CHAPTER-IV
INDIA'S NEW ECONOMIC POLICY, 1991

As stated in Chapter Two, though liberalization of economic policy was started much earlier, those were not enough to affect India's policy framework and structure of economy. However, the liberal policy in economic became visible during the regime of Rajiv Gandhi in Seventh Five Year Plan. To provide larger scope to the private sectors, a number of change in policy were introduced with respect to export-import policy, industrial licensing, technological up-gradation, fiscal policy, foreign equity capital, removal and control of restrictions, rationalizing and simplifying the system of fiscal and administrative regulation. All these changes were made primarily to create conducive climate for private sectors so that private sector investment would get boost to modernize the economy and usher the growth. The policy was therefore, not in the line of earlier policies and plans of the government. Hence, some scholars named this as 'New Economic Policy' (NEP).

According to Raj, distinctive features of such new economy policy (NEP) were greater scope for unfettered expansion they offered to private sectors, particularly in the corporate segment of manufacturing industries and the opportunities opened up to multinational enterprises (Raj 1985).

The NEP invited, therefore, debate from scholars and intelligentsia's especially due to the new policy of de-control and de-regulation. Jha attempted to make out a strong case in favour of new policy. According to him controls which had been in operation in this country since independence were not adopted as instruments of economic planning. Some of these were introduced by the British during the Second World War with a view to mobilize adequate resources for defence purposes. The war time, controls had resulted in great deal of black – marketing and black money. Therefore, when the nationalist government assumed power, sentiments were against controls. Adoption of economic planning, however, required restriction of certain controls and introduction of certain new ones. The regulatory resources which this country adopted all these years were more devised by the administration who drew their inspiration partly from the traditions and practices evolved under British Rule during World War II, and partly from
the laws of Western countries. There is not historical basis for the
view that the multiplicity of controls which mushroomed in the
sixties should be looked upon as a part of Nehru's Legacy to the
nation or as having been inspired by the commitment to socialism
(Jha 1986: 8).

He further asserted "competition acts as a powerful spur in
the economy. Producers who face competition make efficient use of
their resources and try to get the utmost out of them. In the
absence of competition, there has been a steady worsening of the
capital-output ratio which has been responsible for slackening of
the rate of industrial growth even while the availability of domestic
capital has gone up"(ibid: 9).

According to Patel, the NEP could be Legitimately defended
on two grounds, viz., efficiency and its importance in reducing
corruption. In India in the recent years while the rate of saving and
investment have been high, the rate of growth has not been
correspondingly high due to low productivity. Patel asserts "at least
part of the reason for this inefficiency lies in the regime of
subsidies, controls and license which breeds alliance between
government and vested interests"(Patel 1986).

The NEP was generally advocated almost exclusively on the
economic ground of efficiency. Patel was unhappy with such
approach. In his opinion, NEP has also an important role in
reducing corruption and the consequent inequitable distribution of
the costs and benefits of the development. He sees nothing
socialistic in the 'License – permit – subsidy Raj'. On the contrary,
he asserted that the regime had 'helped to protect the turf of
powerful vested interests and heaped on them the additional
reward of much unearned rent as recompense for political and
financial support'. He blamed largely exercise of arbitrary economic
power for the major ills of the Indian economy and recommended
for its complete dismantling (Ibid). Raj also criticised policies of
licenses controls, regulations etc. of the government and supported
the new economic policy (Raj 1985).

However, NEP also invited strong criticisms from other
intellectuals. Rakshit argues," the major thrust of the policy
package seems to run counter to the basic approaches of both
socialist and capitalist development" Rakshit 1985:707). But if we
analyse today's- 21st century's Indian economy, the economic
policy of government perhaps, is against the basic approach of
socialistic development but it does not violates the law of capitalist development.

Other scholars like Baru are of opinion that even NEP is unlikely to boost growth of Indian economy. Referring to NEP, Baru states, “Whether all this will in fact ensured sustained and long-run growth for the economy as a whole is not at all clear. At best it would create islands of growth in an ocean of stagnation.” (Baru 1985:706). Kurien blamed government for its wrong fiscal policy to the resource problem of the country. According to him it is due to the unwillingness of the government to tap the rich that the government is facing the resource problem (Kurien 1986:627).

