The era of colonial rule is no more in the contemporary world. The economy of the world is governed by international market today rather than sheer rapacity and opportunities. A remarkable commitment of some 120 nations in the Uruguay Round of the GATT (General Agreement on Tariffs and Trades) has been presented. It gave the assurance on the part of the signatory states to abide by the principles of open trade, non-discrimination and harmonization of law in crucial areas of commerce, service sector regulation and intellectual property rights. The codes of the agreement themselves favoured the weaker countries a lot. A realistic chance of developing on the basis of nearly complete market access in industrial products (including textiles and apparel after a 10 year phase) has been arranged in the agreement. Increased opportunities in agriculture, services and the attraction of the foreign direct investment have been ensured in the treaty for the developing world.

Scholars talking in favour of liberalized economy assert that India not only would get benefits from a law based international environment but also

benefited from the deeply integrated economy. The integration of the global economy presently is being found not just in trade, but also in finance, production and economic institutions. Open world markets mean mainly free-trade before ten or twenty years but the scenario is completely different at present as new technologies in different forms have given the world wide economic liberalization a holistic character. Now open world markets mean extensive and remarkable linkages in finance and production as well. Tens of billions of dollars of portfolio investments from the developed countries as a part of profound process of global diversification of institutional equity are getting poured into the economy of India. Portfolio (Pension funds, insurance companies, mutual funds) are being pumped in the emerging markets of the developing world including India. It must be admitted in the present context the present process of open economy represents a fundamental and economically justified search for risk diversification in long-term equity investment.

The inflows of portfolio flows from the developed to the developing blocs are as remarkable as the increased inflows of FDI. In the past decade the increase of global trade has been outpaced substantially by the increase in FDI. Consequently this has consistently outpaced the increases in the global GNP. So far, the case of China of course, can be cited as an example of being beneficiary of large scale foreign direct investment in the year of 1993, the actual inflows into China figure $15 billion, while new commitments during the same year exceeded 150 billion of dollars in China. Given India's superior conditions as far as the questions of the rule of the law and political democracy and stability are concerned, India could match or even outpace China in attracting FDI if the proper reforms steps are undertaken and carried out.

However, several areas for continued reforms actions require further opening of the economy to trade and financial flows, unshackling of the private sector from the regulations of the state in different forms: socially responsible privatization of the state owned enterprises sector; and fundamental redirection

of the efforts of the government away from economic management towards a focus on primary health and education. Having identified the important areas for the reforms activities it will be wise to mention some specific measures so that the growth and equitable development of the country are spurred to the best of the satisfaction of all concerned. Before doing this a glimpse of the growth strategy of the country is discussed below.

7.1. INDIA'S GROWTH STRATEGY: AN OVERVIEW:

Based upon labour intensive manufacturing that combines the vast supply of Indian labour (included skilled managerial and engineering labour), with foreign capital technology and markets it is possible for a country to achieve very dynamic growth in the current world conditions. East Asian Economies which are often cited as the example of beneficiary out of the open economic policy have achieved growth rates consistently above 6 percent per year depending on the above mentioned factors. Pursuing the same path China has managed growth in excess of 10 percent per year in the 1990s. Malaysia has shifted from being a raw material exporter in the 1970s (with commodities accounting for 80 per cent of exports) to manufacturing exporters today (with manufactures, mainly electronics, accounting for 70 percent of exports). GDP growth rate of the country has exceeded 8 percent per annum.

With a view to tapping the supply of labour and to attract large flows of investment, the first and foremost task is to unshackle private enterprises (both domestic and foreign owned) from the heavy hand of state regulation. This will help to a great extent in achieving similar growth rates in India. To achieve maximum private sector growth, monopolies of the government in the key sectors like finance, infrastructure must be abolished (de facto as well as de jure).

Private business enterprises are to be put in proper perspective of true competitive sport. For ensuring such a competitive environment the following factors are important. These are I) flexibility in the hiring and dismissals of

workers, 2) the freedom of entry of capital including foreign capital, 3) the ready of availability of land for new business activities and 4) adequate infrastructure including power, ports, roads, and telecommunications. To facilitate infrastructure to meet local needs in a rapid and flexible manner the necessary degree of freedom must be there with both local and state governments.

A great deal of advancement has taken place. But in the private sector the necessary degree of flexibility is still away from the requirement and expectation. The rights of a small proportion of the workers are protected by the labour laws while arising the costs of hiring the vast majority of workers outside the organized sector. In the country there still lies suspense over the inflow of foreign capital and it is generally subject to government approvals if there is a case of equity ownership above a 51 percent threshold. In addition to this there remains inadequate basic infrastructure.

At the local level the much-needed breakthrough has not been initiated by the state governments as they do not have necessary authority. Many kinds of union levels restrictions (e.g. forestry rights) stand in the way of building roads and there is union control over the national highways'. There are areas like telecommunication etc. where the Union Government enjoys exclusive domain. This central domination in the federal system of the country is not conducive to the present reforms process. Major cities in India still suffering from the adequate data transmission networks and they are lacking cellular phone systems. But our neighbouring country China enjoys an improved cellular and data networks even in its coastal cities.

State sector requires four important types of reforms in the process of unshackling the private sector to act more independently and liberally. These are as follows: (i) the ending of state monopolies (in banking, insurance, telecommunications, other infrastructure); (ii) the transfer of ownership of state owned enterprises to private owners; (iii) the closure of loss-making state firms or transforming the loss-making state enterprises into profit making enterprises

and (iv) the redirection of government resources and political attention to meeting basic human needs including primary education and health. All the four types of the reform activities have equal importance and all should be carried with great emphasis. But it is to be kept in mind that in order of priority, (I) and (IV) certainly outrank, (ii) and (iii). Unleashing private activity (by ending state monopolies) and upgrading labour force skills is the first and foremost key to be put in exercise of the reform process. It is more important to protect the Treasury from heavy financial losses in state-owned sector than to improve enterprise performance through the path of privatization. In the state-owned banking system a part of such losses is hidden in the form of bad loans whereas another part of such losses one can observe in the budget in the form of enterprise subsidies.

