NEED AND AREA OF ECONOMIC REFORM IN INDIA: AN ANALYSIS

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Abstract: Earlier policies to expand the public sector made the public sector inefficient and the sector was suffering a lot of damage. The licensing and control system prohibited investment by the private sector and foreign investors were also discouraged due to this. There was a need to rethink the economic policies adopted in the first four decades of inorganic development. As a result, the government started economic reforms. In this paper, we discussed about the nature of economic reform and its field. The progress and problems of implementation of economic reforms will be studied and this policy will be analyzed.

Key words: economic reforms, tax reform, private sector, public sector undertakings

INTRODUCTION

After the political independence achieved by India in the year 1947, a number of public undertakings were established in the country, mainly with a view to speed up the economic development of the country. However, at that time there were many other immediate reasons behind setting up public sector undertakings (PSUs), such as the private sector, could not set up industries in which capital is very much needed, the return on capital investment is uncertain, where modern and latest Technology is required and production process should be very long. Thus, public sector undertakings started their role in the economic development of the country from 1947 onwards. The country has also had many benefits.

Recently, in the era of corona virus epidemic, when many Indians were trapped in other countries, even at this time, the country’s public sector Air India helped these Indian migrants and thousands of Indians trapped abroad by flying special aircraft in the country. Was safely brought back. Therefore, when a disaster situation has arisen in the country, then public enterprises have come forward and helped the people of the country.

Indian economy is mainly of mixed economy in nature but due to limited success of growth rate till 1990 and globalization, there has been an effort to privatize Indian economy since 1991. At present, privatization of PSUs due to the trend of losses, remains a major issue of discussion in the country.

It is generally believed that doing business and doing business is not the job of the state. That is why it is often said that there should be very limited intervention of the government in the trade and business of the country. The operation of a capitalist economy is through market factors. After globalization, such a concept is developing more rapidly.

Apart from this, some other major reasons are also counted in favor of privatization. As such, the government should focus more on the efficiency of governance than on controlling, managing and operating non-strategic enterprises. A large amount of public resources engaged in non-critical public sector enterprises should be placed in priority areas of society, such as public health, family welfare, primary education and social and essential infrastructure. Therefore, public sector undertakings with commercial exposure, which have taxpayer money, should be transferred to the private sector in respect of which the private sector is eager and able to come forward. Objectively, the money invested in public sector enterprises is of the general public, therefore it is very important to consider the amount of excessive finance being put in the corporate sector.

Recently, the Finance Minister of the country, Honorable Smt. Nirmala Sitharaman has announced several economic reform programs to be implemented in the public undertakings of the country. Due to this, the process of consolidation will start on a large scale in public utilities in many areas of the country and the process of disinvestment in many government undertakings will also begin. The central government will soon announce a new policy for public sector undertakings, according to which public sector undertakings of non-strategic sector can be privatized on the basis of feasibility. The said policy paper will also describe the strategic areas in which the public sector undertakings need to remain.

To generate maximum employment opportunities in the country and to speed up the economic development of the country, both public and private sector together need to contribute their full contribution. So far the Indian economy is functioning as a mixed economy anyway, so both public and private sector have equal importance. But if the public and private sector are determined to have their own area of work, then the available resources in the country can be exploited to a great extent and the possibility of overlapping between these two areas will also be reduced. Yes, it will be necessary for the public sector to improve its efficiency so that it can be made profitable and its dependence for financial support becomes less and less on the government. Also, the public sector will have to continue to bear its social responsibility as it is needed in the country. There are many areas in the country where there is a great need for

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development; it is very difficult for the private sector to reach in such areas because the private sector weighs its decisions from the beginning on the scales of profitability, while the public sector also pays attention to its social responsibility.

