CHAPTER – 3

Macroeconomic Policy and Economic Reforms in India

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3.1 Introduction

Independent India in the early years was steeped in mass poverty, acute unemployment, widespread illiteracy and uneducation, static agriculture with semi-feudal relations, a highly undeveloped industrial sector; and woefully inadequate infrastructure in respect of transportation, communication, power, banking and finance facilities. The gravity of the problems was quite high and thus, it required a big national effort rather than initiating a mere contra-cyclical policy as suggested by Dr. Keynes to arrest an economic depression. It is for this reason we adopted 'planning as a lever of social and economic change'. Nehru, the architect of Indian planning, greatly admired the achievements of Soviet Planning and so borrowed the concept of socialism from the Russians but along with this, he also regarde the democratic values of the capitalist society. Thus, in our endeavour to take advantage of the virtues of the two extreme societies which themselves were also undergoing a transformation, the vision of the new society that was sought to be developed in India was popularly described as 'democratic socialism'. Democratic socialism was then started to be emphasized in the light of the mixed economy idea.

Introducing the concept of mixed economy, we promptly admitted the possibility of the existence of both the private sector and the public sector. While doing this we kept in mind the hard fact that private enterprises were to
reconcile the element of self-interest with the element of social interest, and in certain cases, the survival of private enterprises was to be made conditional on the fact that it should serve the community at large. Furthermore, private enterprise might not be allowed to figure prominently in every sector of the economy. While in certain sectors like agriculture and small scale industry it might be allowed free access and full scope, in others it may be allowed to participate only in a very limited degree. There might even be certain sectors which may be regarded as of strategic and national importance to which private enterprises might not be allowed at all.

Thus, with the above idea in mind, the Government of India planned to play a positive role in the field of economic activities defining some industries to be completely state-owned, some jointly owned and managed; and the rest handed over to the private sector. Since mixed economy operates under the divergent, and in many situations, conflicting set of motivations, the planning process in a mixed economy is much more complex than that in a socialist economy. The conflicting motivations are those of self-interest on one hand and social gain on the other. The purpose of economic planning and development strategy in India, therefore, was to reconcile the conflicting interests so that they subserve the national interest. It was seriously noted that the success of development planning in India had to depend on three main factors such as the efficiency of the public sector to pursue and achieve the socially determined goals; the ability of the government to guide the private sector to follow the socially determined goals; and the extent to which the government is able to check the distortions in investment decisions arising out of private sector interests going against the public sector.

3.2 Development Strategy and Macroeconomic Policy till the Mid1980s

The Government of India, in the behold of the inherent contradictions of a mixed economic system, initiated the process of economic development
recognizing due importance of the private, public and co-operative sectors. The development strategy in the country started with the initiation of the Five Year Plans which had the objectives of rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of values and attitudes of a free and equal society.

A close study of the development strategies adopted by the Government of India between 1950-51 and 1984-85 unfolds certain interesting facts especially with regard to reduction of poverty and disparities in income and wealth as well as prevention of concentration of economic power in the country. Before evaluating it critically, it makes sense to make a brief summary of the macroeconomic policy initiatives of the government till the mid eighties. The development strategies of India till the mid eighties may be summarized under three broad heads viz., strategy of heavy industrialization, strategy of employment creation and strategy of distributive justice.

**Strategy of Heavy Industrialisation**

Predominance of agriculture and negligence of industrial activities even when India was bestowed with natural and human resources ideally suited for industries under the British rule made the planners feel that resources should be applied more towards the development of industrial activities rather than to agriculture. This could substantially reduce disguised unemployment in the agriculture sector itself eventually reducing the problem of low land and labour productivity in agriculture. Rapid industrialization was an essential condition for the development of not only agriculture but also for all other sectors in the country. For instance, with the expansion of industries and the shifting of labour from rural to urban areas, the demand for foodgrains and agricultural raw materials would increase. It was also realized that productivity of labour is much higher in manufacturing than in agriculture. Rapid increase in national and per capita income would be possible only through rapid industrialization.
Thus, the basic purpose of the heavy industry strategy was to achieve self-sustained growth by diverting increasing proportion of investment into the establishment of machine-building industries. This strategy typically shaped the Second Five Year Plan.