The preeminent importance of (i) and (iv) has been illustrated well by China. State-owned enterprise sector of China continues to lose money at an alarming rate even during boom years. But the growth of the country could not be resisted even after its continuing failure of reforming the state-owned enterprises. In the dynamic non state sector lies the key to China's growth. This important sector has the potentiality of operating freely of almost all regulatory impediments as well as in the growth oriented polices of local governments, competing to provide infrastructure to support the non-state enterprises. About 8 percent only of the workforce in China is covered by the state owned industry in China and it appears to be good news for the country. It has helped in paving the way of the growth of the non-state sector in large numbers and this has resulted in the overall growth of the economy even if the state sector lags behind.

Similar situation is there in India. The experience and dismal records of the social sector in the country reveal that the state sectors are very much inefficient and loss making and thereby eating up the very vitality of the economy of India. State has posed before heavy social costs because of these heavy losses. These negative aspects of the social sectors themselves justify the

need for a privatization programme. In the developing countries like India the volume of the state sector is very small relatively when it is compared with the non-state sectors in the country. As a result of this fact only a few percent of the total labour force can find their employments with the state sectors. Thus the real key to the rapid growth of India lies in the non-state sectors. The opportunity can only be cashed on when a more liberal policy environment prevails over the country. This liberal policy has to be supported by improved infrastructure and at the same time the state monopolies of key service sectors (such as finance, telecommunications) which provides crucial inputs to manufacturing has to be put to an end without further delay.

The policy of liberalization along with privatization may not prove to be enough for giving necessary boost to the economy of the country. It is necessary to take full advantage of the new world market conditions; a literate and numerate labour force must be available in the country. Indian literacy has been outstripped by the literacy of China and the recent growth rates in China have been made possible because of their vast literate force. Literacy is an important and prerequisite fact for an effective labour force even in the basic export assembly operations in the Chinese costal enterprises. With an object of making a whole hearted attack on illiteracy and inadequacy of primary health care in India's vast rural heartland it will be wise for the country to retreat from regulating the state owned enterprises. This is treated one of the major reasons for the pursuance of a free-market policy based on heavy foreign investment.

It is very important for the country that in the next couple of years the general guidelines- private sector deregulation, production based on labour-intensive manufactures supported by capital inflows, and a major assault on illiteracy must be turned into concrete specific policy actions. It is true; indeed, that a remarkable and successful headway in this direction have already been made by the government but still there is a long way to cover. The following list of certain important items suggests areas where the reforms remain incomplete.

Hence to push the reforms process forward a few specific and practical steps are to be initiated. A great deal of contemplation has already been made over these steps or these steps are within the consideration of the government as a matter of continuing debate.

7.2. AREAS FOR FURTHER REFORMS

7.2.1. Trade Liberalization:

Though the country has started its journey from being a closed economy to an open economy, it is still a highly protected economy by current international standards. There remain the following barriers which are unjustified and costly to India. These are: a) tariff rates remain high; b) consumer goods imports are still subject to a strict licensing regime; FDI is still highly regulated in many areas; especially for foreign ownership of more than 51 percent of production as well as in key sectors, such as telecommunications.

This is an important opportunity and time for the country to accelerate the opening of the economy as the current surfeit of foreign portfolio capital inflows are swelling India's foreign exchange reserve heavily. It is not to be assumed like the IMF and the World Bank that the capital inflows by themselves will reset in a significant inflationary risk as it will increase the supply of money in the money market (and as a result of this fact it could accommodate inflationary pressures from other sources). There is ample scope for the country to keep inflationary pressures under control. This scope extends to keeping a strong grip on domestic credit expansion by the government and the banking system and also to having the exchange rate roughly stable. Under these circumstances all the doors of the economy of India are to keep open for the smooth and heavy capital inflows from the international market. As an important opportunity of facilitating the reform process in the terms of the liberalization of trade and financial market liberalization these foreign capital inflows are to be treated. To have greater

liberalization of trade following important and specific recommendations are to be kept in mind.

a) Maximum tariffs are to be lowered to around 30 percent whereas the average tariffs are to be fixed to around 20 percent, ahead of the previously announced schedule. Besides this, remaining quantitative restrictions mainly on consumer goods are to be converted into tariffs, initially around 20-30 percent.

b) Capital inflows, including longer-lags in repatriation of export earnings is to be liberalized further. It is to be ensured that there is greater access of foreign institutional investors to Indian financial assets. The attempt of foreign direct investment outflows by Indian enterprises seeking to invest in foreign operations must receive easier approvals. To make the rupee fully convertible in international market all the above mentioned steps are to be taken without further delay.

c) To prevent the appreciation of the rupee Reserve Bank of India must intervene carefully and cautiously in the foreign exchange market of India. Gradual depreciation of the rupee to compensate partly for price inflation is to be considered by the government of India. Under current conditions a target of around 4 percent per year rupee depreciation would make a good sense. By providing a profitable environment the government of the country must stand behind the exporters. This will definitely help in the process of the expansion of export of the country. Continued accumulation of foreign exchange reserves and continued money growth backed by foreign reserves can be ensured with the help of this policy. If the budget deficit and domestic credits are kept under control and if trade and capital accounts are liberalized as required following rational choices the consequences of this policy should not be inflationary in nature particularly.

d) In the attempt of responding to the rapid growth and diversification of India's foreign trade the country should move to a basket of currencies as the basis of exchange rate pegging and foreign exchange market intervention.

It is to be noted here that the vested interests like some business groups may oppose vehemently the attempt of trade liberalization ahead of schedule. Giving a popular touch to the package it can be justified in view of the prevailing trade and balance of payments conditions, double advantage i.e. lowering consumer goods prices (and thereby restraining inflation in the short term) and increasing government revenues by converting quantitative restrictions into tariffs through having consumer goods liberalization.