Economic activities in the country are being resumed after the Corona virus epidemic. The honorable Prime Minister of the country, Honorable Shri Narendra Modi has called upon all the countrymen to make serious efforts at their own level to make the country self-reliant. Adoption of Swadeshi can be a credible way to make the country self-reliant. Therefore, today the public sector undertakings have to increase their participation in the economic development of the country, taking into account their earlier contribution to the economic development of the country. Today when every effort is being made to make the country self-reliant, the importance of public sector cannot be underestimated at such a time. Public sector units are required to advance their manufacturing process by utilizing the resources available within the country so that indigenous manufactured goods can be easily transported to far flung areas of the country and the demand for these products can be generated in the country. Now the time has come that the private sector should also promote indigenous technology so that the money earned in the country can be spent within the country and speed up the economic cycle in the country.

**NEED FOR ECONOMIC REFORM**

The economic policy started under the leadership of the late Prime Minister Jawaharlal Nehru provided for the following: (i) Main role of public sector in setting up heavy and basic industries, (ii) Expanding the role of government through public sector in construction of hydroelectric power projects, dams, roads and communication, and (iii) Role of Government in the development of social infrastructure in the form of schools, colleges, universities, technical and engineering institutes and in setting up medical institutions to train primary health centers, hospitals and doctors, nurses etc.

Although the rest of the economy was left to the private sector, a system of regulation and control was implemented in this part. This resulted in the introduction of license permit raj. Bureaucrats and politicians started earning money by misusing the license system. There is no doubt that under the leadership of the state, the promotion of economic development led to the creation of an industrial base in the form of heavy and basic industries. With its help, roads, railways, communication and hydropower works, and thermal power plants were constructed and education and health facilities were spread. There were some problems also. These problems were:

1. Constraints in relation to investment in private sector arose due to excessive controls and licensing policy.
2. There was a huge amount of investment in public sector, but income from them was very less. The condition of public sector was deteriorating due to inefficiency and bureaucratic rules.
3. All the areas which were safe for public sector had monopoly of this sector. In these areas the private sector was not empowered to compete with the public sector. As a result, the public sector did not pay attention to reducing its costs.
4. Due to the Monopolies and Restrictive Trade Practices Act 1969, large business establishments could not invest large amounts of private investment in large projects.
5. Foreign investors were also discouraged from having complex rules and regulations related to licenses etc.

The above mentioned reasons necessitated a change in the economic policy, which on the one hand could lead to the reform of the public sector and on the other hand the restricted areas could be opened for entry to the private sector (both Indian and foreign). There was a need to rethink the economic policy adopted in the first four decades of development to improve growth and efficiency.

**THE FORM AND AREA OF THE CURRENT ECONOMIC REFORM POLICY OF THE GOVERNMENT**

**Tax Reform :** The government is reforming taxes with a view to curbing tax evasion and levying higher taxes under which the government has implemented several recommendations related to direct and indirect taxes; i.e:

1. The maximum rate of individual income tax has been reduced to 30 percent.
2. The facility of giving tax in the form of fixed amount has been provided to the shopkeepers and small traders.
3. The import-export duty structure has been simplified.
4. Implementation of D.T.C. (Direct Tax Code) and GST (Goods and services Tax).

**Economic Sector Reforms:** The government has done the following to improve the economic sector;

1. New principles have been made for the banks so that their annual accounts can be reported to the real position;
2. The limit of wealth is being reduced for banks.
3. Public sector banks have been allowed to raise their capital from the capital market, but 51 percent of the capital will always remain with the government.
4. Private sector banks can do their development without fear of nationalization.
5. Statutory rights have been given to SEBI; the office of the capital controller has been closed. SEBI has implemented several rules by-laws to regulate the capital market. The ‘National Wing Market’ has been established.