**Strategy of Employment**

It is clear from the above that the strategy of planning during the early years of independent India was essentially to achieve the objective of self-sustained long term growth via investment in the heavy sector. For rapid industrialization and diversification of the economy, the Mahalanobis development strategy considered the development of basic industries and machine building industries needed for further development as the crucial element. This strategy naturally came in conflict with the employment objective of our plans. In order to solve the conflict between rapid growth on one side and immediate increase in gainful employment opportunities on the other, the Mahalanobis strategy adopted a policy of encouraging labour intensive techniques in consumer goods industries even as the capital-intensive sector of heavy industry was being expanded rapidly. However, hardly any success was achieved in this regard either during the Second Plan or during the successive plans.

**Strategy of Distributive Justice**

The heavy investment strategy, relied on the ‘trickle down theory’ and assumed that increase in production would also be accompanied with better and more equal distribution of income and wealth. It was because of this assumption that the Indian Planners relied on the use of the fiscal policy instruments such as public expenditure policy and taxation policy of the Government to achieve the two social objectives viz., the removal of
inequalities of income and wealth and the establishment of a socialist society based on equality and justice. Apart from the use of fiscal policy, the planners did not adopt any strategy for direct redistribution of property and wealth to achieve reduction of disparities of income and wealth and to prevent concentration of economic power. The only exception was the half-hearted attempts at land reforms and ceiling on land holdings in rural areas which, in no way, was proved to be sufficient in dealing with the situation. Critics are of the opinion that as regards the setting up of an egalitarian socialist society or to create the values and attitudes of a free and equal society, the Indian planners never formulated any definite strategy or attempted any specific measures.

A critical appraisal of the development strategies followed till the mid-eighties brings home the fact that the agriculture sector as well as the small scale sector were not given the emphasis they deserved and trade deficits kept mounting along with continuous increase in unemployment. Not only this, inequality of income and wealth kept on being unprecedented and poverty went on increasing uncontrollably.

That the development strategy ignored the importance of the agriculture sector severely is proved from the fact that the Government of India had allotted only about 20 per cent of the resources to the agriculture and allied sectors which used to contribute around 50 per cent of the national income whereas the industry sector was allotted between 18-24 per cent of the total resources contributing only about 20 per cent of the national income.

Overemphasis on heavy industrialization resulted in heavy imports of machineries and technologies from the rest of the world leading to huge and growing adverse balance of payments. Again negligence of light industries created problems of imbalanced industrial growth. Due to heavy industrialization, national income and per capita income improved slightly but side by side unemployment kept increasing resulting in larger number of people living below poverty line. The occasional and ad hoc programmes for creating temporary employment were highly inadequate to solve the problem
The overwhelming importance to the public sector as a core macroeconomic policy during the planning era was viewed as an instrument of economic development in India. However, leaving a few profit-making units, public sector units had been generally loss making or suffering from erosion of profit. This means that the savings of the community mobilized and invested in the public sector units were grossly wasted. The gross underutilization of capacity in the public sector units led to high cost of production in other industries and relatively low rate of growth in the industrial sector. This wasteful investment concentration, in an indirect way, accentuated the problem of low income in the country.

Another serious implication of the development strategy during the first three decades of planning was found on income and wealth distribution. The investment strategy used in the Five Year Plans aggravated the inequality of income and wealth rather than reducing it. The benefits of planning and the increase in output in agriculture and industry have been appropriated by the landlords in rural areas and the traders and industrialists in urban areas. The open encouragement given to the setting up and the expansion of large industrial units directly led to the concentration of economic power in the hands of a few large industrial families.

### 3.3 Modest Reforms in the Mid-Eighties

In view of the above, the Government of India, in 1985 outlined a new trend in economic policy with emphasis on improvement in productivity, absorption of modern technology and fuller utilization of capacity. The main constituents of the new policy, therefore, were (i) Policy of liberalization accompanied by removal/relaxation of controls; (ii) Restoration of competition; (iii) Re-
orientation of fiscal policy; (iv) Modernisation of industries with a hi-tech bias; (v) A long term perspective and (vi) A bigger role for the private sector.