7.2.2. Foreign Direct Investment:

To build a positive attitude towards the foreign direct investment the government has been working hard. In the attempt of the smooth operation of the liberalization episode in the country important measures have been initiated. As a result the country is lagging behind the other nations in the attempt of drawing more FDI inflows in the country. For the continuing 51 percent rule, requiring government approval for foreign ownership of between 51 and 100 percent can not be justified with any concrete arguments. The concept of protectionism is to be dismantled to a great extent. Except on a small list of sectors which will continue to have government authorization (e.g. banking and some other sectors where India want to negotiate reciprocal investment rights) the rule should be amended in favour of automatic approval for 100 percent foreign ownership. The restrictions on FDI outflows by non-financial Indian enterprises are also to be cased by the government in all possible ways. This will help these enterprises to enter into joint features and FDI arrangements in international market.

7.2.3. Financing of Infrastructure Privately:

Important conceptual initiatives and measures have been attempted by the government in opening infrastructural investment to private investment but the concrete results in numerous numbers have not yet been achieved. In the present federal structure of the country the state governments have to seek union approval at the time of setting infrastructure projects with foreign investors. The situation is hampering the present reform process and posing a key problem to the successful operation of the reform activities. To be particular it is true in the field of telecommunications where key regions could easily attract FDI for new local systems (e.g. cellular phone systems in Bombay, Madras etc.). But unfortunately union laws and regulations are standing effectively in the ways of doing so.

SUGGESTED STEPS:

a) At the Union level for the building of infrastructural facilities through the construction of roads, power, ports and telecommunication (for local services) necessary for the smooth operation of the reform activities new legal regimes are to be established. These new legal regimes must give state governments' greater autonomy in attracting FDI rapidly.
b) The new legal system will push ahead on a general liberalization, demonopolization, and privatization of telecommunications.

IMPORTANT OBSERVATION:

To some extent on the grounds of 'national security', telecommunications has been held back from the opening of infrastructure so for. But the hard really is that as a result of the continuing union-level monopoly the country stands to risk its national security by falling far behind the rest of the world in telecommunications technology and services. All the developing societies including India characterized by structural distortions following the imperial

aggression and exploitation simply can not maintain global competitiveness in data transmission, size of networks, range of services, without a huge in fusion of foreign capital and technology. In the post colonial phase, to be particular from the decades of 1960's and 1970's, the privatization of telecommunications has proved to be the most lucrative forms of privatization throughout the world. Through step-by-step privatization of the telecommunication systems in the context of the liberalization paradigm, the government easily can bag billions, if not tens of billions of dollars.

7.2.4. Reform in the Taxation System:

Several excellent tax reform studies and commissions suggested sound tax proposals for having a better and renewed tax system for the country. All these tax proposals put much emphasis upon the effective and timely implementation of the suggested proposals. Under the new tax system the main guidelines are as follows- tax simplification, broad-based taxes with low marginal tax rates and generous provisions for investment in the new enterprises originating having followed the path of open economy in the context of liberalization episode in the country.

To attain the above mentioned goals following points may be put forward:

a) Taking VAT (Value Added Tax) as the sine qua non of effective tax reforms in India it is to be introduced across all the states in the country in no time. Finance minister's repeated urge in this regard is very much praiseworthy. Experiences show that as the backbone of the modern tax system most of the countries in the contemporary world depend on VAT.

b) At the time of having inter-state trade all types of taxes including the 'Octroi' is to be eliminated. Newly shared federal taxes e.g. a surcharge on gasoline may take the place of Octroi in the short terms. The arrangement is to compensate the state and local governments relying presently on the octroi. This compensatory arrangement is to be meant for temporarily

and should be phased out over a five year period at any cost. Introduction of a complete overhaw of land taxation during the next five years is to be insisted on by the main Metropolitan Governments relying presently on the octroi heavily (e.g. Bombay). Only then on the basis of property taxes (as in most local governments in the world) rather than trade taxes all the local governments in the country can be run.

c) Excluding sales taxation on intermediate inputs provisions relating to the collection of the taxes are to be arranged in such a manner so that sufficient amount of restriction can be exercised on the state-level sales taxes to final goods purchase.

d) In the attempt to attain tax simplification, administrative honesty and efficiency of most other small taxes (stamp taxes, transaction taxes, other document taxes etc.) are to be eliminated by degrees within a span of not more than ten years.

e) Above all government should fix a 'code of ethics' strictly to be followed by the department concerned to generate a dynamism in the process of the collection of all sorts of taxes both by the central and state governments.

7.2.5. Reform in the Financial Market:

To keep pace with the state regulated economy of the country and to catch votes particularly for sailing through the general elections banking and insurance sectors of the country were nationalized during the early 1970's. During the 1970's and 1980's such misguided steps were taken by many countries (e.g. Mexico, France, Brazil, Chile etc) in the world but by the present time after realizing their mistakes these countries completely reversed the policy. To rely on a state-owned, state run banking system, therefore, the country today does not find any partner. The return, therefore, is easily predictable and highly adverse leading to a strong politicization of the lending procedures of the banks. Throughout the entire banking systems bad debts exists that will to be picked up

by the government unleashed and widespread corruption and in the allocations of loans there exists a huge inefficiency as most of the loans are allocated on the basis of nepotism and favouritisms.

With a view to improving the situation and to get rid of the adverse effects mentioned earlier some partial steps on behalf of the government have been undertaken. These are as follows : a) corporatization of the banks, α) partial sales of the shares up to 49 percent, c) recapitalization of the banks, d) international guidelines on capital inadequacy. In order to prevent further strongly adverse consequences from the continued state dominance of the banking system nine of the above steps in emphatic terms will be good and effective enough. It will be wise decision of the government to make arrangements for the banking system of the country to return to the private sector and allowing it to compete in the global market so that all the state banks do not simply continue to go broke and not be source of political headaches, scandals and inefficiently at any const in the coming future. To do so following important actions are to be taken up by the government without further delay.

a) To keep pace with the liberalization wave in the country the government through public offerings of shares or sales to domestic and foreign investment groups, must proceed with the divestiture of shares above the 49 percent limit now envisaged by the government;
b) Power of the bank regulatory authorities, for oversight, monitoring and intervention when necessary are to be enhanced after having simultaneous movement;
c) In the attempt to create an environment of domestic competition and establishing Bombay as a key regional centre for all of Asia for the foreign banks more licenses are to be issued by the government. One notable point is to be kept in mind here without fail that at the time of issuing foreign banking licenses the important reciprocal rights for Indian private-sector-

banks to enter foreign markets as well is not only to be negotiated but also to be ensured.