Dilution of MRTP Act also received severe criticism. On the opinion of Dutt, the MRTP Act has been diluted to a considerable extent and thus the drive against concentration of wealth and economic power has been weakened, though not abandoned altogether(Dutt 1986 : 18).

Disagreeing with Jha, Dutt asserts, “There can be no doubt at all that the new thrusts’ referred to by Jha are not thrusts to realise more efficiently the accepted values, such as dominance of public sector in order to reduce inequality of wealth and income during the process of growth itself, use of private sector resources within the plan framework, or to present concentration of economic power. They amount, on the other hand, to entirely different concept of development where the existing values, though not officially discarded, are given less weight than the objective of growth, even if the growth is for the benefit of a section of population only; whether even such growth can be realised, at least on a continuous basis, without a better distribution of income and wealth and a more careful conservation of our available resources is a mute point”.(Dutt 1986:19).

Scholars were also critical about role of MNCs and import liberalization. “The strategy of growth based on elite luxury consumption and on ‘export promotion’ necessarily implies a greater role for transnational, given the nature of the goods and the technology involved. The state of foreign collaborations in the automobiles industry is a case in point. A similar process is under way in the electronic industry. Liberalisation of technology import inevitably implies liberalization of the imports of associated commodities for a number of years to come. The spectre of technological dependence looms large” (Athreya 1985 :23)
Prof- Hanumantha Rao has indicated a major defect in our policy of pursuing marketisation in the name of liberalization and paying much less attention to de-bureaucratization. Dr. Rao writes: Curiously, in the name of liberalisation we have been pursuing marketisation with a greater zeal than de-bureaucratization. In the last decade, measures for liberalization have distorted the industrial structure giving fillip to the consumption of durable consumer goods for the elite. Import liberalization and reduction in tax burden resulted in balance and payment crises and fiscal crises. On the other hand, very little has been done during the same period to improve the efficiency in the working of public enterprises by de-bureaucratising the management process” (Rao 1991).

Similarly, according to Ramanathan, “In view of the historical background of public enterprise in India, it is inconceivable that privatization in this country will be accepted by the society as an in itself, since there is no consensus in favour of market solutions and property rights, nor are these considered as prime movers for much needed social and economic change. The real issue center on the allocation of poverty and the upgrading of technology in a highly differentiated society of continental dimensions. This implies that privatization will have to be viewed essentially as the best possible means of achieving pre-determined ends and ensuring that it does not distort the parameters of such ends”. (Ramanathan 1990:186-87).

Another grim area of privatization is retrenchment of workers which is very painful and against our democratic fabric and also against the soul of Directive Principles of State Policy of Indian Constitution. Retrenchment of workers by the Textile Industry has been highlighted by Sanat Mehta as: “The workers who lost their job especially through closures have had in almost all cases, nothing to fall back on, not even their legal dues which have not been fully paid to them” (Mehta 1991). Hence, the NEP’s norm goes against the employees and workers and it removes their social and economic security of life.

Amidst these debates and discussion on NEP, the Eighth Five Year plan was introduced. The detail of Eight Five Year plan would be dealt in the separate section. The economic reforms introduced under Rajiv Gandhi regimes however did not yield the desired result. The balance of trade deficit, instead of narrowing
down, increased. Whereas the average deficit in trade balance during the sixth plan (1980-85) was of the order of Rs 5,930 crores, it jumped to Rs 10,840 crores during the seventh plan (1985-1990). There was also decline in the receipts of invisible accounts, from Rs 19,070 crore during the Sixth plan to Rs 15,890 crores during the Seventh Plan (Datt and Sundharam 2000: 227).

Consequently, the country was faced with a serious balance of payment crises. The country was forced to approach the WB and the IMF to provide huge loan of the order of about $ 7 billion to bail India out of crises. While agreeing to provide assistance to India, the WB and IMF insisted that the Indian Government must put its economy back on rails (ibid).

