UNIT 4 PLANNING, GOVERNANCE AND INSTITUTIONS

Structure

4.0 OBJECTIVES

After going through this unit, you will be in a position to :

- explain the basic strategy of five year plans over the era of planning;
- discuss the target and achievement of growth-oriented objectives in each five year plan;
- review the major economic policies and the shifts in policies leading to initiation of economic and institutional reforms in 1991; and
- provide an outline of the policies and changes in economic performance during the period of implementation of Economic Reforms in the country.

4.1 INTRODUCTION

One of the major concerns during the period of freedom movement in India was poverty and under-development of the country due to exploitation under the colonial rule. One of the major objectives of freedom struggle was, therefore, to liberate India from colonial rule and chart out a course towards rapid development. There was widespread consensus among the political leadership and the indigenous business community that free India would embark on rapid industrialisation with substantial state investment in heavy industry as well as infrastructure. Thus when planning process in India began, the public sector occupied the commanding heights of investment. Second, given the primacy of public sector, the strategies and priorities under each plan were decided based on the immediate economic conditions. However, by early 1980s, there were challenges to planning process that raised questions about the basic policies and strategies that had a heavy bias in favour of the role of state, not only in respect of investment, but also in respect of regulation and control of private sector. The major policies were subjected to review by a number of committees set up during the late 1970s and early 1980s. The outcome was a shift in economic strategies towards economic reforms and market driven growth, and towards reduced role of state with declining share of public investment even in plan investment. This unit outlines the growth performance in each plan, the shifts in plan priorities and strategies, and the shifts in major economic policies leading to the present regime of economic reforms with a central place to market induced investment and growth.

4.2 PRIORITIES AND STRATEGIES OF FIVE YEAR PLANS

As mentioned earlier, the emphasis on sectoral priorities and strategy of development under each plan is often dictated by the economic exigencies of the period. Over a period of time, there was also change in the overall policy framework and the relative roles of public and private investment. To capture these broader shifts, this section is divided into two parts. The first part deals with the first six plans and the second part with the seventh to eleventh five year plan.

4.2.1 First to Sixth Five Year Plan

Formulation of the First Five Year Plan (1951-56) was done in the face of major problems which needed immediate attention. First, partition of the country resulted in huge influx of refugees who had to be rehabilitated. Second, there was severe shortage of food grains, that needed to be addressed on priority. Third, there was growing inflation that had to be contained. A positive factor was the availability of foreign exchange reserves which could be used to meet the needs of growing food and other imports. The strategy of the First Plan was rapid development of agriculture in order to move towards food self-sufficiency. Priority to agriculture was thus placed within the broad objective of all-round balanced development.

The Second Plan (1956-61) was conceived in an atmosphere of stability. Agricultural targets of the First Plan were met. Prices were stabilised. It is in this atmosphere, that the Second Five Year Plan was aimed at giving a big push to industrialisation. The Mahalanobis model with thrust on heavy industries became the strategy of the Second Plan. The political party in power adopted a resolution to move towards a Socialistic Pattern of Society. This was reflected in the Industrial Policy Resolution, 1956 that spelt out the primacy of public sector in the basic, heavy and strategic industries, and laid the foundation for regulation of the private sector.

By the end of the Second Plan, there were clear signs of agricultural growth lagging behind and food production falling short of demand. Therefore, the Third Five Year Plan assigned higher priority to agriculture, besides giving emphasis on self-reliance and basic industries. But the Plan priorities received a set back because of diversion of resources to meet the border conflicts with China in 1962 and later Pakistan in 1965. In fact, the entire planning process was disturbed not only by the wars, but also due to the nation-wide severe drought and stagflation (i.e. low growth with high inflation) for two years - 1965-67 and 1967-68. Food grain production suffered severely and food imports reached peak levels of about 12 million tones per annum. The economy faced severe foreign exchange crisis. The original draft outline of the Fourth Plan was abandoned in 1966 and a kind of 'Plan Holiday' was introduced. Amidst this, in 1966, rupee was devalued and there was a brief period of resort to deregulation and induction of market forces. However, by 1968, there was a return to the strategy of controls and subsidies with state interventions. During the period of 'Plan Holiday', three Annual Plans (1966-69) were implemented. The mid-1960s, thus, experienced not only the worst economic crisis but also political crisis. The political response was to bring about radical reforms like bank nationalisation and stricter regulation of monopolies and foreign exchange. With this background the Fourth Plan (1969-74) set itself, in principle, the objectives of growth with stability and social justice. The aim was the progressive achievement of self-reliance with emphasis on improving the conditions of weaker sections of the community. The programmes for the latter came to be known as 'Garibi Hatao' (Removal of Poverty). The Fourth Plan saw substantial emphasis on agriculture in which 'Green Revolution' technology started taking roots showing improvements in food production.

