CHAPTER-2
ECONOMICS REFORMS

2.1- Brief of Pre- Liberal economic policy

A development of very great significance concerns the reforms of the economy. These aim radically altering the very character of the economy from a regulated one to a liberalized one. Several polices bearing on almost all the aspects of the economy (like industries, trade finances etc. Sometimes subsumed under the title of the new Economics policy are expected to transform the functioning of economic agents, as also the outcome of their activities. We discuss these reforms by taking up first their features and then critically evaluating them by examining their rational and justification and their short comings. Impact of these reforms on the various aspects of the economy described in the last section.

2.2- Main features of economics reform

The efforts of reforming the Indian economy started during the 1980's particularly since the middle of that decade by that time the government had realized the weaknesses of the policies that had provided since 1950. These policies were designed around such important basics as; direct control of private investment a dominant role for the public sector; a regime of import-substitution and centralized planning all this, it came to be recognized, had reduced efficiency and competitiveness of the economy, besides hindering rapid growth of output and employment. The reform of the economy entailed the demolition of this control-led economy, as also providing a different basis for its functioning. The reform measures, which in the initial stages were few, become many and wide ranging during the 1990's. These when put together, amount of big changes in the roles of the market, the state and the planning system.
Features of New Economics Policy

2.2a) Market Orientation

The thrust of the ongoing changes is to make market the centre piece of the economics system. For this several significant steps have been taken. The key element of market, namely competition is sought to be introduced through. The dismantling of various controls and regulations which have so governed. The activities of the private sector., It is presumed that the economic agents like the producer, the trader etc. in pursuit on their profits and guided by the market prices determined freely by the demand and supply forces, with complete among themselves for the scarce resources and produce as per the market demand. Beside going away from the government restrictions. The expended is more than one way. A number of industries/over so for reserved for the public sector are being thrown open to private ownership. These are again, Public sector units, which are to be partially owned by the private sector through disinvestment of part of the government ownership in favour of the private sector. Further in case of the public sector unit the element of private sector is being injected through such a change in their functioning that these work as per the market principles. The private sector is also being expended by permitting the foreign companies to set up their establishment within in the country independently or in collaboration with the Indian companies.

A part of marketization of the economy, the new polices also aim at the globalization of the Indian economy several interrelated sets of measures have been taken to achieve this objectives. One set of measures aims at doing away with the licensing of a major part of imports and exports. This implies that the imports and exports are to take place not as
per the government’s directions but in terms of the needs of the market. The government has also shed much of its trading functions and passed on the same to the private importers and private exporters. While this opens up the economy, another set of measures aim at putting the economy in line with the rest of the world. The drastic lowering of the rates of custom duties has state for market and public services.

2.2 (b) State for market and public services

Another aspect of the current reforms and which is in line with the market orientation of the economy concerns the role of the state. This has now been substantially change from the one it has been so for namely, controlling the commanding heights of the economy through ownership of a major part of the investment in a large variety of industries and an extensive control and regulation of the private sector. This role has now been redefined along three lines.

One the existing sphere of government operations has been much reduced. The number of industries reserved for public ownership has been much curtailed. The operations of a state have been further restricted in the existing public sector undertakings thought in favour of the private sector. The events of the public sector have been further evaded through the privatization of certain aspects of the governments activities like, for example management of railway catering and ownership of contains etc, as also constructions and maintenance of certain bridges roads etc by the private parties. The role of the government has also been reduced with the policies of decontrol deregulation and re-licensing in several sectors like industries, trade, foreign exchange etc.
Two, while reducing the role of the state it has also been provided that the state should contribute its maximum in areas where it is best and where the private sector is incapable of entering where its entry is socially undesirable with this in view two types of activities have been cum asked for the state sector. One is related to those activities which are essential which are essential for the operation of the economy. These are infrastructure goods and services, exploration and exploitation and buildings of manufacturing capabilities in area which are crucial in long term development of the economy. Manufacture of products where strategic considerations predominant such as defence equipment. The record one is concerned with those activities which improve them human capital and raise the welfare of the people. These pertain to the supply of social services like health and medical facilities education and the special programmes for the uplift of the weaker section of population.