7.2.6. Reform in the Non-Financial Enterprises:

The world-wide trend towards privatization of non-financial enterprises in the country has so far been resisted by the Government as the concept of regulated economy had the upper hand over the period for more than four decades. Instead of welcoming the liberalization episode fully in the country it relied and put much emphasis upon partial ideas of corporisation, divestiture of shares up to 49 percent, Memoranda of understanding (MOUs) on the management of state enterprises, new managerial incentive schemes and so forth. Nothing but the failure is inevitable for these partial ideas initiated by the government from time to time. In the attempt of managing a large state sector no country in the world till now has been able to figure out the ways of managing it. China experienced failure miserably in its initiative of reforming state enterprises during the last 10 years with every partial measure now under discussion in Indian. It was observed that more than half of the enterprises of China continued to lose money even in the boom year of 1993. In the effort of coping up with the financial fall out of heaving loses and subsidization of state enterprises Chinese Government's vice minister Zhu Rongj has announced a suspension of key reform measures during the rest of 1993.

Only by tinkering at the margins, the problems of state ownership can not be resolved as these problems are endemic in nature. Sufficient and handsome amount for running state enterprises profitably are received by managers on the rare occasions only. Therefore, the management of the state enterprises is not ready to return the profits to the state in big ways. Rather doing so they expend the amount in the compensation of the managers and the workers. Political overlords also do not care much about the profitability of the state enterprises. Instead of caring that they care about employment, patronage, kickbacks, etc.

State enterprises not just in the developing blocs but also in the other countries can not be run profitably only because of this reason. Flagship state enterprises of France have almost all required bailouts in recent times. With an object of saving the state from the extra ordinary costs of losses and loan bailouts of the state-owned sector it has been noticed that Italy, France, Spain, the UK, as well as dozens of developing countries have embarked on privatization progrmmes in the past two decades.

After designing well privatization programmes can be politically popular oriented. International experiences available till now does not justify judging the apparent view of the Government of India that the political cost for the privatization programme will be very high. The workers, the management and the public at large must see the servers as the beneficiaries of the privatization process and there lies the important key of making this programme successful. Important suggestions in making the privatization programes success full can be mentioned in the following ways:

a) Achievement of solid public understanding as well as support by state workers should be the motto of the process of privatization. There are certain particular and important aspects where due importance is to be attached as soon as possible, Privatized enterprises must share a few percent of its shares with the workers employed with the enterprises with a view to compensating them for their implicit stake in the enterprises. For example, this can be made possible in the form of offering 15 percent of the shares given freely to the workers based on seniority wages etc. or the arrangement can be made in the form of offering 30 percent of the total shares at half of the prices etc. No chance should be given to the unions or any trusts for the workers so that these vested and narrow interest seekers can get the upper hand over the workers as well as the enterprises at any cost. As a result of this the provisions of offering shares should be made individually for the

workers. At the same time it is to be ensured that the shares can be traded freely and smoothly.

b) It is also to be kept in mind that depending on the size of the enterprises a very small but important percent (perhaps 1 to 2 percent) is to be kept reserved for the management teams of all the enterprises.

c) Transparency and competitiveness must be ensured at the process of the privatization for the common people in the society. Sales of private enterprises to any single bidders are to be prevented at any cost. It can be mentioned s in this context that as a way to give additional public confidence to the process of ensuring transparency and competitiveness an International Review Board (e.g. headed by the IFC) could be attempted to establish.

d) General Public must view this process of privatization as a beneficiary to them. To do so the government has to undertake so many social expenditures e.g. for the National Renewal Fund, or some comparable scheme with the help of the money to be generated out of the fund created having privatized the public enterprises. Mexico implemented this type of direct earmarking with success and satisfactory of all concerned.

e) A sense of direct public participation in the process of privatization is also to be sought. In the attempt of doing so some of the shares of the enterprises are to be sold to small investors. This should be an aim of the government in all practicable cases. In the decade of 1980 this attempt of the government proved to be attractive.

f) Privatization process in any society should not be very lengthy in nature. Though it is very difficult to complete this process within a period from 2 to 3 years in a complex and heterogeneous society like India yet the government should aim to cover all of the manufacturing enterprises at least now in the hands of the government, during an established time frame of 2 to 3 years under the banner of privatization programme.

7.2.7. Reform in the Labour Laws:

In organized and even in the unorganized sectors (though the proportion is very small) where trade unions, professional associations etc. are very strong, dismissal of the employees' costs very high. It has been a politicized process too. The reason lies in the fact that the labour laws of India give extreme protection to the workers in all respects. Governmental review and judicial challenge always discourage the management of all enterprises (Govts.) to go for dismissals for the employees. Therefore, dismissals and restructuring have been prevented by this policy to a great extent except at inordinate and highly uncertain costs at the enterprises. There have been attempts to delay and block the process of restructuring in many ways. Two important implications have been generated out of this development. First, it becomes quite impossible for the loss making enterprises to pull out of trouble and making them profitable firms. Yet after that these enterprises find their ways to sustain as they are backed up by the state with the soft-budget constrain. But the case is totally different for the private firms as they are often pushed to failure in distress. The situation is not healthy for the generation of true competitive spirit in the market.

The second and far reaching effect is that new enterprises are discouraged by the fears of ultimate high and harsh costs of restructuring these firms in the time to come. It has been observed that the employer have the tendency always to look ahead to the future operations of the firms. As a result of this fact the high implicit tax on dismissing workers is also a high tax on hiring the workers for the enterprises. Very unfortunately in the name of the 'social justices' (?) the country with a vast supply of untapped labour has hit upon a way to keep the vast proportion of its labour under-utilized or half-utilized.