The owes of the economy which began in the mid-1960s continued into the 1970s. The Fifth Plan (1974-79) was introduced at a time when the country was reeling under severe inflation fuelled by the 'oil shock' of 1973. There was a great deal of debate on the appropriate strategy of the Fifth Plan. Finally, two main objectives viz. removal of poverty and attainment of self-reliance, emerged as priorities. The objectives were to be achieved through promotion of higher rate of growth, better distribution of income and a significant step-up in the domestic rate of saving. But because of political changes, the Plan was terminated by the Janata Party which came to power in 1977. The new Plan was supposed to shift emphasis from the Nehruvian heavy industry to decentralised industrial development with emphasis on small and household industries and employment generation. During 1978-79, the country has had huge accumulation of foreign exchange reserves as a result of massive inflow of remittances from the Indian workers, who had gone to the middle east region. The committee on Import-Export Policies and procedures, set up in 1977, recommended gradual liberalisation of the import regime and inducted a shift towards a strategy of export promotion and domestic liberalisation. Thus, the basic beginning of liberalisation policy regime had begun in the late 1970's. It was during this period that the approach of 'rolling plan' was inducted, thereby, diluting the rigour of the erstwhile approach of 'Five Year Plans'. Subsequently, the Sixth Plan got its new incarnation (1980-85) when the Congress Party came back to power in 1980. The strategy once again shifted to a direct attack on poverty by creating conditions of an expanding economy.

4.2.2 Seventh to Eleventh Five Year Plan

Beginning of 1980s marked a turning point in the growth performance of the Indian economy. The economy broke out of the much vexed so called 'Hindu Rate of Growth' of 3.5 per cent and hitch-hiked to a higher growth path. The Sixth Plan (1980-85) experienced an annual growth rate of 5.4 per cent. By the end of the Sixth Plan the country almost reached self-sufficiency in food grains production. The Seventh Plan (1985-90) was formulated under conditions of optimism towards sustained high level growth. Certain measures of liberalisation were initiated in trade and industrial policies. The main objectives of the Plan were: accelerated growth of food grains production, increase in employment opportunities and improvement in productivity levels. For the first time, the Seventh Plan placed employment at the centre by incorporating the words: 'The central element in the development strategy of the Seventh Plan is the generation of productive employment'. To tackle an estimated number of unemployed (openly unemployed plus severely underemployed in need of alternative jobs) placed at 23 million in 1992, and an expected addition to the labour force of 35 million during 1992-97 and another 36 million during 1997-2002, the Plan set a target of 2.6 to 2.8 per cent annual growth of employment with a view to achieving the goal of 'employment for all' by 2002.

The approach to Eighth Plan went through several revisions because of unstable political situation and changing governments at the centre. Finally, the fourth version of Eighth Plan (1992-97) was approved under conditions of severe economic crisis, high rate of inflation, meagre foreign exchange reserves, widening budget deficits, rising debt burden and recession in industry. Further, the background of the introduction of Eighth Plan was also marked by initiation of economic reforms in all sectors. The year 1991 is regarded as a water shed in the policy regime of India, since it marked the beginning of a new era of reforms, with extensive liberalisation in the domestic and international policy regimes. Liberalisation, Privatisation and Globalisation, together, defined the framework of the new policy regime of radical reforms with market-driven paradigm of development. The Plan emphasised high growth and employment generation. For the first time, employment was considered to be important enough a subject to merit an independent chapter in the Plan document.

The Ninth Plan (1997-2002) also witnessed delays and modifications in its finalisation. When it was finally approved, almost two years after the process was underway, it emphasised 'growth with justice and equality'. It was pitched at a high targeted growth rate of 7 per cent per annum. The Plan expected to generate more employment through agriculture and rural development. But the Plan performance was a disappointment with a very poor growth of agriculture and reduced overall GDP growth of 5.35 per cent per annum. At the formulation of the Tenth Plan (2002-07), there was concern about slow growth of employment and poor agricultural growth threatening the sustainability of food production. In spite of reasonably high growth performance of about 5.7 per cent GDP growth rate over the decade of 1990s, the rate of decline in poverty decelerated compared to 1980s. In light of this, besides fixing a target of high growth rate of 8 per cent for the Plan, emphasis was laid on reduction of poverty and creation of additional gainful employment. For this purpose, agricultural development was viewed as the core element. Social sector, especially universal primary education and reduction in infant and maternal mortality rates, were also accorded high priority.