The new economic policy believed that in the initial phase of our development, controls served a positive role because the aim was to ensure that investment was undertaken and facilitated in socially desirable channels. But as the process of planning proceeded forward, the country had to grapple with the problem of foreign exchange crisis in 1958 and after. Not only this, the progressive role assigned to control mechanism through IDRA over a period of time became so complicated that it began to act as a force inhibiting investment. The new economic policy, therefore, focused its attention on dismantling the edifice of controls so as to remove the unnecessary hurdles in securing licences, in adjusting output to administered prices and in denying industrial licencing to MRTP companies. The government initiated a number of measures in this regard a summary of which is presented below.

- Cement was decontrolled and a number of units were sanctioned additional licensed capacities in the private sector.

- In sugar, the share of free sale sugar was enlarged.

- The ceiling asset limit of big business houses was raised from Rs. 20 crore to Rs. 100 crore.

- A scheme of broad banding of licences was introduced on January 11, 1985 for manufacturers producing two-wheelers to produce any type of two-wheeler up to 350 CC engine capacity such as scooters, motorcycles, mopeds etc. within the overall licenced capacity. The scheme was then extended to four-wheelers, chemicals, pharmaceuticals, petro-chemicals, fertilizer machinery industries, and all types of typewriters-manual, electric and electronics.
• The new textile policy virtually abolished the distinction between the mill, power loom and handloom sectors as well as did away with the distinction between natural and synthetic fiber for licencing purposes.

• The electronics industry was freed from the MRTP Act restrictions. The entry of FERA companies was also welcome in this area.

Thus, the NEP emphasised on expanding the private sector by opening up of areas hitherto reserved for the public sector to private sector. This was done with the hope that it would impart a new dynamism to the industrial sector in order to meet the challenges of growth and equity in the economy. The policy also emphasized the application of hi-tech to give an impetus to modernization. The Policy intended to promote sunrise industries like computers and electronics which now occupy a central place in the phase of second industrial revolution. As a logical corollary of this commitment, the Government exempted the manufacture of most electronic components from the purview of Sections 21, 22 and 23 of the MRTP Act. The exemption was further liberalized to cover materials for electronics, computers, broadcasting equipment, control instrumentation and industrial and professional electronics and communication equipments. The electronics policy announced by the government welcomed the entry of FERA companies into the industry. The policy also explicitly stated ‘import of technology would be permitted freely’ for the purpose. The above attempts were a major departure from the policy pursued prior to 1984.

The new export-import policy introduced in 1985 was another important policy initiation after the mid-eighties. This was brought about in order to achieve certain well thought out objectives such as facilitating production through easier and quicker access to imports; bringing about import continuity and stability to EXIM policy; strengthening export production base; and stimulating technological upgradation. For the above purpose, the Government decanalised the import of 53 items. As many as 201 items of industrial machinery were placed on Open General License (OGL) list. The new
economic policy laid emphasis on export-led growth to meet the balance of payments problem. Towards achieving this objective, it then permitted a heavy doze of import-liberalisation to remove bottlenecks in raising domestic production, more specifically in export production industries.

Critically evaluating the New Economic Policy from the view point of income inequality and economic power concentration one may come to the following conclusions.

The NEP over emphasized the industry sector and its modernization and it was done to the extent of utterly neglecting the agriculture sector. According to the Economic Survey (1987-88) the NEP was a failure as it forgot the role of agriculture in the Indian economy. There was a need of a two-legged strategy of growth – treating agriculture and industry as two inseparable wings of the economy without which there would not be any possibility of a stable, sustained, high growth economy with equal distribution of income and wealth.

To highlight growth of concentration of economic power as a fall out result of the NEP, it has been remarked that the Indian industry remained trapped in a low growth orbit as it was observed that high growth was limited to about a quarter of all industry groups in the index while the bulk of the industry stagnated and the crucial capital goods sector actually suffered a decline. This clearly indicates that the policies of liberalization pursued in the mid 1980s blatantly failed to cure the disease of lopsided industrial development which was a major factor leading to concentration of economic power.