Three in the redefined role of the state prevision has also been made for interventions of the state in the market which are largely to9 be market friendly in substance. Towards this and several responsibilities have been entrusted to the state for example , the state is to make its policies transports so that there is no ambiguity in respect of the rules and procedures for the smooth functioning of the market. The state also has to ensure that malpractices such as monopolistic activities, speculative deals etc. do not mar the healthy working of the markets. For even the public sector undertakings have been brought with in purview of the monopolistic and restrictive trade practices Act. This state will also have to provide a fair deal to workers and consumers besides providing a proper environment the state is also to influence the market with well defined objectives in view. It may be an invention through monetary policy to
effect the money supply and the rate of interest or it may be fiscal policy to alter the ability and will of the people to save and invest though for example taxes, or it may be buffer stock policy to keep the prices of the essential items of consumption within the reach of the masses. And so an and so forth. However, all such interventions will by and large be through change in demand and supply factors only changes in the quantities so that the essential of the market remain interact however it is also provided that the working of the market may be suspended in exceptional or abnormal circumstances when it is not possible for it to cope with such contingencies.

2.2(c) Indicative Planning

The planning system of the country has undergone a qualitative change. The comprehensive and state directed planning system which operated till recently, has been given up. Instead, a planning system largely indicative in character has been adopted. This type of planning provides a current picture of the economy at present and the likely course it should adopt in the five years of the plan. It also co-ordinates the activities of the different sectors, as also that of the central states and other government agencies. Such planning also works out a quantities picture of the various aspects of the likely course of the economy. These include the availability of total resources, internal and external, as also their division among the various sectors, namely, private trends in respect of growth of the economy as also its important component such as exports, imports, production, consumption, saving, investment, etc.

As for the implementation is concerned, the instruments deployed are largely market related incentives/disincentives. These take on the form off
profit of loss prices of factors and products as also of money and foreign exchange to an extent the government influences them through policies. However, the net outcome of these instruments is not good. The expected growth of different sectors but in cannot be presumed that the outcome will necessarily conform to these expectations. The actual results, however may or may not correspond with the provision made ex-ante.

**First Generation Economic Reforms**

**Pre- Liberalisation Period (1947-1991)**

Indian economic policy after independence was influenced by the colonial experience which was seen by Indian leaders are exploitative, and by those leaders exposure to democratic socialism as well as the progress achieved by the economy of the soviet union. Domestic policy tended towards protections with a strong emphasis on import substitution industrialization economic interventatism a large public sector business regulation and central planning.

Jawaharlal Nehru the first prime minister of India, along with the statistician Prashant Chandra, formulated and oversaw economic policy during the initial years of the country’s existence they expected favourable outcomes from their strategy involving the rapid development of heavy industry by both public and indirect state intervention, rather than the most extreme soviet style command system.

The rate of growth of the Indian economy in the first three decades after independence of growth because of the unfavorable comparison with growth rates in other Asian Countries especially the East Asian Tiger.

Since 1965, the use of high yielding varieties of seeds, increased fertilizers and improved irrigation facilities collectively contributed to
the green Revolution in India which improved the condition of agriculture by increasing crop productivity improving patterns and strengthen forward and backward linkages between agricultures and industry, However it has also been curtsied as an unsustainable effort resulting in the growth of capitalistic forming ignoring institutional reforms and widening income disparities second generation of economic reforms.

**Second Generation of Economic Reform**

**2.4 Post- Liberalization Period (Since 1991)**

In the late 1970s the government led by Morarji Desai eased restrictions on capacity expansion for incumbent companies, removed price controls reduced corporate taxes and promoted the creation of small. Scale industries in large number how ever the subsequent government policy of Fabian socialism hampered the benefit of the economy leading to high fiscal deficits and a worsening current account. The collapse of the soviet Union, which was the India's major trading partner, and the gulf was which caused a spike in oil prices, resulted in a major balance of payment crisis for India which found itself facing the prospect of defaulting on its loans. India asked for a $1.8 billion bailout loan from the International Monetary funned (IMF), which in return demanded reforms.

In response, Prime Minister along with is finance minister initiated the economic liberalization of 1991. The reforms did away with the license reduced tariffs and invest rates and ended with public monopolies allowing automatic approval of foreign direct investment in many sectors. Since than the overall thrust of liberalization has remained the same. Although no government has tried to take on powerful lobbies such as trade union and farmers on contention issues such as reforming labour laws and
reducing agricultural subsidies by the turn of the 20th century India has progressed towards a free market economy with a substantial reductions in state control of the economy and increased financial liberalization. This has been accompanied by increases in life expectancy, literary rates and food security, although the beneficiaries have largely been urban resident.