The Eleventh Plan (2007-2012) began with an impressive Tenth Plan growth rate of 7.7 per cent per annum, the highest achieved in any plan period so far. The strengths were that savings and investment rates increased significantly. There has been positive response of industry to global competition. In view of the liberalisation of the policies in regard to foreign capital inflows and expansion of domestic capital markets, the country experienced a surge in the volume and rate of capital inflows. Exports and foreign exchange reserves reached very high levels. However, the growth is not perceived as being sufficiently 'inclusive' for many groups. The rate of decline in poverty also was not commensurate with the growth in GDP. The absolute number of poor people declined only marginally from 320 million in 1993-94 to 302 million in 2004-05. There was hardly any decline in child malnutrition. Considering these factors, the Eleventh Plan set not only a high target of 9 per cent growth rate in GDP but emphasised the need for focusing on 'inclusive growth'. The central vision of the Eleventh Plan is to initiate a development process which ensures broad-based improvement in the quality of life of the people, especially the poor, SCs/STs, other backward castes (OBCs), minorities and women. The broad vision of the Eleventh Plan includes several inter-related components like rapid growth that reduces poverty and creates employment opportunities, provides access to essential services in health and education especially for the poor and empowerment through education and skill development.

Check Your Progress 1

1. What was the basic strategy of Second Five Year Plan?

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2. What was the nature of crisis faced by India in mid-1960s? And what was its impact on Planning?

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3. Which was the Plan that set ‘employment for all’ as the objective to be achieved by 2002? What was the perceived need for focusing on it?

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4. What is the Central Vision of the Eleventh Plan?

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4.3 GROWTH TARGETS AND ACHIEVEMENTS IN FIVE YEAR PLANS

The discussion of Plan priorities and strategies naturally raises interest as to what actually happened during the Five Year Plans in terms of economic performance. Table 4.1 gives the targets and realisation of growth rates in the Five Year Plans. During the first thirty years of planning (1951-1980), i.e. up to the Sixth Plan, the growth performance of the economy was far below expectations, averaging about 3.5 per cent annual growth rate in GDP. With over 2 per cent growth rate of population, this period experienced about 1.5 per cent annual growth rate in per capita income. The period between 1951 and 1980 became synonymous for slow growth. Whatever the Plan targets, the realised growth rate turned out to be a low growth of 3.5%, so much so, that it began to be connotated as a period of 'Hindu growth rate'. But, the beginning of 1980s marked a turning point in the Indian economy. During the Sixth and Seventh Plans (1980-89) annual average growth rate increased to 5.6 per cent. There was a temporary set back in 1990-91 in which the growth rate achieved was a low 3.4 percent. Subsequently, however,

Table 4.1 Growth Performance in the Five Year Plans

Sl. No.	Plan Period	Target	Realisation
1	First Plan (1951-55)	2.1	3.5
2	Second Plan (1956-60)	4.5	4.2
3	Third Plan (1961-65)	5.6	2.8
4	Annual Plans (1966-68)	—	3.9
5	Fourth Plan (1969-73)	5.7	3.2
6	Fifth Plan (1974-78)	4.4	4.7
7	Annual Plan (1979-80)	—	-5.2
8	Sixth Plan (1980-84)	5.2	5.5
9	Seventh Plan (1985-89)	5.0	5.6
10	Annual Plan (1990-91)	—	3.4
11	Eighth Plan (1992-96)	5.6	6.5
12	Ninth Plan (1997-2001)	6.5	5.5
13	Tenth Plan (2002-2006)	7.9	7.7
14	Eleventh Plan (2007-2012)	9.0	—-

***Note**: The growth targets for the first three five year plans were set with respect to National Income. In the Fourth Plan, it was Net Domestic Product. The actual growth rates are in terms of GDP at factor cost. Average growth rates over a short period can be misleading because of fluctuations in agricultural output due to varied monsoon.*

***Source**: Planning Commission, GOI, Eleventh Five Year Plan 2007-2012, Vol. I, Inclusive Growth, OUP, p. 25, New Delhi 2008.*

the economy grew at a high rate of 6.5 per cent in the Eighth Plan period (1992-96). Compared to this, Ninth Plan (1997-2001) experienced a deceleration and recorded a lacklustre performance of 5.5 percent. But the economy recovered sharply to achieve a growth rate of 7.7 per cent during the Tenth Plan (2002-06). The last four years of the Tenth Plan recorded an average of about 8.7 per cent and this momentum continued into 2007-08 which was the first year of the Eleventh Plan. This experience of Tenth Plan prompted fixing of 9 per cent as the target growth rate for the Eleventh Plan.