3.4 Economic Reforms and the LPG Policy

It is clear from the above discussion that the reform measures undertaken in 1984-85 were ad-hoc, half-hearted and no serious as a result of which signs of crisis began to manifest themselves in 1991. Important of them were very low foreign exchange reserves which was not even sufficient for financing
imports of three weeks. National debt had increased to an unendurable extent constituting almost 60 per cent of the GNP. Inflation was galloping at a rate of 12 per cent per annum. The situation was also fueled by the Gulf War, hike in the administrative prices of many essential items and excess liquidity in the economy under the pressure of such economic crises the Government of India decided to launch a serious massive economic reforms package in 1991.

The government took two years to get over the immediate macroeconomic crisis, initially with the help of a balance of payments loan facility from the International Monetary Fund. The government came out with a clear enunciation of its vision and the objectives of its economic reforms only after regaining macro-economic stability.

3.4.1 Paradigm Shift

The reforms introduced in 1991 were based on a much clearer recognition of the need to integrate the Indian economy with the global economy through trade, investment and technology flows; and, for this purpose, to create conditions which would give Indian entrepreneurs an environment broadly comparable to that in other developing countries. It was considered important to liberalise investment, banking and finance sector operations and foreign trade. Minimisation of the role of the government and privatization of economic activities was also emphasized. In respect of instruments, there was clear recognition that the reforms could not be limited to piecemeal adjustments in one or the other aspect of policy but must bring about system changes affecting several sectors of the economy. The comprehensiveness of the reforms was not perhaps fully evident at the very beginning, when the primary focus was on restoring macro-economic stability, but as the reforms proceeded the scope and coverage of the reform effort were more clearly outlined. The economic reforms of the 1990s, therefore, involves a paradigm shift in the macroeconomic policy of the government.
3.4.2 Objectives

The economic reforms package of 1991 was introduced with a number of objectives. It was felt that, in order to fasten the economic growth process by reducing imperfections, it is important to bring about rapid and sustained improvement in the quality of the people of India. Thus, human development was a major objective of the reforms. Rapid growth in incomes and productive employment was considered another crucial step to be taken for common determent as it was realized that the only durable solution to the curse of poverty is sustained growth of incomes and employment. Since such growth requires investment in farms, roads, irrigation, industry, power and, above all, in people; it was felt necessary to emphasise on the expansion of such facilities in a productive manner. Successful and sustained development depends on continuing increases in the productivity of capital, land and labour. Hence, another major objective of the reforms was to improve substantially the productivity of such primary factors of production.

3.4.3 Broad Provisions

Economic reforms introduced in 1991 can be seen to have three broad provisions viz. liberalization, privatization and globalization of the Indian economy.

3.4.3.1 Liberalisation

As discussed earlier, a major economic crisis was witnessed towards the early 1990s which was accumulated over several years of imperfections in the front of policies and their ineffective implementations. Hence, a comprehensive package of liberalization measures were undertaken to improve the supply side of the economy. Among these the more important ones were: (i) Trade and Capital Flow Reforms, (ii) Industrial Deregulation, (3)
Disinvestment and Public Enterprise Reforms and (iv) Financial Sector Reforms.

As part of trade liberalization policy, the Government of India introduced reform policies such as devaluation of rupee and subsequently its depreciation against currencies of the leading industrialized countries; introduction of the convertibility of the rupee first on trade account and then for the entire current account transactions, liberalization of import regime, substantial reduction in customs tariff rates, decanalisation of many items of trade and wide ranging measures to give a thrust to exports. The government has also liberalized capital flows in the form of foreign direct investment as a part of the package of external sector reforms. Foreign companies are now allowed to use their trade marks, accept appointment as technical or management advisers, borrow and accept deposits from the public and repatriate profits. These liberalization measures in respect of foreign investment though highly acclaimed in the official circles, have exposed the industrial activity to extensive control of multinational corporations.

