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INDIAN ECONOMY : PARADIGMATIC SHIFTS IN POST INDEPENDENCE ERA

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ABSTRACT

"The ending of poverty and ignorance and disease and inequality of opportunity", these were the basic foundations on which India embarked upon its path of development since gaining independence in 1947. After independence, the implementation of economic reforms in different economic policies in India was associated with a paradigmatic shift in the economy of India during different time periods. While different economic policies has been characterized by the objective of development and growth, but some time the objective were not supported by the economic and market conditions which gives adverse effect in the development of economy of India. This paper gives a theoretical overview of the economy of India during the different era. It also highlights the numerous steps taken by government for the growth and liberalizing the economy. Some mistaken points in making the policies also characterized in this paper. It is summarized with the recent position of the India Economy.

KEYWORDS : *Indian Economy, economic policies, liberalization, economic conditions.*

INTRODUCTION (THE INDIAN PLANNING PROCESS)

The objective of India's development strategy has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty. These objectives were to be achieved within a democratic political framework using the mechanism of a mixed economy where both public and private sectors co-exist. India initiated planning for national economic development with the establishment of the Planning Commission. The aim of the First Five Year Plan (1951-56) was to raise domestic savings for growth and to help the economy resurrect itself from colonial rule. The real break with the past in planning came with the Second Five Year Plan (Nehru-Mahalanobis Plan).

The strategy underlying the first three plans assumed that once the growth process gets established, the institutional changes would ensure that benefits of growth trickle down to the poor. But doubts were raised in the early seventies about the effectiveness of the 'trickle down' approach and its ability to banish poverty. Further, the growth itself generated by the planned approach remained too weak to create adequate surpluses- a prerequisite for the 'trickle down' mechanism to work. Public sector did not live upto the expectations of generating surpluses to accelerate the pace of capital accumulation and help reduce inequality. Agricultural growth remained constrained by perverse institutional conditions. There was unchecked population growth in this period. Though the growth achieved in the first three Five Year Plans was not insignificant, yet it was not sufficient to meet the aims and objectives of development. These brought into view the weakness of economic strategy. We discuss the failure of the planning process in more detail in the next section. A shift in policy was called for. The Fifth Plan (1974-79) corrected its course by initiating a program emphasizing growth with redistribution. To accelerate the process of production and to align it with contemporary realities, a mild version of economic liberalization was started in the mid 1980s.

Three important committees were set up in the early 1980s. Narsimhan Committee on the shift from physical controls to fiscal controls, Sengupta Committee on the public sector and the Hussain Committee on trade policy. The result of such thinking was to reorient our economic policies. As a result there was some progress in the process of deregulation during the 1980s.

Hence, the roots of the liberalization program were started in the late 80's when Rajiv Gandhi was the Prime Minister of India, but the reach and force of the reform 3 program was rather limited. There were political reasons as to why this program could not be enhanced which we talk about later.

The Failure of the Planning Process

While the reasons for adopting a centrally directed strategy of development were understandable against the background of colonial rule, it, however soon became clear that the actual results of this strategy were far below expectations. Instead of showing high growth, high public savings and a high degree of self-reliance, India was actually showing one of the lowest rates of growth in the developing world with a rising public deficit and a periodic balance of payment crises. Between 1950 and 1990, India's growth rate averaged less than 4 per cent per annum and this was at a time when the developing world, including Sub-Saharan Africa and other least developed countries, showed a growth rate of 5.2 % per annum. An important assumption in the choice of post-independence development strategy was the generation of public savings, which could be used for higher and higher levels of investment. However, this did not happen, and the public sector-instead of being a generator of savings for the community's good- became, over time, a consumer of community's savings. This reversal of roles had become evident by the early seventies, and the process reached its culmination by the early eighties. By then, the government began to borrow not only to meet its own revenue expenditure but also to finance public sector deficits and investments. During 1960-1975, total public sector borrowings averaged 4.4 % of GDP. These increased to 6 % of GDP by 1980-81, and further to 9 % by 1989-90. Thus, the public sector, which was supposed to generate resources for the growth of the rest of the economy, gradually became a net drain on the society as a whole. I will now try to give some reasons for the deterioration of the public sector in India.