4.4 ECONOMIC POLICIES AND SHIFT TOWARDS REFORMS

The first thirty years of planning era, with a few minor changes, was dominated by the Nehru-Mahalanobis investment strategy of primacy of public sector with an emphasis on heavy industries. The policy framework of this strategy was reflected in the Industrial Policy Resolution of 1956 which emphasised on a strong licensing and regulatory system and inward looking trade policy with import substituting industrialisation (ISI). The crisis in the Indian economy in mid-sixties saw further intensification of the role of state through nationalisation of coal, wheat, trade and tightening of controls on monopolies and restrictive trade practices and the regulation of foreign-exchange outflow. By late 1970s, there were clear signs of failure of state regulation and control as seen in terms of extensive 'rent seeking' (i.e. corruption) in the shadows for obtaining licences and permits. Corruption went hand-in-hand with tax evasion and black money. The extensive parallel economy crippled efficiency, reduced the revenues of the state and resulted in growing public debt in the absence of commensurate increase in productive investment.

The changing political conditions and the pressure of economic management necessitated a review of the existing policies. A series of Committees were appointed by the Government of India to review the existing policies and suggest measures for improvement. The result was a number of reports which initiated a shift towards liberalisation and economic reforms. This section briefly refers to some of these reports which suggested reforms on several policy fronts. These could be seen as antecedents to the major neo-liberal economic reforms introduced beginning with 1991.

4.4.1 Trade Policy

There were several shifts in trade policy but, in the initial years, there was considerable 'export pessimism', meaning that without industrialisation, India had not much to offer by way of trade to serve as engine of growth. Therefore the emphasis was on 'inward orientation' or import substituting industrialization (ISI). The first two five year plans, especially the Second, had thus accorded the thrust on heavy inward orientation. By the time of the Third Plan, importance of exports was recognised and certain 'outward orientation' to promote exports was initiated through export-subsidies. Towards the end of the Third Plan, rupee was devalued with the specific objective of making Indian goods relatively cheaper and promoting exports. But during 1966-1976, i.e. the Fourth and Fifth Plans, little attention was paid to foreign trade. It was more of crisis management than any clear policy thrust. In late 1970s, policy of import substituting industrialisation was diluted and imports liberalised to an extent.

The Report of the Committee on Trade Policies (Abid Hussain Committee, 1984) emphasised the need for balance between export promotion and import substitution. The government in mid-1980s, therefore, initiated a policy of export promotion and import liberalisation. Following this, exports increased at a record rate in the later half of 1980s, though imports did cause problems of foreign exchange shortage. Nevertheless, these shifts towards trade liberalisation in 1980s laid the foundation for the total dropping of the policy of ISI in 1991 and move towards liberalisation of trade as a part of overall economic reforms.

4.4.2 Fiscal and Trade Policies

Fiscal policy plays an important role in economic development. Through fiscal policy, the Government creates and sustains the public economic policies consisting of the provision of public services through public investment. It is also an instrument for reallocation of resources according to national priorities, achieve redistribution, promotion of private savings and investments, and maintenance of stability.

During the first thirty-five years of India's planning, the achievement of mobilisation through tax revenue apparently was satisfactory. But it posed several problems when one probed from the point of view of equity and efficiency. First, let us look at the positive side. The tax-GDP ratio increased from 7% in 1950-51 to 17 % in 1984-85. For a country with low income and relatively slow growth of about 1.5 percent in per capita income during this period, tax mobilisation effort could be considered commendable. Except land revenue and personal income tax, all taxes performed very well. In the context of Five Year Plans, targets set for additional resource mobilisation were over-fulfilled.

On the negative side, there has been extensive tax evasion and 'black economy' became pervasive. One of the main reasons cited for tax evasion and generation of black money was high effective rates of taxation. Besides loss of revenue, tax evasion reduced built-in elasticity of the tax system and constrained tax reforms. Another problem that arose was the erosion of equity. The share of direct taxes, in total tax revenues, had fallen from 37 percent in 1950-51 to 15 percent in 1984-85. And the share of personal income tax dropped from 21 percent to 5 percent over the same period. It is well-known that taxes like personal income tax have an important redistributive role in the tax structure, and cannot be substituted by indirect taxes on commodities.