Prior to 1991, as has been mentioned previously, the industrial environment of India was subject to a wide array of physical controls. The Indian industry sector was under the 'Licensing Raj' which drastically regulated its entry and expansion. The government had reserved a large number of industries for the public sector. The industry sector had to go through a very time consuming procedure for the entry and exit of industrial units. Prices and distribution control on a number of commodities was also followed with rigour. With a view to doing away with such restrictions the Government of India introduced the industrial deregulation policy commonly known as liberalization policy as part of the economic reforms in 1991. Limit on the size of the companies which was earlier enforced under the Monopoly and Restrictive Trade Practices Act was scrapped. The industrial location policy was both simplified and liberalized. The phased manufacturing programme under which domestic manufacturers were required to increase the domestic input-content of their products in a specified period was also abolished under the new industrial
policy. The requirement of industrial licencing was abolished for all but 6 product categories like alcohol, cigarettes, hazardous chemicals etc.

Thus, the liberalization policy as initiated as part of the economic reforms attempted to give a new lease of life to the different sectors of the economy. With the objective of improving efficiency and productivity, the liberalization policy aimed at driving the country towards a free market economy.

3.4.3.2 Privatisation

It is argued that the fiscal crisis of 1991 was a result of the public sector's inability to generate adequate returns on investment. The government's attitude, therefore, changed remarkably towards the PSEs which is clear from the statement of the New Industrial Policy, 1991. The NIP, 1991 said that after the initial exuberance of the public sector entering new areas of industrial and technical competence, a number of problems had begun to manifest themselves in many of the public sector enterprises. Serious problems were observed in the insufficient growth in productivity, poor project management, over-manning, lack of continuous technological upgradation, and inadequate attention to R&D and human resources development. In addition, public enterprises had shown a very low rate of return on the capital investment. This had inhibited their ability to re-generate themselves in terms of new investments as well as in technology development. The result is that many of the public enterprises had become a burden rather than being an asset to the Government.

Consequently, the NIP, 1991 advocated privatization of public sector enterprises. For purposes of privatization, the government adopted the route of disinvestment which involves the sale of the public sector equity to the private sector and the public at large. The main approach of the government in this regard is to bring down its equity in all non-strategic public sector undertakings to 26 per cent or lower and close down those public sector undertakings which could not be revived. The disinvestment programme
began in 1991-92 and government stakes in different public sector companies have been sold in varying degrees by 2003-04. Till 1998-99, the government used to sell minority stakes through domestic or international issue of shares in small trenches every year. Post 1999-2000, there has been a greater stress on strategic sale involving an effective transfer of control and management to private entity, the argument being that the government would get a better price from the private sector if it is ceding actual control.

Privatization programme in India was done with some broad objectives. Raising resources for the government exchequer was the top priority followed by the objective of reducing day to day interference in the working of the public sector enterprises by loosening the shackles of bureaucratic government control. Giving autonomy to managements to act on their commercial judgment for enhancing efficiency was another main purpose of privatization.

However, a critical look at the privatization policy of the Government of India from the view point of employment generation, income inequality and monopoly power concentration gives rise to a number of worries. One of the genuine fears of privatization is that it is bound to result in unemployment. Most of the privatization experiments around the globe are testimony to the fact that this indeed does happen. The Government of India has been repeatedly harping on the tune that as a result of privatization there has only been a marginal retrenchment of labour. The fact is that there is a heavy pressure from the corporate sector to reform labour laws to enable it to hire and fire workers as it wishes and indications are that the government is falling in line. This means that the future employment scenario for labour is a cause of worry. The fear of retrenchment and consequent unemployment is feared to be more precarious as there is no safety net scheme for the labourers in the private sector. It is also argued that sale of PSUs in the private hands can only result in the substitution of public monopolies by private monopolies accentuating concentration of economic power and income inequality in the country.
For India, globalization implied opening up of the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India; removing constraints and obstacles to the entry of MNCs in India; allowing Indian companies to enter into foreign collaborations in India and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programmes by switching over from quantitative restrictions to tariffs and then bringing down the level of import duties considerably; and exchange rate adjustments for promoting exports. The process of globalization as such was started since the eighties itself in terms of concessions granted to foreign capital, MNCs allowed to enter a number of crucial sectors to which their entry was previously restricted or banned, provisions of FERA not strictly followed, import liberalization process accelerated considerably and so on. However, the real thrust to globalization process was provided by the new economic policy introduced by the Government of India in July 1991 at the behest of the IMF and the World Bank.