**Public Sector Reforms:** The public sector has not functioned as expected. Most of the units are running in losses. Therefore, several measures have been taken to improve the public sector. Some of these major measures are as follows:

1. Non-plan loans will not be given to deficit units.
2. The profit-making public units have been given the anonymity to give up to 49 per cent of their capital to the private sector.
3. The public sector will be restricted to strategic and high tech industries and reserved structures. Some of the areas hitherto reserved for the public sector will be freed for the private sector.
4. The Board for Industrial and Financial Reconstruction (BIFR) will be consulted in respect of public sector enterprises which are suffering from chronic diseases. If this board declares them to be Non Viable, then they will be terminated. But if the Board is of the opinion that they are likely to be revived, then their revival / rehabilitation plan will be implemented. In this process, the workers who will be removed from work will be given assistance under the social security mechanism.
5. To increase the efficiency of the workers and to link their interest with the work, a portion of the shares of the enterprise will be given to the workers.
6. Public sector management will be allowed to take funds from mutual funds and other financial institutions by giving them a part of their ownership with a view to mobilizing resources for public sector units.
7. Public sector management will be made more professional and they will be given more autonomy in decision making.
8. Public sector units will sign Memorandum of Understanding Management with the government so that they can be autonomous on one hand and responsible on the other.
Industrial Policy Reforms: Under the Economic Reform Program, fundamental changes have been made in the Industrial Policy. These are:
1. Industrial license system has been abolished.
2. MRTPI industrial houses no longer need to seek permission for appropriation and extension.
3. The number of industries safe for the public sector has been reduced from 17 to 3.

Correcting Fiscal Deficit: Under the Economic Reform Program, it has been said to reduce the fiscal deficit. This deficit was 6.6 percent of GDP in 1990–1991. Which has been reduced to 5.6 percent in 2004-05.

Foreign Trade and Exchange Rate Policies: In the past years there were strict government controls on foreign trade and regulation rate policies, but now:
1. The import duties which were quite high have been reduced at several levels such as to the maximum of 150 per cent in July 1991, 110 per cent in February 1992, 85 per cent in February 1993 and 50 per cent in March 1995. The year 2005-06 has been reduced from 20 to 40 percent.
2. Liberalizing import of gold and silver.
3. To determine the exchange rate of rupees according to demand and supply in foreign exchange market;

Foreign Investment Policy: Foreign investment policy can play an important role in the industrial development of the country. From the announcement of new industrial policy till 2004-05, foreign appropriators have been allowed to appropriate Rs. 2,84,812 crore, but the actual appropriation has been only Rs. This includes foreign companies that have been allowed 100% foreign investment.

LIBERALIZATION
Liberalization means freeing industry and trade from unnecessary restrictions so as to make them more competitive. In other words, liberalization is a process in which administrative measures such as licensing control, quota system, etc. are being reduced by the government machinery of the country for economic development of the nation. This reduces the role of the government in the economic system gradually. The basic objectives of liberalization are:
1. Minimizing government and bureaucratic interference in the field of business
2. To improve production capacity by improving domestic production system
3. To improve the quality of goods through research in the economic sector
4. To make possible rapid development in the field of agriculture, industry, transport etc. by making radical changes in the country’s economy,
5. Improve managerial efficiency and performance
6. Increasing employment opportunities
7. To end unnecessary monopoly of public sector
8. Participation in international level competition
9. Making the information exchange system effective
10. To step up in the condition of all-round development of the entire economy.

Arguments in favor of liberalization: In the favour of liberalization, following Arguments could be given, these are:
1. The foreign exchange reserves have increased amazingly. The foreign exchange reserves in July 1991 were only one billion dollars, which increased to $ 82,774 billion in July 2003.
2. Various positive results have been seen by adopting liberal policy in agriculture, industry etc.
3. India’s exports have increased. Where the total exports were Rs 44,041 crore in 1991-92, in January 2000 it increased to Rs 1,18,638 crore.
4. There has been an increase in FDI and decrease in fiscal deficit.
5. Liberalization is giving Indian consumers an opportunity to get cheap, attractive and durable goods which has improved the standard of living of the masses.
6. By adopting the policy of liberalization, the globalization of the country’s economy is becoming visible.