In 1977, a high powered committee was set up under the chairmanship of Dr. P.C.Alexander, the then commerce secretary, for reviewing the nature of import-export policies and procedures. Based on the recommendations of this Committee's Report, a beginning was made to liberalise the import regime in the late 1970s. By mid-1980s, tax evasion and the related black economy came to be attributed to the controls and regulations as much as to the very high levels of personal income taxes and complex commodity taxation system. The submission of a number of influential reports prepared under Government auspices, including the Report of the Committee to Examine Principles of a Possible Shift from Physical to Financial Controls (the Narasimham Committee 1985), the Report of the Committee on Trade Policies (the Abid Hussain Committee 1984), a series of reports prepared by the Economic Administration Reforms Commission (L.K. Jha 1984-86), the Report of the Working of the Monetary System (the Chakravarthy Committee 1985) and the Report on the Black Money by National Institute of Public Finance and Policy (NIPFP) resulted in certain bold initiatives taken on fiscal policy front. These developments suggested the following type of changes in the fiscal policy:

i. a systematic effort to simplify both tax structure and tax laws,

ii. a deliberate shift to a regime of reasonable direct tax rates and better tax administration, and

iii. the fostering of a stable and predictable tax policy environment.

The Long Term Fiscal Policy (1985) incorporated these changes and many more measures to improve tax administration, paving the way for greater tax reforms later. Reforms in the trade policy regime implied, elimination of the import licensing system, and import quota systems, reduction in the tariff rates , gradual reduction of export subsidies and opening up of the economy for imports and capital flows. These reforms generated a new wave of competitive environment in the economy and combined with the liberalisation of domestic policy systems, the economy was poised to enter into a new era of high growth and market-driven paradigm of development.

4.4.3 Monetary Policy

Since Independence, the Indian monetary system has helped in the resource mobilisation for the implementation of Five Year Plans. It has also attempted to control the inflationary process inherent in economic development. With several vibrant changes taking place beginning with the 1980s, the Reserve Bank of India wanted a fresh look at the Indian monetary system and towards this end appointed a Committee in

December 1982 with Sukhamoy Chakravarty as its Chairman to review the working of the Indian monetary system.

According to the Chakravarty Committee Report (submitted in 1985), the operation of monetary system should be consistent with plan priorities, so that the process of mobilisation of savings and utilisation of these resources, became socially purposive. Though savings in the country increased from 10 percent to 23 percent between 1950-51 and 1983-84, it was not adequate to finance public sector investment. Hence the Government of India was forced to resort to deficit financing creating inflationary pressures in the economy. The Committee emphasised financing Five Year Plans in a non-inflationary manner by:

i. tapping the savings of the public in a greater measure than in the past, which could be done by raising the yield from government bonds;

ii. raising higher savings from the public sector enterprises, and

iii. improving efficiency in both revenue gathering and expenditure functions.

Other important recommendations of the Committee related to monetary targeting, change in the definition of budgetary deficit and interest rate policy. Most of the recommendations of the Committee were accepted by the GOI by late 1980s.

4.4.4 Banking and Financial Sector Policies

One of the major landmarks in the Indian banking sector was the nationalisation of banks in 1969. Since then, there has been spectacular geographical and functional spread of banking and financial sector in the country. However, over the years, several distortions have crept into the banking and financial system in mobilising resources and extending credit. Several public sector banks and financial institutions had become weak and some public sector banks had been incurring losses year after year. To take measures to rectify this situation, the Government of India appointed a high level Committee on the Financial System under the Chairmanship of M. Narasimham in 1991.

The Narasimham Committee (1991) made recommendations which have come to set in motion major reforms in the financial system. The recommendations were aimed at: (i) ensuring a degree of operational flexibility, (ii) internal autonomy for the public sector banks, and (iii) greater degree of professionalism in banking operations. Some of the major recommendations of this committee are:

i. reduction of Statutory Liquidity Requirements (SLRs) as well as Cash Reserve Ratio (CRR). In the view of the Committee, high SLRs and CRRs are idle lock up of productive resource of the banks.

ii. phasing out of directed credit programmes, which meant withdrawing differentiation of ‘priority sector’. According to the Committee, agriculture and small industry had already grown to a mature stage not requiring any special support.

iii. the level and structure of interest rates should be broadly determined by market forces.

iv. bring about greater efficiency in banking operations by a substantial reduction in the number of public sector banks through mergers and acquisitions.