After resumption of power Narasimha Rao Government went for radical reform through comprehensive and clear policy, which was elaborately mentioned in Eighth Five Year Plan document. In fact 1991, could be regarded as demarcated line of New Economic Policy. Though its inception was seen in 7th Five Year Plan it is in 8th five year plan in 1991, that the clear documentary announcement to NEP was made. The new model evolved through Eight five year Plan was also often called as ‘Rao-Manmohan’ model or as simply ‘Manmohanomics’ which is radically different from earlier planning strategy of Nehru-Mahalanobis model.

In his Memorandum on Economic policies submitted to IMF, Dr. Manmohan Singh proposed: “The thrust will be to increase the efficiency and international competitiveness of industrial production, to utilize foreign investment and technology to a much greater degree than in the past, to improve the performance and rationalize the scope of the public sector, and to reform and modernize the financial sector so that it can more efficiently serve the needs of the economy (Memorandum on Economic Policies 1991)

As stated already, the eighth five year plan was the comprehensive document of New Economic Policy. Below the parts of Eighth five year plan is discussed.

**The Eighth Five Year Plan(1992 –1997)**

The eighth plan launched was marked as the turning point in both international and domestic economic environment. All over
the world centralized economies were disintegrating. On the other hand, economies of several regions were getting integrated under the common philosophy of liberal policies. The emphasis was on autonomy and efficiency induced by competition. Hence, Planning Commission states:

"We can not remain untouched by these trends. We have to draw lessons from the development experience of other nations during the last four decades. Development economic was largely theoretical when India started her planning in India. It has now required considerable empirical knowledge based on the rich applied experience of many nations among whom there are success stories also failures. Indian Planning needs to draw on some of these lesson. It also needs to be guided by its own experience, gained during the last four decades. If Planning has to retain its relevance, it must be willing to make appropriate mid-course connections and adjustments. In that process it may be necessary to shed off some of the practices and precepts of the past which have outlived their utility and to adopt new practices and precepts, in the light of experience gained by us and by other nations" (Eighth Five Year Plan : 2)

**Role of planning redefined:**

The eighth plan called for re-examination and reorientation of the role of government as well as process of planning. It asserted for making planning largely indicative, thereby somewhat changing the role for the planning commission. Accordingly, “the Planning Commission will have to concentrate on anticipating future trends and evolve integrated strategies for achieving the highest possible level of development of the country in keeping with the internationally competitive standards.” (ibid : 1-2).

So far resource allocation had been the pre-dominant role of the Planning Commission. However, Planning Commission asserts “This has to change. Instead of looking for mere increases in plan outlays we should look for increase in the efficiency of utilization of the allocations being made and the prospects of return on the investments. The Planning Commission has to play a mediatory and facilitating role among states and sometimes central ministers to manage the change smoothly and create a culture of high productivity cost efficiency and social financial discipline in the Government.” (Eighth Five Year Plan : 18). It further states: “Planning and market mechanism should be so devoted that one is
complimentary to other. Market mechanism most serve as an 'efficiency promoting device' while planning will be the larger guiding force, keeping the long term social goals in the perspective." (ibid: 19). However, it also called for direct intervention to social sectors i.e., removal of poverty, providing employment, etc. (ibid: 18-19).

**Objectives:**

According to the Planning Commission "the approach to the Eighth Plan will have the following four-fold focus:

(i) **Clear prioritisation of sector/projects** for investment in order to facilitate operationalisation and implementation of the policy initiatives taken in the areas of fiscal, trade and industrial sector and human developments;

(ii) **Making resources** for these priority sectors available and ensuring their effective utilization; and completion of projects on schedule, avoiding cost and time overruns;

(iii) **Creation of a social security net** through employment generation, improved health care and provision of extensive education facilities throughout the country; and

(iv) **Creation of appropriate organization and delivery systems** to ensure that the benefit of investment in the social sectors reach the intended beneficiaries (Eighth Five Year Plan: 9).

"Based on this approach, the following definitions will be accorded priority as pointed out by Planning Commission:

(l) **Generation of adequate employment** to achieve near full employment level by the turn of the century;

(ii) **Containment of population growth** through active peoples cooperation and an effective scheme of incentives and disincentives;

(iii) **Universalisation of elementary education** and complete eradication of illiteracy among the people in the age group of 15 to 35 years;

(iv) **Provision of safe drinking water and primary healthcare facilities**, including immunization, accessible to all the villages and the entire population, and complete elimination of scavenging;

(v) **Growth and diversification of agriculture** to achieve self-sufficiency in food and generate surpluses for experts;
Strengthening the infrastructure (energy, transport, communication, irrigation) in order to support the growth process on a sustainable basis" (Ibid : 9).