PRIVATIZATION
The term ‘privatization’ has been attracting attention internationally in business, government and academia. The credit for discovering the word ‘privatization’ goes to Peter F. Drucker, who used the term in his book, ‘The Age of Discontinuity’ (1969). Ten years later, when Mrs. Margaret Thracher became Prime Minister of Britain, she gave privatization a practical form. After this, privatization was adopted by many countries one by one.

In a nutshell, privatization means transferring the ownership of such industrial units to the private sector which was hitherto under government ownership and control. In a broader sense, privatization refers to the adoption of a liberal industrial policy by the government in relation to private industries, so that the government minimally controls and regulates the various economic activities of private entrepreneurs. The share of the public sector in privatization is less than that of the private sector. The basic objectives of privatization are:
1. To improve the performance of public sector industries so as to reduce the financial burden on taxpayers.
2. Encourage private sector appropriations and increase income for the government.
4. One of the aims of privatization is to make the private sector popular among the general public.

Constraints/Obstacles - The following are the major obstacles in the path of privatization:
1. The government generally wants to sell the uneconomic public units, which the private sector does not want to buy at the price demanded by the government.
2. Governments find it difficult to issue shares due to relatively undeveloped capital markets. On the other hand, the government also faces a problem in providing finance to big buyers. 3. Political opposition may be faced if the ownership rights of public industry are given to the private sector. In addition, employees working in the industry also protest because they fear losing their jobs.

Rationale in favor of privatization: Those expressing views in favor of privatization believe that the solution to various problems of the public sector lies in privatization. They present the following arguments in favor of privatization:
1. Fixing the responsibility - It is difficult to hold an employee or officer accountable or accountable in public industries for a deficiency or defect, but the area of responsibility in the private sector is clearly defined. Even if the responsibility is fixed in public industry, due to various pressures and powers, their effective implementation is not possible.
2. Increased Efficiency and Performance: Each decision in a private sector is ‘profit-based’. Due to direct relation between work and award, constant efforts are made to improve efficiency and performance.

3. Good Service to the Consumers: The existence of private sector mainly depends on the satisfaction of the consumers as it is the satisfaction that motivates the consumers to purchase. Normally in the public industries, interest of consumers, requirements etc. are seen to be disregarded. Once privatization, the possibility of a huge change in the outlook of public industries has been expressed. As a result, the quality of services is expected to improve drastically.

4. Prompt Remedial Measures to be taken in the Private Sector: Immediate remedial steps are taken in the private sector in relation to removing any shortcomings or defects. It takes a lot of time to make decisions regarding taking such steps in the public sphere and the problem takes a formidable form and sometimes it is almost impossible to remove that flaw or deficiency.

5. Economic Socialism: The ‘state monopoly’ will end by privatization and there will be progress towards economic socialism as a result of policy making, pricing and freedom of various decisions. Along with the government, entrepreneurs, market forces etc. will also interfere in such a system.

6. Non-political Interference: Former Governor of the Reserve Bank of India, Vimal Jalan, rightly says that political interference in the public sector cannot be ignored, which can be said to be one of the reasons why the efficiency of those industries is declining. Such a thing does not apply to the private sector.

7. New Technology: Privatization leads to the emergence of new entrepreneurs and associates in the country. They use new technology to bring new varieties of goods to market.

8. Succession-related Planning: Many folk industries often remain ‘headless’ for a long time. This leads to various apprehensions in making decisions because no one knows what will be the attitude of the incoming head (Principal Director or General Manager). Such a situation does not arise in the private sector because in this the successor is decided quickly and in time.

9. Creation of Benefits: Privatization creates capital, funds and benefits in the country. The primary objective of the private sector is profit making. The private sector continuously strives to increase the investment in business. As a result, funds are available for surplus and appropriation in the country.