Three major policy measures were introduced with regard to globalization by the Government of India.

**Exchange Rate Adjustment and Rupee Convertibility**

The most important measure of integrating the economy of a country with the global economy is to make its currency fully convertible. This measure has to be accompanied by the lifting of exchange control measures in a phased manner. As the first step towards this measure, the IMF suggested devaluation of the Indian currency. Accordingly the Government of India made a two-step downward adjustment of 18-19 per cent in the exchange rate of the rupee on July 1, and 3, 1991 respectively. The 1993-94 budget introduced full convertibility of the rupee on trade account and switched over to a unified
exchange rate system. India achieved full convertibility on current account on

Import Liberalisation

In its report “India: Strategy for Trade Reform” released in 1990, the World
Bank had advocated redressing of the import policy so that there is only one
negative list and imports of all items not explicitly on the restricted list are
allowed, lowering of import tariffs on all goods and freer entry to capital goods,
intermediate goods, raw materials and consumer goods into the Indian
economy. In line with these proposals, the supplementary trade policy
announced on August 13, 1991 decanalised the import of 20 items. The EXIM
Policy, 1992-97 allowed the free import of all items including capital goods,
ever a negative list. In addition, import duties on a wide range of
commodities were drastically cut down. The maximum rate of import duty has
been reduced in successive Budgets in stages. The peak import duty on non-
agricultural goods is now only 15 per cent. This apart, India as a member of
WTO had also committed itself to the phasing out of quantitative restrictions
over a six year period beginning 1997 and has phased out also.

Opening up to Foreign Capital

With a view to attracting foreign capital and integrating the Indian economy
with the global economy, the Government of India has opened the flood-gates
to foreign investors with numerous incentives and facilities in the new
economic policy. In 1991, the government announced a specific list of high
technology and high-investment priority industries wherein automatic
permission was granted for direct foreign investment up to 51 per cent foreign
equity. This limit was raised up to 74 per cent and subsequently to 100 per
cent for many of these industries. Moreover, new industries have been added
to the list over the years. Not only this, foreign companies have been allowed
to use their trademarks in India and carry on any activity of a trading, commercial or industrial nature; repatriation of profits by foreign companies has been allowed; these companies wanting to borrow money or accept deposits are not now required to obtain permission from the Reserve Bank of India; they can now deal in immovable property in the country; restrictions on transfers of shares by a non-resident to another non-resident have been removed; disinvestment of equity by foreign investors no longer needs to be at prices determined by the Reserve Bank; 100 per cent foreign equity participation has been allowed for setting up power plants in the country; NRIs and overseas corporate bodies predominantly owned by them have been allowed to invest up to 100 per cent equity in high priority industries with repatriability of capital and income and many more of such policies are in force.

However, a critical evaluation of the globalization policy of the Government of India unfolds certain hard truths especially in connection with distribution of income and wealth and also the problem of economic power concentration in the country. It has led to an 'unequal competition' – a competition between ‘giant MNCs and ‘dwarf Indian enterprises’ explaining a situation like integrating mouse with a herd of elephants. Globalisation has resulted in closing down of a number of small and medium enterprises in the country which could not withstand the competition posed by the MNCs. At the same time the domestic monopoly houses have gained by seizing the opportunities of trade liberalization. This has ultimately widened the gap between the large scale and small scale industries as far as their wealth creation and profit appropriation are concerned. Due to globalization a new trend of wealth concentration that has been growing very fast is in the hands of MNCs1.

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1 This topic has been dealt at length in a subsequent chapter of the present study.
3.4.3.4 Provisions Relevant to Economic Power Concentration

(i) Liberalisation of Industrial Licensing Policy

Prior to the economic liberalisation ushered in 1991, the licencing used to be a means to achieve some of the economic policies such as the desired pattern of industrial dispersal, encouraging new entrepreneurs and wider dispersal of industrial ownership, prevention of concentration of economic power, protection and promotion of the small-scale sector, regulation of foreign capital and technology, use of proper technology and scale economies, achieving demand supply balance promotion of exports and import substitution, employment generation etc. Before the policy liberalization of 1991, a licence was required for the purposes like establishment of new undertaking, manufacture of a new item, substantial expansion of capacity, continuation of business in certain cases and change of location.