It is true in the context of the liberalization episode in the country the labour relations system is to be revamped. Drawing tens of millions of workers into new jobs in the organized sector is the important and the urgent national objective at present. The new labour system to be introduced keeping pace with

the national objective must recognize this fact. After raising flexibility on hirings and dismissals this particular objective can be achieved with ease. But it does not mean that the regime (new) must not realize the necessity of the protection of the legal interests of the workers. The reality is that keeping in tune with the realities of the market the particular job is to be carried out in a much more realistic way. This can be easily achieved if the following urgent and timely steps are taken by the government without delaying much.

a) In the attempt of outlining the conditions for dismissals and severance payments and also the terms for collective bargaining over such issue a new labour relation generated for this purpose will be responsible. Subject to minimal standards and collective bargaining agreements, all the enterprises in general are to be characterized with the greater standard of flexibility so far as the question of hirrngs and dismissals of the workers in the enterprises is concerned.

b) Certain important notification such as advance modification of lay off and severance in the cases of economic dismissals (e.g. three months wages for worker with employment over one year) has to be specified by the new law. This specification should be taken as the minimal acceptable terms of dismissals of permanent employees. At the same time it is to be cleared by the law those terms and procedures for dismissals beyond the minimum standards may be the subject of collective bargaining agreements between unions and management. Differentiation between the temporary workers and the permanent workers is to be made by this law with certainty. With much greater flexibility for small enterprises different provisions as regards employment must be there between small and large enterprises and various sectors of the economy. Where the need for the flexibility in the size of the work force is paramount like construction etc. the special rules for the employees relating to the conditions of their jobs has to be ensured at any cost with difference.

c) If the terms of the contracts or the minimum standards of the law have been breached- the judiciary or the government review must come in the floor to intervene into the matter but this sort of intervention must not come as an automatic right of review of all the workers engaged in different enterprises irrespective of their sizes, Elimination of the existing presumption against dismissals has to be ensured in a very short period of time.

d) The search for a way to draw a line between existing employment (e.g. up through a cut off date) and future employment might be done usefully by the government. The receipt of the protections of the current regime has to be ensured by the government for the existing workers. The new labour law would be applicable to the new enterprises only. The motto in the context liberalization episode is serving in all the best possible ways, the long-term health of the existing enterprises. To do so new opportunities would be sought for collective agreements between the Unions and the enterprises even under the current regime.

7.2.8. Reform in the Land Law:

Irrelevant and antiquated land laws stand in the way of the proper and all round development of the major cities in India. Urban renewal, profitable commercial realistic development, and an adequate metropolitan tax system based on property taxes have been virtually blocked by these prevailing land laws. There are remarkable patterns of land misallocation such as vacant factories and underdeveloped land in the heart of Bombay (known as Mumbai at present) because of the extensive rent control. There has also been the dilapidation of the inner cities, where building owners and real estate developers lack initiatives and incentives to upgrade and renovate properties as the existing land laws are not conducive to prevent this development. In addition to this the practice of notorious corruption in the different levels of administration relating to the sale and purchase of land has eaten up the vitality of all the land laws. To

the development of agro-industry, ceilings on the holdings of the land in the rural sectors of the country at the same time can be a significant obstacle.

To overcome the problems generated out of the prevailing land law system of the country following measure are supposed to be sought for.

a) There must be dismantling of the present urban land law so that the decision can be taken at the level of municipality instead of at the level of the Union Government. Prevailing union level restrictions on urban land development has to be scrapped to make the process a simple one.

b) Over a very short period of time for commercial tenants and a phased manner for residential tenants the attempt of rental decontrol has to be made for the major urban cities on an urgent basis. In rent decontrol there is enormous international experience like New York, Paris, Singapore etc. and for learning important lessons all these cases are to be examined with great importance.

c) Property valuations in the urban areas have to be done newly and on the basis of this new valuation urban tax system is not only to reinvented but it is to be introduced without making any further delay Octroi and other highly inefficient taxes already existed in the country (e.g. trade taxes) are to be replaced by this new tax system.

d) With a view to redesigning to support the efficient consolidation of land for agro-industry- ceilings of the holdings of the land in the countryside have to be amended.

7.2.9. Government's Social Policy Re-Orientation:

A minute analysis of the suggestions, steps etc. mentioned earlier in this chapter may reveal the fact that all these call for a withdrawal of the government from the operational management of the productive sectors of the economy in general. In fact the attempt aims at the allowance of both domestic and foreign private capital on the part of the government to provide the much needed

capital, the management and the entrepreneurial decisions, required to fuel the coming boom of India in labour intensive manufacturing production and services. But in this context the government has to concentrate much in the labour resource development. In fact, this reduction in the role of the state has to be balanced by a strongly increased role in the area of human resource development. A good and well arranged system has to be introduced at any cost in the country so that all can be benefited actively and fully from the advantage generated out of the transformation of the economy of the country. This can be realized only when the government takes initiatives and leading role in spreading literacy and access to primary health care to all the citizens of India on an urgent basis.

All the developing countries in the world including India have suffered and still suffer from the high rate of illiteracy prevailing across the society. The figures constitute an alarming danger in the path of the development of the country. Still 52% (around) of the total population is illiterate. The rate is very high in case of the female population in the country. The figure in this regard constitutes 66% and thereby it is causing a great shame for the nation. The rate of illiteracy among the female population in the rural area is even higher. It is around 80%. All these are causing a human and economic tragedy for the nation. In the attempt of lowering absolute rates of poverty, improving family planning, reducing fertility rates, higher female labour force participation and of course having much higher rates of productivity and important market earnings all the international studies in the past decades put absolute importance on the spread of female literacy across every society in the world.

In the developing blocs governments of the respective societies in general do not devote adequate resources for the improvement of the level of primary education in the country. There to improve and promote literacy incentive schemes of the government have been designed very poorly. The reflection of the inadequate and faulty policies is found in the prevalence of illiteracy in a large

scale in these societies. Government at any cost must ensure a new and credible commitment in the area of primary education and health. Only then the intention of the government to restrict its involvement in productive areas should equally be balanced. From a hard-headed public investment point of view this will be treated not only as a good politics to show that the economic reforms are not only meant for the riches but it develops a sound development economics where there are concerns for the poor equally in the estate.