GLOBALIZATION

The meaning of globalization is different for different people. For developing countries, integrating the country’s economy with the world economy is called globalization. In simple words, it is a process in which the world integrates and transforms into a huge market. For this to happen, it is necessary to remove all the trade barriers. Political and geopolitical barriers have no meaning in globalization. The following are the salient features of globalization:

1. There is a rapid growth of business, especially the expansion of multinational corporations.
2. The economy of the country is integrated with the world economy in which political and geopolitical barriers are eliminated.
3. International financial transactions or activities accelerate.
4. The international market appears, that is, the international markets related to goods, services, capital, technology and labor are integrated.

Factors that inspire globalization in India: The main factor that inspire globalization in India are:

1. Political Factors - The disintegration of the Soviet Union and the United States remaining as the only superpower were the most important events. International market started operating in US dollar, which encouraged globalization.
2. Technological Advancement - Technical revolution in the field of transportation, communication and information etc. has played an important role in the development of globalization. The use of computers and satellites in the field of information technology has completely changed the entire communication system. The entire world has become a small village in which an information can be transmitted to any other place in a few moments through e-mail, mobile phone, personal computer etc. Technological advances have made it possible to produce high variety at low cost.
3. Experiences of developing countries - Developed countries have greatly improved their economy by adopting a policy of globalization. Taiwan, Korea, Thailand, Singapore, Hong Kong etc. are examples of this. Successful globalization of these countries has been encouraged in India.
4. Liberal policies - Internationally, various countries adopted the policy of ‘Trade Liberalization’. As a result, the trade barriers on international economic transactions were removed which encouraged the process of globalization. This led to the emergence of generosity in trade and foreign investment.
5. Features of Industrial Organisation - New trends emerging in the industrial organization have also promoted globalization. The flexible production system, technological progress, organizational features (mainly based on Japanese management) of industrial organizations have prompted economic activities across national boundaries.
6. Competition - One of the major features of capitalist economy is competition from other sector (public sector). Due to this competition, entrepreneurs need to find new markets in foreign countries. Due to competition from foreign corporations, domestic corporations are also establishing themselves in the world perspective.
7. Interrelated and Independent Economies: In terms of economic well-being, globalization refers to an economically interconnected environment. Other nations of the world contribute to the prosperity of each nation, that is, no single nation can progress without the cooperation of other nations. Financial problems such as reverse balance of payments in India and other developing nations have made globalization necessary.

The process of globalization in India is advancing rapidly. Some of the main reasons for this are:
1. Multinational Corporations ¼MNCs½ have entered India in large numbers. 2. Indian companies have received ISO 9000 certificates around 2200 numbers which are high quality guarantees.
2. The activities of Indian corporations have increased in the US debt market.
3. Not only has Tarkar been reduced, but the economy has also been opened up for foreign direct investment (FDI) and foreign technology.
4. Both trade and export intensity have increased in the last few years. India’s exports increased by 19 percent in 2002-03 as compared to the previous year.
5. There is a huge amount of foreign investment in the country and multinational companies have entered the country.
EVALUATION OF ECONOMIC REFORMS

The reforms were initiated with great enthusiasm. It has many benefits but has not been successful in many areas. This policy is being evaluated below.

1. There was a gradual improvement in the growth of the economy and in three years (from 1994–96 to 1996–97) the growth rate increased to 7 percent of the GDP. This was a record in relation to growth of growth rate.

2. Public sector units (PSUs) now face the challenge of privatization due to economic reforms. They are trying to improve their operations to save their assets. In the year 1995–96, the Central Government PSUs earned gross income at the rate of 16.1 percent on the invested capital, a record rate. 2005-06 49214 crores received from disinvestment.

3. Economic reforms have been successful in curbing inflation. In 1991-92 it was over 10 per cent while in January 2007 it was 6.11 per cent.