While the credit rating of India was hit by its nuclear weapons tests in 1998, it has since been raised to investment level in 2003. economist predicted that India's GDP in current prices would overtake France and Italy by 2020 Germany, UK and Russia by 2025 and Japan by 2035, making it the third largest economy of the world, behind the US and china India, is often seen by most economist as a rising economic superpower and is believed to play or major role in the global economy in the 21st Century.

OPEN AND CLOSE ECONOMY

An open Economy is an economy in which there are Economic activities between domestic community and outside, e.g. people including business can trade in goods and services with other people and business in the international community and flow of funds as investment across the border. Trade can be in the form of managerial exchange, technology transfers, all kinds of goods and service. Although these are certain exceptions that cannot be exchanged like railway services of a country has to produce its own. This contrasts with a closed economy in which international trade and finances cannot take place.

The act of selling goods or services to a foreign country is called exporting. The act of buying good from a foreign country is called
importing. Together importing and exporting are collectively and international trade.

There are a number of advantages for citizen of a country with an open economy one primary advantage is that the citizen consumers have a much larger variety of goods and services from which to choose. Additionally consumers have an opportunity to invest their saving outside of the country.

In an open economy a country's spending in any given year need not to equal its output of goods and services. A country can spend more money than it produces by borrowing from abroad, or it can spend more money than it produces by borrowing from abroad of it can spend less than it produces and lend the difference to foreigners. These is no closed economy in today world.

2.5(A) Advantage of an open economy.

* 2.5(a) (i) Greater choice for consumers:-

* In an open economy the domestic markets are merged with international markets and so the consumers are not limited to consume domestically produced goods and services. They can choose the best from the world market.

* (ii) Increased competition and lower prices:-

A related benefit of an open economy is that the customer has an increasing number of producers or goods and services competing for their business competition among producer’s results in lower prices and improved services An open economy allows consumers to benefit from the lower labor and operating costs.
* (iii) Expended markets and customer basis

The benefits of an open economy are not limited to consumers. Global interaction allows companies to gain access to customers in other nations. This motivates them to produce world class products, expand their business and customer brands.

* (iv) Global Business Opportunities:-

For investors, an open economy expands the opportunities for investing capital, investors large and small can choose to invest in known domestic companies, or they can invest in established industrial giants of other nations. Investor with an appetite of risk, meanwhile, can invest in the emerging markets of world.

* (v) Gains from Trade

One of the key principles of economics is that trade benefits all parties involved international trade involves interaction trade involves interaction with other economics and is therefore possible any among open economics trade allows nations to specialize in producing the goods in which they have comparative advantage and trade with other nations to obtain goods in which in which other nations specialize. Then in turn provides consumers with a greater away of goods from which to select.

*(vi) Capital mobility and world interest rates under open economy.

In care of small open economy we have perfect capital mobility by 'Small' we mean that on economy has very small share in the world markets. It has a negligible effect on interest rate. By perfect capital mobility, we mean that residents of a country have full access to goods and service and especially financial markets of the world. Because of their ambitions of perfect capital mobility, the interest rate small open
economy, r must equal to the world interest rate that is r*, the real interest rate prevailing in world financial markets, real this means that people in this small open economy will never borrow at move than real rate in home country. They further shift to international markets to borrow or invest, in last real> real world interest rate. Thus we can say that the interest rates in a small open economy are determined by the world markets. world interest rate on the other hand is determined by equilibrium of world saving and world investment.

2.6 CLOSED ECONOMY

* Closed economy is the economy which does not have any sort of economic relation with rest of the world but is confined to itself only. A closed economy does not enter in to any one of the following activities.

* It neither exports goods and services to the foreign countries nor import goods and services from the foreign countries.

* In neither buys shares debentures bonds etc. from foreign countries nor sells shares debentures bonds etc to foreign countries.

* It neither borrows from the foreign countries nor lends to the foreign countries.

* It neither receives gift from foreigners nor sends gifts to foreigners.

* Normal residents of a closed economy cannot go to other countries to work in their domestic country or territory. No foreign is allowed to work in the domestic’s territory of a closed economy. Due to all these reasons, gross domestic products and gram national products are the same in the economy.

On the other hand, an open economy is are, which is not only involved in the process of production within the domestic territory but also can participate is production anywhere in the rest of the world. An open economy involves itself is the following activities.
* It buys shares, debenture, bonds etc from foreign countries and sells shares, debentures bonds etc to foreign countries.