In contrast, the new industrial policy announced in July 1991 abolished industrial licencing, irrespective of the level of investment, for all industries except 18 specified ones which include (i) industries reserved for the Public Sector, (ii) industries retained under compulsory licensing, (iii) items of manufacture reserved for the small scale sector and (iv) the proposal attracting locational restriction.

(ii) Relaxation to MRTP Companies

The principal law in India to deal with competition, prevention of concentration of economic power to the common detriment, and control of monopolistic, restrictive and unfair trade practices which are prejudicial to public interest was the Monopolies and Restrictive Trade Practices Act initiated in 1969 and brought into force from June 1970. The economy was kept under severe pressure of MRTP Act for over twenty years. However, the result of the policy hardly resembled to what was exactly expected out of it. During the tenure of
two decades, monopoly houses increased substantially and wealth concentration strengthened in the hands of the rich. It is indeed a paradox that laws like the MRTP Act which were designed to prevent monopoly have in effect restricted competition.

The MRTP Act has helped protect the market position of the large houses by restricting the competition between them. It is quite evident that the restrictions on the big business houses have had many adverse effects – they have retarded competition, decelerated growth in the industry and consequently in the other sectors, and contributed to the foreign trade gap. For example, in the early seventies, having failed to make any headway within India, the only alternative left for the Birlas was to set up firms in other countries and it put up several successful companies in all the Asean countries. Many big business houses followed the path. As a result wealth creation took place with zero trickle-down effect to the rest of the society in the country.

As viewed by Aditya Birla, the same government which refused them permission to set up manufacturing capacities within the country, allowed to set up industries outside the country for the same products for which it had said ‘no’ in India. This made them set up a viscose staple fiber plant in Thailand and started exporting fiber back to India. From this it follows that the government, while applying the MRTP restriction, had missed out the track on the foreign policy front. Such miss-match of policies has paved many ways for the private entreprenures to increase in size during the 1970s and 1980s.

As part of 1991 economic reforms measures, therefore, the MRTP Act was brought under drastic amendment by repealing the provisions of the Act pertaining to concentration of economic power to the common detriment. The main thrust of the Act has become the achievement of prevention of monopolistic, restrictive and unfair trade practices. So to speak, the ‘M’ has almost been knocked out of the MRTP Act. The large companies have been freed from the MRTP Act requirement of prior permission of the government.
for substantial expansion of existing undertakings, establishing new undertakings, and going in for Mergers and Acquisitions.

Needless to say that as a consequence of the above changes in the policy, the problem of income inequality would have aggravated rather than a harmonious and balanced development taking place in the country.

(iii) From FERA to FEMA

As is clear from the name of the Act itself, the emphasis under FEMA is on exchange management whereas under FERA the emphasis was on exchange regulation or exchange control. Under FERA, it was necessary to obtain Reserve Bank's permission, either special or general, in respect of most of the regulations thereunder. FEMA has brought about a sea change in this regard and except for Section 3, which relates to dealing in foreign exchange, etc., no other provision of FEMA stipulate obtaining Reserve Bank's permission. The demand for new legislation was basically on the following counts:

➢ FERA was introduced in 1974 when India's foreign exchange reserve position was not satisfactory. Accordingly, stringent controls were required on the use of foreign exchange. With improvement in foreign exchange position, it is argued that such stringent controls outlined their significance.

➢ India had given notice to IMF in August 1994 that it had attained Article VIII status. This notice meant that no restriction will be imposed on remittances of foreign exchange on account of current account transactions.

➢ The private corporate sector had been complaining for long against what it termed the 'draconian provisions' of FERA which gave unbridled powers to the Enforcement. Directorate to arrest search premises of seize documents and start proceedings against any person for
contravention of FERA or for preparations to contravention of FERA. The contravention under FERA was treated as a criminal offence and the burden of proof was on the guilty.