With a view to giving a reorientation of the social policies of the government following significant and important points for a developing country like India must be kept in mind at any cost. Government policies must be strong enough to remove all the obstacles coming in the way of the implementation of all these issues to be mentioned below. These issues are very much in line with the government's goal of development with human face.

a) To support enhanced primary education there should be the retargetion of the existing subsidy programmes on food. Experiences from the past revel the fact that the across-the-board subsides on food-prices tend to get dissipated in corruption, administrative costs and above all the wealthy sectors in the society receive foods at lower prices. This is to be stopped at any cost. In part the subsidy programmes are to be run in such a way so that easily it can target the school children by way of guaranteeing one nutritious meal a day for every school children in every school in India especially in rural India. Parents in the rural areas will get encouraged to send their children to the pre-high schools and this will also help a lot in the process of attempting aid to the needy people in a direct manner across the society. To add dynamism to the process of promoting adequate nutrition in pre-school years, subsidy programmes should also be better targeted towards mothers with young children.

b) Revenues generated and collected out of the process of privatization must be earmarked for increased expenditures on primary health and

education, the two most important social sectors to be penetrated well through the government policies of the country.

c) Transfer payments to the states to help support primary education and health have to be enhanced by the Government of India greatly. In the attempt of giving an incentive for the state governments in the country to increase their own effort in expenditures directed at these areas the programme can be executed on a matching grant basis.

7.2.10. Reform in the Federal Structure:

In the process of globalization the centre-state relationships in the country have to give a reorientation. There is a question also whether the Indian states will be gaining something and be benefited from this process. Very often it is also noticed that the process of globalization is signaling a decline or regeneration of the Indian federalism. S. Guha observes that it can be mentioned rightly that the most important key sectors found to be central to the process of globalization for India are the competences of the several constituent units i.e. the states. These key sectors are as follows:

Industrial infrastructure, power development, agriculture and its allied sectors and irrigation, roads (other than highways), health, education medical services, nutrition, water supply and urban development and so on. But the hard reality is that the involvement of the states in India in the reforms process was less than satisfactory until mid 1990s. Guha opines that in the process for the globalization the centre was both unwilling and unable to involve the states. The reasons are numerous and can be enumerated as mentioned below: external agencies' preferences for policy dialogue only with the national government, center's sole competence in macro economic stabilization and the variegated nature of state governments, politically speaking.

It is crystal clear that the state governments are very important players in the economic development of the country, more pronounced of course since the

1990s. In the 1990s the fact has become prominent as the investors have to contact every state government at the time of launching any projects for development to give impetus to the reform activities of the country. States' role has expanded due to market economy which demands more decentralized levels of governance but also that all the states are not equally equipped to access the opportunities afforded by the market and all these developments have been recognized rightly by Rao and Singh (2005). Under these circumstances the centre state federal relationship in India has to be reviewed without further delay. The implementation of the recommendations of the Sarkaria Commission successfully may be of great use and help in this regard.

Both opportunities and constraints for structural reforms are offered by the federal system of India if it is seen from one side. Variegated political complexion of governments at the centre and at the states comprises these constraints. If the same political party is in power both at the centre and at the state the reform process in the country may get facilitated but at the same time it may also stand in the way of the successful implementation of any uniform reforms package if the rivals in the states are in power. The victim of such eventuality is generally found in the coalition governments. True it is that the states have become more competitive for inviting investment, industrialization, trade and commerce, entrepreneurial governance for development when it is seen from the side of globalization, given that the states are today offered more freedom of action in respect of adopting any liberal economic policy and structural adjustment programme. Although it is hard to conclude that all will get benefit equally from out of the process of globalization and also that people in each state will be able equally in reaping the benefits of globalization. Yet, there is a widespread belief that globalization is encouraging more rights for the states, the availability of policy preferences of the state governments concerned and space for the exercise of such preference will reveal that truth in course of time.

7.2.11. Reform in the Vigilance Network:

A considerable amount of reform activities is to be carried out to make the vigilance network of the country very strong and effective. All the agencies related with the vigilance network of the state are to be allowed to work independently at any cost and no political influence must be there to ensure the impartiality of these agencies. The aim is to make these agencies very effective and goal oriented. Agencies like Lok Pal and Lok Ayukt should work in such manners so that it can eradicate the root of corruption from the administration (both political and executive) of the society. In this connection some of the recommendations of the Bhora Commission may be entertained without further delay.

7.2.12. Reform in the Judicial Sectors of the Country:

No reform process in any society can be carried out successfully if the concept rule of law is not established strongly in the society. India has the world's largest democratic society. It is argued that the strength of the Indian Republic generally rests on the doctrine of separation of powers between legislature and the executive, on the one hand, and the judiciary on the other. But in the constitutional set up of the country, the provisions of 'checks and balances' are not so prominent with which the overlapping among the three important institutions i.e. legislature, executive and judiciary can be avoided strongly. Above all, it is a fact that to get justice from any court of the law in the country, it takes a very long period of time and the poor people generally do not have access to the courts in many cases. These developments have stood in the way of building an ideal democratic spirit in the state. Outcomes of these developments also hinder the important reform process in the society. To overcome these problems sufficient amount of reform activities are also to be carried out with the judicial sectors in the country. First of all it is to be ensured that justice to the common people in the society is a matter of right for them. Secondly, separate

administrative tribunals must work hard to settle all the administrative disputes. Thirdly, industrial disputes are to be put to an end very smoothly with the help of the industrial tribunals under the present circumstances.