* It borrows from foreign countries and lend to foreign countries.

* It can send gifts and remittances to foreigners and can receive the same from them.

* Normal residents of an open economy can move or be employed and are allowed to work in the domestic territory of other economics.

* Due to all these reasons, gross domestic products and Gross National products are not same is an open economy. It is to be noted that all economies of the worked are open economics.

* Difference between Pre and Post Economic Liberalization Policy.

The economic liberalization in India refers to an ongoing economic reforms in India that started on 24 July 1991, After independence in 1947, India adhered to socialist policies, in the 1980, Prime Minister P.V. Narsimha Rao Initiated some reforms, in 1991 after India faced a balance of payment crisis it had to pledge 20 tons of gold to union Bank of Switzerland and 47 tons to Bank of England as part of a bailout deal with the international minatory fund (IMF). In addition, IMF required India to undertake a series of structural economic reforms. As a result of this requirement, the government of P.V. Narsimha Rao and his finance minister Man Mohan Singh started breakthrough reforms, although they did not implement many of the reforms IMF wanted. The new neo-liberal policies included opening for international trade to investment deregulation initiation of privation tax reforms and inflation controlling measures. The overall direction of liberalization has since remained the some irrespective off the ruling party although. No party has yet tired to taken on powerful lobbies such as the trade unions and farmers or contentious issues such a
reforming labour and reducing agricultural subsidies. The main objective of the government was to transform the economic system from socialism to capitalism to as to achieve high economic growth & industrialize the nation for the well being of Indian citizen. Today India is mainly characterized as a market economy.

As of 2009, about 300 million people equivalent to the entire population of the United States-have escaped extreme poverty. The fruits of Liberalization reached this peak in 2007, when industries recorded its highest GOP growth rate of 9% with this, India become the second fastest growing major economy in the world, next only to chains. An organization for economic Co-operation & Development (OECD) report states that the average growth rate 7.5% will double the average income in a decade, and more reforms would speed up the paces Indian government coalition have been advice to continue liberalization.

For 2010, India was ranked 124th among 179 countries in Index of Economics Freedom world Ranking's which is an improvement from the breeding year.

Indian economic policy after independence was influenced by the colonial experience and by those leaders expenses to Fabian socialism. Policy tended towards protectionism with a strong emphasis on import substitution, industrialization under state mentoring, intervention at the micro level in all businesses especially in labour and financial markets, a large public sector, business regulation and central planning five year plans of India remembered central planning is the Union. Steel, Mining, machine tools water telecommunication, insular and electrical plants, among other industries was effectively nationalized in the mid 1950 elaborate licenses, regulations. and the accompanying red tape, commonly refused to as
license Raj were required to set up business in India between 1947 and 1990.

Before the process of reform began in 1991, the government attempted to close the Indian economy to the outside world. The Indian currency, the rupee was inconvertible & high tariffs and import licensing prevented foreign goods reaching the market India also operated a system of central planning for the economy in which firms required licenses to invest and develop. The labyrinthine bureaucracy often led to absurd restriction up to 80 agencies had to be satisfied before a firm could be granted a license to produce and the state would decide what was produced how much at what price and what sources of capital were used planning & the state rather than markets, would determine how much investment was needed.

In the 80s, the government led by the P.V. Narsimha Rao started light reforms. The government slightly reduced License Raj & also promoted the growth of the telecommunication and software industries.

# 2.8 IMPACT OF REFORMS

* The HSBC Global technology center in Pune develops software for the entire HSBC group.

The impact of these reforms may be quaked from the fact the total foreign investment is India grew from a minuscule US $ 132 million in 1991-92 to $ 5.3 Billion in 1995-96

Cities take NOIDA, GURGAON, GAZIABAD, BANGALORE, HYDERABAD, PUNE, CHENNAI, JAIPUR, INDORE & AHMEDABAD have risen in promises & economic importance, become centers of rising industries & destination for foreign investment & firm.
References:

1. Ruddar Dutt, Indian Journal of Industrial Relations
2. Ibid
3. Dutta & Sundaram, Indian Economy 2000
4. Economic & Political Weekly
5. Deepika Chakrovarty
6. Jesim Pais, EPW
7. The Economic Times
8. Emesto Noronha
9. Ibid. p. 49
10. Ibid. p. 50.
12. V. Ravi, Indian Journal of Training & Development
13. Suarand Prasad, Indian Journal of Training & Development