FEMA has changed all this. The purpose of FEMA is to facilitate external trade and payments and promote the orderly development and maintenance of foreign exchange market in India. As far as the promotion of orderly development and maintenance of foreign exchange market is concerned, FEMA is silent. However, in respect of facilitating external trade is concerned, Section 5 of the Act removes restrictions on drawal of foreign exchange for the purpose of current account transactions. With respect to the draconian provisions are concerned, FEMA has reduced their rigour significantly. For instance, unlike FERA, violations of FEMA will not attract criminal proceedings. The contravention will now be considered as a civil offense. Thus FEMA removes the threat of imprisonment which businessmen abhor. Now they will either compound their illegal acts by paying a fine if it is not too high, otherwise they will pay lawyers to engage in lengthy litigation with the government.

While critically appraising the economic reforms of 1991, the EPW Research Foundation has pointed out that the new economic policy is seriously flawed in conception – in its contents, strategy and approach and in many other aspects.

The shortcomings can be broadly classified under five major categories:

i) Absence of a broader development strategy

ii) Wrong sequencing of reforms

iii) Hasty pace of reforms

iv) Ignoring prerequisites

v) Absence of human development goals as an integral part of the strategy
Analysing the effect of the economic reforms since 1991 on income inequality and poverty it can be broadly concluded that even though growth has taken place at a rapid rate, its trickle-down effect has not been realised substantially. It has been observed that economic growth improved significantly as a result of the economic reforms which in turn has reduced poverty. However, it has also been observed that poverty increased during the 1990s in the rural India while in respect of urban population there was a small decline. This implies that taking the country as a whole there was some increase in the incidence of poverty. Poverty estimates based on consumer spending data obtained from NSS 55th round are not comparable with the earlier estimates because of the change in the methodology and also contamination of consumer spending data due to simultaneous use of 30 day recall and one week recall. If one decides not to ignore these facts, then the inevitable conclusion is that economic reforms resulting in less than 6.0 per cent per annum growth during the 1990s have failed to make any dent on poverty. On the contrary, there is evidence to suggest that in the post-reform period there has been some increase in the incidence of poverty. Regarding income inequalities there is no dispute. It was expected that income inequalities would grow as it happened in Latin American and East Asian countries. The estimates of distribution of consumption expenditure provided in World Development Report 2003 confirm these expectations since Gini index of distribution of consumption has been reported to be 37.8 in 1997 as against 29.7 in 1994. There is hardly any evidence to suggest that inequality in consumption has diminished in the 1990s and the 2000s.

3.5 Conclusion

Independent India inherited an impoverished economy from the British Raj. The Government of India adopted economic planning as an instrument of economic development in 1951. Till the mid-1980s the strategy of planning remained basically biased towards the heavy industries and the public sector. Wide spread government control of industrialization and foreign trade in the
guise of a Licence Permit Raj failed to put the economy in the right gear. Agriculture has also not been given the importance it deserved. All these resulted in the ‘Hindu Rate of Growth’, proliferation of unemployment, aggravation of poverty and accentuation of economic power concentration in the economy. Growing fiscal imbalance, mounting inflationary pressures and fragile balance of payments situation were the other serious outcomes of the heavy industry – License-Permit Raj centric development strategy. The imperative of a long term perspective of economic management with relaxation of controls, restoration of competition, modernization of industries, a bigger role for the private sector and fiscal restructuring were felt by the mid-1980s and mild reform measures were introduced in the mid-1980s to achieve the desired results. But these reforms were largely ad-hoc and grossly non-serious and hence failed to bear desired outcomes. The economic problems assumed crisis dimensions and by the mid-1991 the government was compelled to introduce and implement a massive economic reforms package with emphasis on liberalization, privatization and globalization. Economic management policies were liberalised, government activities and operations were downsized and Indian economy was integrated with the world market to a large extent. Critics of massive restructuring of the economy have been arguing that the economic reforms are working towards furthering monopoly and economic power concentration in the economy. It is, therefore, stimulating to investigate the distributive issues of the reform programmes.