Because of the politically sensitive nature of the recommendations, many of the recommendations like removing ‘priority sector’ status, and mergers have not been put into force. However, the SLR has been reduced from 38.5 percent to 25 percent. Similarly, CRR was reduced from 15 percent to 5.5 percent. The merger proposals were partially implemented in the case of Regional Rural Banks (RRBs). The RRBs were allowed to extend their services to non-weaker sections with interest rates realistic to market rates. One more Committee under the same Chairman was appointed in 1998 to look into the needs of further reforms.

Check Your Progress 2

1. Which is the period of ‘Hindu growth rate’ and why is it called so?

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2. Which is the period when the need for balance between export promotion and import substitution was felt and adopted as trade policy? What was the basis for this measure?

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3. What were the causes for the rise and perpetuation of ‘black economy’ in the Indian economy?

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4. What were the recommendations of Chakravarthy Committee for non-inflationary financing of plans?

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5. What were the major recommendations of Narasimham Committee (1991)?

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4.5 ECONOMIC REFORMS

As seen from the above explanation, owing to a number of changes in economic policies, the decade of 1980s not only witnessed a higher growth period, breaking away from the low growth path of three decades, but also ushered in a period of substantial rethinking and reformulation in the planned regime of economic development. In this section, we briefly discuss, first, the changes in 1980s which came to be known as New Economic Policy and then major changes that were subsequently introduced in 1991 under what is known as the period of 'Structural Adjustment and Economic Reforms'.

4.5.1 New Economic Policy

The shifts in policies which began in 1980 and gained momentum, in mid-1980s, marked new trends away from the Nehruvian framework of dominant public sector and greater regulation of the private sector. These policy changes, particularly under Rajiv Gandhi regime, came to be known as New Economic Policy which provided greater role for private sector. The new policy made a number of changes in industrial licensing, export-import policy, foreign capital equity, removal of controls and restrictions, rationalising and simplifying the system of fiscal and administration regulation. Under the New Economic Policy, the government turned towards dismantling the edifice of controls and provided greater scope for unfettered expansion of private corporate sector, including the multi-national enterprises.

4.5.2 Structural Adjustment and Economic Reforms

When the Congress Government assumed power at the Centre in June 1991, the country was under a serious economic crisis. The three major problems were the balance of payments crisis, high rate of inflation and huge public debt. The liberalised trade policy in 1980s resulted in undue increase in imports. By 1990-91, the balance of payments situation became precarious and the foreign exchange reserves depleted to a level which was hardly adequate to meet import payments for a few weeks. The rate of inflation reached an unprecedented level of about 17 percent. The public debt, including external borrowings, rose to a level of 60.6% of GDP and the interest payment alone amounted to 21.4% of GDP.

Under the shadows of this economic crisis, Government of India sought external assistance which came from International Monetary Fund (IMF). The assistance was accompanied by a package of conditionalities that insisted on 'structural adjustment' measures. Structural adjustment, in simple terms means, adjustment of the role of institutions in economic management. The two major economic institutions are **state** and **market**. Therefore, structural adjustment means a shift in the dominant role of the state and public sector to a regime where market and the private sector would play the dominant role. Under the economic reforms, the major thrust was to reduce the investment and regulatory role of state and increase the room for free play of market forces by dismantling protective measures on trade and controls on domestic and foreign investment in economic activities.

The immediate steps towards overcoming the economic crisis included devaluation of rupee by 22%, liberalisation of trade policy and measures to control fiscal deficit by cutting down public expenditure. A series of liberalisation, privatisation and globalisation (LPG) measures followed. The Government justified these measures as needed for achieving: (i) increased efficiency and competitiveness of industrial production, (ii) much greater utilisation of foreign investment and technology than in the past, (iii) improved performance of public sector and (iv) for modernising the financial sector.

The second wave of economic reforms followed in almost all economic policies and strategies. Fiscal policy aimed at reducing fiscal deficit by regulating public expenditure in general. Towards this end, streamlining public sector by methods like disinvestment and privatisation, and withdrawal of budgetary support to public sector, wherever necessary, were adopted as the approach in the policies followed. Monetary policy aimed at controlling inflationary pressures and achieving improvement in balance of payments position. In price policy, the measures involved progressive reduction of subsidies and promotion of more flexible price structure. To control prices, the emphasis was laid more on competition than on regulation and budgetary support through subsidies. The immediate and major changes under economic reforms were in policies relating to trade, industry, foreign investment, and public sector. On the trade policy front, besides reduction in tariffs, there was a gradual shift from quantitative restrictions to tariff based system. By April 2001, all quantitative restrictions were abolished.