4. The index of industrial production shows that the overall growth rate in the sector increased from 0.6 per cent in 1991-92 to 11.8 per cent in 1995-96, although the rate fell to 6.6 per cent in 1996-97. Then it was 8.2 percent in 2006-07.

5. The growth rate of exports was Rs 3.8 (measured in US dollars) in 1992-93. By 1995-96, this rate increased to Rs 20.8. But in the year 1996-97, this rate again decreased to Rs 4.1. Similarly, the growth rate in imports had increased from Rs 12.7 in 1992-93 to Rs 28.6 in 1995-96 but later decreased and it was increased to Rs 5.1 in 1996-97. It increased to Rs 23.4 in 2005-06.

6. The foreign exchange reserve fell to 2.24 billion US dollar was done by 1990-91. By April 2007 it had increased to $ 2.00 billion. This has enhanced India’s reputation in the international market.

Economic reforms include programs for liberalization, privatization, globalization and public sector reforms. This policy continues to focus on short-term objectives such as controlling the worsening balance of payments situation, creation of foreign exchange reserves, reducing fiscal deficit and controlling inflation.

But this policy has failed to address the long-term goals of reducing poverty, bringing about full employment conditions, self-reliance, eliminating inequality of wealth, provision of opportunity and establishing social justice. Even with regard to some short-term targets such as inflation control and privatization, this policy has only met with partial success. The major areas that should be reoriented in economic reforms are:

1. Its scope of work has been limited. Mainly it has focused its attention on large corporate sectors. This has resulted in neglect of small scale sector and agriculture, which are the main sources of employment. It is necessary to strengthen the small scale sector and the agriculture sector to increase overall economic growth and make it more successful in the long term.

2. Due to opposition from the trade unions in the field of privatization, the economic reforms have not achieved any special success. In fact, he has adopted the path of symbolic privatization. This work is being done through the process of disinvestment of very healthy public sector enterprises. In addition, the proceeds from disinvestment are still used to meet the deficit of the central government. It is not appropriate to do so.

3. Economic reforms have been able to control the growth rate in the wholesale price index, but it has not stopped the increase in the consumer price index of workers working in industries or agricultural laborers. The average increase in the consumer price index for the period between 1991–92 to 1996–97 was 10 percent per year. It involves the welfare of the general public.

4. Economic reforms have not reduced the fiscal deficit on a long-term basis. It has failed to control non-plan expenditure, but it has cut plan expenditure to show reduction in fiscal deficit. After implementing the report of the Fifth Pay Commission and the Sixth Pay Commission, the non-plan expenditure is likely to be very high, but the government’s is less likely to be increased by voluntarily discloses of income scheme. Income is unlikely to increase. In other words, it can be said that economic reforms have given huge concessions to the rich people by reducing the maximum rate of tax to Rs 30 but they have not been able to motivate the tax evaders to reveal their income.

5. Economic reforms to build infrastructures have been more dependent on foreign private sectors, but it has failed in this regard. For example, in the last five years, foreign firms have not been able to increase the supply of electricity in this country by a single kilowatt. In the Eighth Plan, there was a target of increasing the power generation capacity by 30,538 MW, but in fact it was only 16,243 MW, which was 46 rupees less than the target.

CONCLUSION

In a nutshell it can be said that in order to make the basis of economic reform more comprehensive, it needs to be reoriented so that agriculture and small scale industries can also be included in it. The private sector and public sector of the country should be given equal status so that they can contribute to the construction of infrastructure in the areas of electricity, telecommunications, roads etc. Keeping in mind the importance of this, former Prime Minister Mr. Gujral, while addressing the Confederation of Indian Industry (CII) conference on 16 August 1997, said that “the days of 11th century capitalism came to an end when any foreigner Income could dominate in this country. We welcome foreigners, but they will not be allowed to destroy the companies of this country or take them under their control. They will be allowed to invest only in those areas in which we need their cooperation. The industries of India will get all kinds of protection and will be protected from unfair competition.

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