1) The legal system in India is such that it provides full protection to the private interests of the so called 'public servant', often at the expense of the public that he or she is supposed to serve. In addition to complete job security, any group of public servants in any public sector organization can go on strike in search of higher wages, promotions and bonuses for themselves, irrespective of the costs and 4 inconveniences to the public. Problems have become worse over time and there is little or no accountability of the public servant to perform the public duty.
2) The process and procedures for conducting business in government and public service organizations, over time, have become non-functional. There is multiplicity of departments involved in the simplest of decisions, and administrative rules generally concentrate on the process rather than results. There is very little decentralization of decision-making powers, particularly financial powers. Thus, while local authorities have been given significant authority in some states for implementing national programmes, their financial authority is limited.

The Reforms of Manmohan singh

At the beginning of 90's the reform process was started by the then Finance Minsiter of India, Manmohan Singh. Hence during early 90's it was imperative for India to correct its clearly faulty developmental process. There have been several reasons put forward for the failure of the developmental path which necessitated the reforms of Manmohan Singh in 1991. The way I would approach the analysis is through the approach of comparing and contrasting the viewpoints of two of the most prominent Indian economists of our times.

(i) **The Background:** India's economic reforms began in 1991 under the Narsimha Rao Government. By that time the surge in oil prices triggered by the Gulf War in 1990 imposed a severe strain on a balance of payments already made fragile by several years of large fiscal deficits and increasing external debt as was discussed before. Coming at a time of internal political instability, the balance of-payments crises quickly ballooned into a crisis of confidence which intensified in 1991 even though oil prices quickly normalized. Foreign exchange reserves dropped to $1.2 billion in 1991, barely sufficient for two weeks of imports and a default on external payments appeared inevitable. The shortage of foreign exchange forced tightening of import restrictions, which in turn led to a fall in industrial output.

(ii) **A digression: The politics of reforms** In a very engaging article on the politics of reforms Ashutosh Varshney has raised an extremely important question as to why was India's minority government in 1991 successful in introducing economic reforms, whereas a much stronger government, with a three-fourth majority in parliament, was unable to do so in 1985 (under the Prime Ministership of Rajiv Gandhi)? His argument draws a distinction between mass politics and elite politics. He believes that "this distinction has not been adequately appreciated 11 in the voluminous literature on the politics of economic reforms. Scholars of economic reforms have generally assumed that reforms are, or tend to become, central to politics. Depending on what else is making demands on the energies of the electorate and politicians- ethnic and religious strife, political order and stability, corruption and crimes of the incumbents- the assumption of reforms centrality may not be right". In the largest ever survey of mass political attitudes in India conducted between April-July 1996, only 19 percent of the electorate reported any knowledge of economic reforms, even though reforms had been in existence since July 1991. Of the rural electorate, only about 14 per cent had heard of reforms, whereas the comparable proportion in the cities was 32 per cent. Further nearly 66 percent of the graduates were aware of the dramatic changes in economic policy, compared to only 7 per cent of the poor, who are mostly illiterate. In contrast, close to three-fourths of the electorate – both literates and illiterates, poor and rich, urban and rural- were aware of the 1992 mosque demolition in Ayodhya; 80 per cent expressed clear opinions about whether the country should have a uniform civil code or religiously prescribed and separate laws for marriage, divorce, and property inheritance; and 87 per cent took a stand on caste-based affirmative action. Thus according to Varshney, elite politics is typically expressed in debates and struggles within the institutionalized settings of a bureaucracy, of a parliament or a cabinet. Mass politics takes place primarily on the streets. In democracies, especially poor democracies, mass politics can redefine elite politics, for an accumulated expression of popular sentiments and opinions inevitably exercise a great deal of pressure on elected politicians. The economic reform's during 1991 kept progressing because the political context had made Hindu-Muslim relations and caste animosities the prime determinant of political coalitions. The reforms were crowded out of mass politics by issues that aroused greater passion, and anxiety about the nation. And hence the reforms could go as far as they did.

The Reforms in a Nutshell The reforms had two broad objectives.

One was the reorientation of the economy from a statist, centrally directed and highly controlled economy to what is referred to in the current jargon as a 'market friendly economy'. A reduction direct controls and physical planning was expected to improve the efficiency of the economy. It was to be made more 12 'open' to trade and external flows through a reduction in trade barriers and liberalization of foreign investment policies. A second objective of the reform measures was macro-economic stabilization. This was to be achieved by substantially reducing fiscal deficits and the government's draft on society's savings.