Industrial Policy 1991

The Industrial Policy announced on July 24, 1991 included the following reforms:

i. Industrial licensing was abolished for all projects except a shortlist of 15 industries related to security of strategic or environmental concerns.

ii. The regulation under Monopolies and Restrictive Trade Practices (MRTP) Act were relaxed in a manner that there was hardly any need to get Government approval for expansion or starting new venture.

iii. The areas hitherto reserved for public sector were drastically reduced and even some areas reserved for public sector was thrown open to private investment.

Foreign Investment Liberalisation

Foreign investment in industry and services were liberalised to an extent of:

i. 40% equity, relaxed up to 51% in a wide range of industries. Subsequently, this was raised further to 100% for many industries.

ii. Automatic royalty payments to foreign technology were allowed up to 5% to domestic sales and 8% of export sales.

4.5.3 Institutional Reforms

As we have observed, India's development process began in the framework of planning with focus on import substitution and domestic protection. This strategy had necessitated the setting up of a number of institutions for 'controlling' imports, 'regulating' capital flows and domestic investments. There was the institution of 'Chief Controller of Imports and Exports' (CCI&E), Director general of Technical Development (DGTD), Controller of Capital Issues in the Ministry of Finance etc. However, with the induction of radical policy reforms, since 1991, many such institutions of the earlier policy regime had become redundant. The office of CCI&E was reconstituted with a different focus on export promotion and import management (instead of import controls) and was called as Directorate General of Foreign Trade (DGFT). The DGTD was abolished. The institution of MRTP (Monopolies and Restrictive Trade Practices) has been replaced by a new Competition Act in 2002 and a new institution called Competition Commission of India has been set up. A new body called Securities and Exchange Board of India (SEBI) has been set up to monitor and regulate the capital market operations.

Since 1995, the World Trade Organisation (WTO) has been set up at the global level, in place of the earlier GATT and this has implied many radical changes in the policies and institutions at the national level as well.

In regard to the structure of Governance, there has been a major shift towards decentralisation of governance with the 73rd and 74th amendments of constitution making the Panchayat Raj system an important system of governance in the country.

The challenges of 'corruption', 'inefficiency', inter-regional and interpersonal inequalities, empowerment, 'failures' of the state and 'failures' of the market continue to plague the system thereby necessitating a constant review of the administrative and governance systems in the country. As a response to meet these challenges, the Government of India has recently set up an 'Administrative Reforms Commission' to review the entire institutional framework of governance in the country.

Public Sector Reforms

The major changes in the public sector reforms were:

i. The number of industries reserved for public sector was reduced from 17 to 8. Even in the reserved areas, private sector participation was allowed selectively. Joint ventures with foreign companies was encouraged.

ii. Public sector enterprises, that were chronically sick would be referred to Board for Industrial and Financial Restructuring (BIFR) and closed or privatised if necessary.

iii. there would be increasing emphasis on profitability and rate of return, and budgetary support to public enterprises would be progressively reduced.

iv. Loss making enterprises would be considered for privatisation and selective disinvestment would be introduced to strengthen the resource position of public enterprises. The Disinvestment Commission was established for deciding on the selection and modalities of equity dilution.

Following the implementation of the above measures, there has been a drastic shift in the overall investment level in favour of private sector. Table 4.2 shows that even in the Plan outlays, the balance has shifted drastically in the post-1991 years in favour of the private sector.

Table 4.2 Plan Outlays in the Public and Private Sector

(Percentages)

Plan	Public Sector Outlay	Private Sector Outlay	Total
First Plan (1951-56)	53.5	46.5	100
Second Plan (1956-61)	60.8	39.2	100
Third Plan (1961-66)	64.7	35.3	100
Fourth Plan (1969-74)	63.9	36.1	100
Fifth Plan (1974-79)	69.7	30.3	100
Sixth Plan (1980-85)	61.4	38.6	100
Seventh Plan (1985-90)	51.7	48.3	100
Eighth Plan (1992-97)	34.7	65.3	100
Ninth Plan (1997-2002)	29.0	71.0	100
Tenth Plan (2002-2007)	22.0	78.0	100
Eleventh Plan (2007-2012)	21.9	78.1	100

Source: 1. Five Year Plan Documents.