7.2.13. Re-Orientation of Public Administration in India:

In the administrative history of India the country turned a new page with the adoption of New Economic Policy (NEP) in 1991. With it, the country committed itself to liberalization, privatization and market economy. As a result of this acceptance there has been a quantum jump from the hitherto dominance of command economy. This policy shift calls for a drastic re-orientation as the original bureaucratic rule book has become out dated. True it is that in India the whole armoury of laws numbering over 1550 is undoubted and unabashedly of colonial origin, well suited to the state, imperial in character. These are to be replaced with the new rules which will be citizen friendly and in tune with the constitution and the new policy. To keep pace and also to fall in line with the structure, style and spirit of liberalization and market economy the statue book and the underlying subordinate legislation must be rewritten. There is an apprehension that the potential investors are sure to be deterred from the investment in India if the prevalent attributes like corruption, delay, harassment, etc. continue even under liberalization. A clean and honest, not value less but value oriented administration is the greatest and the crying need of the country.

In the attempt of achieving this differential assemblage of input arrangements the important start being in the area of structuring the organization itself. The proposed organization must not be hierarchy burdened, top-heavy, high-rise, fire-finger type - transacting in time, not in business. Nor it should be criss-cross, clumsy, jumbled-up in terms of role-relationships, networking, interactivity and communications. Structurally, the new organization must be simpler, flatter (leveler than taller) free, more flexible, more autonomous, more of what is known as 'decision sprucer'. No doubt in the

context of the liberalization episode the traditional classical Weberian model is obsolete. It is to be replaced by smaller matrix, task force, problem solving professional groups, linked less by command and more by co-coordinated collaboration, functioning less by superiority of authority and more by co-equality of professionality and communicating less through top-down processuality and more through low-up osmoticality. For the country, it is, save time, save on complications, economise on cost, maximize productive effort, optimise decision making and decentralize enterprise activity.

Besides these certain other important points as mentioned below are supposed to find their places in the Administrative Reform Package.

a) In relation to 'core-governmental' functions under the impact of free market economy which in turn gets legitimized constitutionally the issue relating to structure, size and organization of public service should be addressed.
b) In the context of 'empowering state' and better service to the citizens in general, the need of accountability, responsibility and standard of civil service will occupy the mind of citizenry.
c) It is also to be stressed that as a part of public service reform packages, the need of freedom of Information Act, Ombudsman institution and law on de-regulation and contracting out should emanate.
d) A body of public contract should be developed to manage purchaser/provider area of governmental operation in transparent manner and to regulate the role of public service, with the development of 'contracting state'.
e) Most importantly it is to be kept in mind that in the principles of business administration which are embedded in the private law, the basis of public administration does not lay at any cost. Rather in the context of liberalization wave the basis of public administration is to be traced in the

public law only (constitution, statutes, subordinate legislation and judgment of courts) in all the cases.

7.3. CONCLUDING REMARKS:

There exists still a strong belief that in the developing countries including India the process of economic reforms is a painful necessity that is likely to be costly at the pools. This is under the present circumstance of liberalization having in the world to some extent a mistake of engagement engaged in the economic reform. If it is taken in this manner then it will be a very simplistic view of a more complicated reality. The difference between a dynamic, honest government and time servers can easily be sensed by the electorate as a general principle. When such occasion arises it is generally appreciated by the common people in the society. The reason of the expression of such appreciation lies in the fact that the public is a rarely treated to the first variety of the government.

As the budgetary austerity is not simple to manage politically in general it is tricky to clean up an inherited financial crisis such as India in 1991. It is also to be kept in mind at the same time that attempts to put an end of high inflation and financial uncertainty are always welcomed by the general public in the society. Except with narrow groups of vested interests most other areas of reform like trade liberalization, stimulation of new labour-intensive manufacturing, improved infrastructure, even privatization can be made hugely popular. Carrying out of stabilization programmes to give effect to the process of dynamic economic reforms has resulted into the achievement of great electoral vindication. Successful winnings of elections for the president Menem in Argentina, President Sanchez de Losada in Bolivia and prime Minister Vaclav Klaus in the Czech Republic can be cited as the examples in this regard.

However, there is still the necessity of thinking carefully about the political design of reform package. Under the present circumstances there must be the repeated emphasis on behalf of the government to get the government out

of the 'wrong' areas of economic life so that it can be able to address the more effort to the 'right' areas, such as health and education. Concrete, visible programmes are to be carried out to address such 'right areas' of the government as soon as possible for the acceptability of the reforms of the reform package to the common people in the society. All the key stake holders as argued earlier including the workers and public at large are to involve in the way of designing the privatization programmes.

The final test of the reform package will be on its delivery of the growth and jobs and raising economic security of the people at large. The reformers of India find a good place in this regard. It can be argued if the remaining shackles on the economy are stripped away the chances for dynamic economic growth are very good for a labour abundant country opening up to world capital. It is much simpler for India to carry out the task of making growth following the path of liberalization than Russia. To keep pace with this liberalization wave more rooms for new economic activities are to be opened up after closing down the large portions of the existing manufacturing base.

It has been noticed that as early as 1995 the first stage of reforms underwent to several tests in state elections and also then in national election. Satisfactory is the record of this achievement and reform that are politically acceptable such as further trade liberalization, especially on consumer goods should continue right up to the next election till the goals of the reform packages are installed properly into the minds of the citizens in the country. However, the opportunity for decisive breakthrough in many areas of economic management is sure to be at the hands assuming the reformers renewed the electorate mandate.

All the state governments in India are to be treated as potential units and agents of rapid and salutary change besides the continued reform impetus from the central government of the country. Regional governments in most vast continental countries such as Brazil, China, and Russia take the leading role in

pushing reforms and prompting further actions by the central government. It is Sau Paulo state and Minais Gerais in Brazil still are the leader of the process of reform. In the leading role there are the coastal provinces and the provinces farthest from Beijing in case of China. Reform leaders in Nizhay Novorgod and in the Russian Far East have been major spurs to reforms at the central level in Russia.