Results: Compared with the historical trend, the impact of these policies has been positive and significant. The growth rate of the economy during 1992-93 to 1999-2000 was close to 6.5 per cent per annum. The balance of payments position has also substantially improved. Despite several external developments, including the imposition of sanctions in 1998 and sharp rise in oil prices in 2000-01, foreign exchange reserves are at a record level. Current account deficits have been moderate, and India's external debt (as a percentage of GDP) and the debt servicing burden have actually come down since the early nineties. There is also evidence of considerable restructuring in the corporate sector with attention being given to cost-competitiveness and financial viability. The rate of inflation has also come down sharply.

A Closer Scrutiny: When we talk about GDP growth we talk about the aggregate figures. Let us closely look at the sectoral composition. If we look at the growth rates with respect to different sectors we find that the growth rates of agricultural and industrial production have not increased at all in the nineties, compared with the eighties. The increase in overall growth in the 1990's is overwhelmingly driven by accelerated growth of the 'service' sector. The service sector includes some very dynamic fields, such as uses of information technology and electronic servicing, in both of which India has made remarkable progress. This was largely a result of the liberalization policies initiated by Manmohan Singh. Similar comments apply to the phenomenal expansion of software-related export services.

How has the Reforms been successful in creating a widely shared developmental process? The issue as to whether the reforms have been successful in eliminating poverty to a greater extent than say in the 80's is a contentious issue. Experience prior to the 1990s suggests that economic growth in India has typically reduced poverty. However, the 1990s are more contentious. Some observers have argued that poverty has fallen far more rapidly in the 1990s than previously (for example, Bhalla, 2000). The basic question of measuring India's poverty rate has turned out to be harder to answer than it needed to be because of difficulties with coverage and comparability of the survey data. It is probably apt to remark here that oftentimes the public rhetoric fails to take the incomparability problems in the surveys from which the poverty estimates are calculated and try to interpret the estimates to reinforce their particular arguments. It is worth noting that even if one were to endorse the official 1999-2000 headcount ratio of 26 per cent, which is known to be biased downwards, one would find that poverty reduction in the 90s has proceeded at a similar rate as in the earlier decades, in spite of a significant acceleration in the economic growth rate. As things stand, this is the most optimistic reading of the available evidence. All of the estimates were made with respect to head-count indexes. During the first two years of the reforms when the fiscal stabilization constraints were dominant it dipped a little, but after that it increased. Given the close association between real agricultural wages and rural poverty, this pattern is consistent with the belief that poverty has continued to decline in the 90s, but perhaps at a slower rate than in the 80s.Lastly, it is important to note the rising economic inequalities of the 90s. Two aspects are well established. First, inter state economic disparities have risen in the 90s, when states that were already comparatively advanced (notably in the western and southern regions) grew particularly fast. Second, there is also strong evidence of rising rural-urban disparities in the 90s, as one might have expected given the sectoral imbalances discussed earlier. There is consistency in results thus consistent with the view that achieving higher aggregate economic growth is only one element of an effective strategy for poverty reduction in India. The sectoral and geographic composition of growth is also important, as is the need to redress existing inequalities in human resource development and between rural and urban areas."

CONCLUSION

The result was that the inducement to invest in the economy was constrained by the growth of demand from the agricultural sector and the public sector savings. But agriculture has grown nowhere by more than 4 per cent per annum over a sustained period of over a decade. And we discussed the issue of public sector savings earlier. By contrast, the East Asian investment rate began its take-off to phenomenal levels because East Asia turned to the Export Promotion strategy. The liberalization program of Manmohan Singh in 1991 was a welcome step towards achieving the logic which has been argued by Bhagwati. Unfortunately, the second step of the developmental process, that of derived demand for education and other social issues, have been far from being realized atleast a decade after the reform process. On the other hand, Sen's contention that the planning process failed was because of the government's complete neglect throughout of issues on literacy, health and other social indicators. The fact that the reform process did actually achieve a higher growth rate in the 90's with the opening up of the economy is actually received quite encouragingly by Sen (as against some assertions made on the contrary). In fact during the 90's the concerns have become more stark in some sense, whereas India has achieved a respectable growth rate while on the other hand problems on literacy, health, living conditions continue to exist at an increasing rate. So he would argue that the reform process is largely an incomplete work. The situation that India faced in the early 90's (which led to the reform process in the first place) was an extreme situation. Unfortunately the Congress government had to leave soon given the rise of BJP and its subsequent control of the Parliament. Hence I think, that Manmohan Singh's achievements have to be evaluated in this light given the initial conditions from which he started. It would have been likely that India would have fallen into a situation such as that of Argentina in the current years, if not because of the timely reform process. Otherwise we would be left gloating in our achievements without sufficient introspection in the neglected dimensions of our economy.

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