2. Eleventh Five Year Plan 2007-2012, Vol. I, p. 28.

Public Private Partnership (PPP)

In financing and developing social and physical infrastructure, economic reforms laid considerable emphasis on public-private partnership (PPP). The PPP projects typically involve transfer or lease of public assets, delegation of government authority for recovery of user charges, operation and control of public utilities, etc. PPP again indicates the growing entry of private sector into the sphere of public sector activities.

Impact of Policy Changes

There is wide acclaim that economic reforms have put the Indian economy on the higher growth path. During the last ten years, India has emerged as one of the top ten fastest growing economies in the world. However, one of the major weaknesses recognised is that the benefit of growth are not reaching many groups which still feel excluded from the growth process.

Inclusive Growth

Conscious of the exclusionary tendencies of market driven fast growth performance, the Eleventh Plan adopts a strategy of ‘inclusive growth’. The object of ‘inclusive growth’ is to ensure broad-based improvement in the quality of life of the people, especially the poor, SCs/STs, other backward castes (OBCs), minorities and women. While recognising the possibility of achieving higher growth rates of 9% in GDP and even 7.6% in GDP per capita, the Eleventh Plan mentions that 'the target is not just faster growth but inclusive growth, that is, growth process which yields broad-based benefits and ensures equality of opportunity for all'. But there are serious doubts whether unbridled economic reforms, that build institutional structures like commercialised education and health facilities which actually generate exclusionary processes while yielding a high growth, would facilitate in the realisation of pro-poor inclusive growth. If there are no proper institutional correctives and regulatory mechanisms, fears of vast exclusion may become a reality.

Check Your Progress 3

1. What is meant by 'structural adjustment'?

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2. What were the immediate steps taken by the Government to overcome the economic crisis in 1991?

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3. What were the major changes in Industrial Policy 1991, as a part of economic reforms?

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4. Briefly state changes in public sector policy as a part of economic reforms.

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4.6 LET US SUM UP

We have seen in this unit the changing policies and strategies of development in the era of planning from the First Plan to the Eleventh Plan. Priorities of each plan depended on the immediate concerns in the economy, and quite often, responses to meet the challenges of short term were adopted. But, over a long term, the framework or approach to planning changed. The Nehru-Mahalanobis framework for planning with an emphasis on heavy industry, import substituting industrialisation and, with a key role to public sector lasted over three decades. A shift in this approach involved a great deal of review and reformulation of policies. Though there were changes towards loosening of controls and some degree of liberalisation in 1980s, it was only in 1991 that there was a decisive shift on the policy front. This shift came about in the form of structural adjustment measures marking a change from a dominant role played by the state to a more substantial role for the market driven growth brought about by economic reforms. The experience shows that such economic policies, in a dynamic context, may bring about unexpected adverse effects too like social exclusion. There is, therefore, a need for correctives by way of regulatory institutions to ensure considerations of equity and social justice.

4.7 KEY WORDS

Mahalanobis Model : Also known as 'heavy industry' strategy. The economy is divided into two sectors, one producing capital/investment good and the other producing consumer goods. The argument is that, for long-run sustained growth of consumer goods, initial build up of investment goods sector is essential.

Garibi Hatao : 'Remove Poverty' – the thrust of Fourth Five Year Plan (1969-74).

Hindu Growth Rate : Whatever the plan targets, a persistent realisation, like Hindu 'karma', of an annual growth rate of 3.5%.

Import Substituting Industrialisation (ISI) : A strategy of industrialisation of protecting nascent domestic industry from competition by foreign industries achieved by imposing high tariffs or quantitative restrictions on imports.

Export Pessimism : Belief that without industrialisation, there would not be much scope to pursue export promotion as a strategy.

4.8 SOME USEFUL BOOKS

Charan D. Wadhwa (ed), *Some Problems of India's Economic Policy*, 2nd Ed., TMH, New Delhi, 1997.

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Terence J. Byres (ed), *The State and Development Planning in India*, OUP, Delhi, 1994.

Uma Kapila (ed), *Indian Economy Since Independence*, 17th Edition, Academic Foundation, New Delhi, 2006.

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4.9 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1. See Section 4.2.1 para 2
2. See Section 4.2.1 para 3
3. See Section 4.2.2 para 1
4. See Section 2.2.2 para 4

Check Your Progress 2

1. See Section 4.3 para 2
2. See Section 4.4.1 para 2
3. See Section 4.4.2 paras 3 and 4
4. See Section 4.4.3 para 2
5. See Section 4.4.4 para 2

Check Your Progress 3

1. See Section 4.5.2 para 2
2. See Section 4.5.2 para 3
3. See Section 4.5.2 para 5
4. See Section 4.5.2 para 7

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