To add great dynamism to reform sufficient amount of freedom has not been given to the state governments in the country. Reform activities have been carrying out in such a manner since the inception of New Economic policy in 1991 so that in most key infrastructure areas the central Government has the final say or it is empowered at least with veto over the actions of the state in the federal structures of the country. States in the coastal regions of the country like Maharastra and Gujarat and the Southern states (Tamil Nadu, Karnataka) are very likely to pull ahead with the reform process. The interior provinces in the state may not gain as fast as the coastal states talked earlier will gain. But it can be expected that the progress of these states (coastal) will help in rising all areas of the country. Provisions must be there to allow the fast runners to pull ahead. At the same time there must be adequate focus on compensatory actions mainly in the areas of health and education by the central government at any cost. This is to be done with the absolute importance. Promoting industry in the hinter land through expensive industrial targeting policies generally has proven to be a costly and corrupt fiasco in other countries that have attempted it under the banner of reform process. Getting rapid industrialization in the weak infrastructure oriented areas is very difficult. For a country like India it is not possible to invest large amount of capital for having rapid industrialization in the hinter lands of the state. But in course of long run this can be made possible. And it has to be made possible to remove the regional imbalances from the country. Otherwise the reform process in the country may generate the harmful social tension.

It is expected there is much for India to gain from the reform process. But at the same time the country now faces intense international competition in the international markets. Indonesia, Malaysia and even China, the other Asian economic giants in terms of opening their economics to the World market have gone far. Their advancement is also clearly visible in terms of export promotion and improved skills of the labour force. At present India competes not only with these countries but also with the reforming countries of Latin America, Eastern Europe and the former Soviet Union for the World capital and foreign direct investment. If India finally decides to join the global economy fully it is expected that the country will do well in the competition. The country must try hard to take advantage fully of the contemporary global situation. In the attempt of drawing global capital and foreign direct investment it must not make any compromise with the sovereignty of the state. Proper negotiation and clarity have to be ensured at the time of signing any treaty aiming at the inflow of foreign capital into the society.

Before coming to the final say about the proper intervention of the state in helping to establish a deregulated economy in the state the under mentioned significant and important points are to be kept in mind with greater emphasis and importance.

a) At the time of exercising the reform activities with a view to establishing a deregulated economy through the proper state intervention a few actualities of the Indian state are not to be ignored. The economy of the country is characterized by low savings, inadequate development of physical infrastructure, the presence of numerous externalities in production, the likelihood of strong forward and backward linkage in investment and production and the need for 'catching up' in terms of technology etc. All these features demand careful state intervention and government actions in a more functional managerial skill to guide markets and bring developments. Functioning of both the important institutions

i.e. state and market are very much socially embedded and can not be discussed in an isolated manner ignoring the particular social context of any society.

b) Modernizing agriculture and executing land reforms can only create a true environment of sustainable development. But Indian polity ignored this as there exists dominant vested interests seeking groups in the society especially in the field of agriculture. The root of the success of Western Europe and South East Asia lies here. Before the reform process takes off land reforms and the marginalization of rural inequalities have to be done in the quickest possible time.

c) Massive and uncontrolled growths of population have eaten up the vitality and rapid growth in the country. This is to be controlled at any cost by taking hard measures. To give an effective way to the family planning government should show its reliance on other agencies than the governmental agencies. In the subject matter of the present reform activities there exists no say about the control of the population in the developing societies including India.

d) The attempt of liberalization episode in India must be done in the right sequence. External liberalization should start its functioning in the country only when the proper and flexible internal liberalization in the country is over. For the installation of a sustainable capitalist system in the country the industrialists of India should think in terms of a collective self interest with a long-term perspective in the society.

e) Government must give a rethinking over the sell off of profitable public sector undertakings under the banner of liberalization package. Selling off of profitable governmental enterprises may cast a black shadow upon the economy of the country. If more functional autonomy is given to these enterprises then they may generate better skills, profits etc. The sick public sector undertakings may be sold off to the foreign investors provided

these invest will revive these sick industries. At the time of reviving these sick enterprises the policy of 'golden handshake' is to be avoided. 'Special advantageous package' may be sanctioned by the government to any risk taking savings and investment schemes in Indian market.

f) In the attempt of the mobilization of the resources Indian state has really cut a very sorry figure. Similarly is the case of distribution of the resources to give justice in terms of equality to the common people in the society. It can be argued that Indian polity because of its circumscribed political capacity was not able to levy direct taxes on the property owing classes. The effect is found in the deficit of revenue for a long period of time. It also unleashed growth of a sizeable black money which has given birth to a parallel economy in the Indian economy. The fiscal policy of the country can only be rationalized through the identification and optimal utilization of this black money. There must be imposition of direct taxes upon the rich farmers in the country and efforts of many kinds to be innovated to slash the administrative cost at different stages. Only then the governments can come out from the mounting deficits in the economy of state.

g) However, the present form of globalisation is not sacrosanct. The bitter experiences of the imperialistic mode of exploitation have not yet wiped from the different countries in the developing world including India. It has been noticed well that at the time of having interchange between nations in the name of globalization the developed nations are imposing unequal rules upon the developing world as this region (developing blocs) of the world is at the receiving end. In the attempt of exercising present form of modernization and reforms to the economy of any country it is hardly possible to ignore the operative mechanisms of the World Trade Organization (WTO). To overcome this problem the developing nations have to fight from both within and outside the W.T.O.

These nations must go in the all out manner so that the present proposed model of globalization does not get any imperialistic design as they have nothing to loose.

h) It has to be admitted that only with the invitation of sweeping measures towards liberalization the existing problems of the economy of India can not be solved. A different type of re-orientation of government policies aiming at the better mobilization of the available resources in the society in a systematic manner has to be sought for. The slogan of this initiative will be 'development with human face' and 'development with dignity' too. Attempts to review the existing tax pattern have to be undertaken without making further delay. In the new pattern more efforts are to be devoted for the introduction of direct taxes.

i) One should not forget that Indian society is heterogeneous in nature. Here, people in general look for immediate results and benefits from the activities of the government. Hence the process of the reform is to be run in a country like India very cautiously and meticulously.

J) State machinery has to be operated in such manner so that both the institutions i.e. state and market can be made instrumental for the fulfillment of the aspirations of the common people in the society. Successful operation of this attempt may usher in a new age of development for the country.

Finally, it can be concluded quoting the remark made by Adam Smith that "the market is for the people, not the people for the market". The history of the hitherto existing societies has proved it with concrete evidences.

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