It further states "The Eighth Plan will concentrate on these objectives keeping in view the need for (a) continued reliance on domestic resources for financing investment, (b) increasing the technical capabilities for the development of science and technology, and (c) modernization and competitive efficiency so that the Indian economy can keep pace with and take advantage of the global developments" (ibid :10).

Various cause were responsible for radical reform in 1991. Those causes were regarded as 'challenges" by the Eighth Five Year Plan.

Challenges:

Planning Commission states : "The Eighth Plan has to meet these challenges in the various sectors against the background of certain critical imbalances which have emerged recently, rather sharply. These are :

(a) increasing fiscal and budgetary deficits, mounting public debt and severe constraints on the resources of the Government and the public sector to undertake the essential developmental activities.

(b) a critical situation in the balance of payment, and

(c) a high rate of inflation (Eighth five year Plan : 8).

According to the document, the balance of Payment has been continuously under strain for over almost a decade. During the Seventh Plan Period the ratio of current account deficit to GDP averaged 2.4 percent- far above the figure of 1.6 percent projected for this period in the plan document. This detoriation of Balance of Payments occurred despite robust growth in exports in the last three years. The already difficult Balance of Payment situation was accentuated in 1990-91 by a sharp rise in oil prices and other effects of the Gulf War. With access to commercial burrowing going down and the Non- Resident deposits showing no improvement, financing the current account deficit had become extremely difficult. Exceptional financing in the form of assistance from IMF, the World Bank and Asian Development Bank had to be sought.
While the immediate problems have been resolved to some extent, it is imperative that during the Eighth Plan steps are taken to curb the fundamental weakness in India's Balance of payment situation so that it does not cause serious disruption to the economy. It is therefore, necessary to plan on a drastically reduced inflow of resources from outside (Eighth Five Year Plan: 8). It also stated to maintain reasonable price stability and feasible mobilization of necessary resources (ibid: 9).

According to plan document, the role of private sectors is to be enhanced and that of public sectors to be limited. As per Eighth Plan, an outlay of Rs 4,34,100 crores is planned for public sector. This will have an investment component of Rs 361 thousand crores and a current outlay components of Rs 73,100 crores. The public sector investment, then will amount to 45.2 percent of the total domestic investment, allowing for a much larger space for the private sector than has hitherto been given. The share of Public sector investment in the total is shown in table 1.

Table 1

<table>
<thead>
<tr>
<th>Plans</th>
<th>Public Sector Investment as Percentage of the total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projected</td>
</tr>
<tr>
<td>Fifth Plan(1974-79)</td>
<td>57.6</td>
</tr>
<tr>
<td>Sixth Plan(1980-85)</td>
<td>52.9</td>
</tr>
<tr>
<td>Seventh Plan(1985-90)</td>
<td>47.8</td>
</tr>
<tr>
<td>Eighth Plan(1992-97)</td>
<td>45.2</td>
</tr>
</tbody>
</table>

SOURCE: Eighth Five Year Plan, Planning Commission, GOI; P:44.

CHAPTER FOUR
NEW INDUSTRIAL POLICY, 1991:

As part of commitment to NEP, the Government of India, announced New Industrial Policy (1991), the salient features of which are briefly stated below:

1. **Industrial Licensing Policy**: Industrial Licensing to be abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption (as listed in Annex II). According to government's policy, areas where security
and strategic concerns pre-dominate, will continue to be reserved for the public sector (listed in Annex I).

2. **Foreign Investment**: In order to invite foreign investment in high priority industries requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment (DFI) upto 51 percent foreign equity in such industries.

3. **Foreign Technology**: Similarly, with a view to injecting the desired level of technological dynamism in Indian industry, government would provide automatic approval for technological agreements related to high priority industries within specified parameters. No permission henceforth will be necessary for hiring of foreign technicians, foreign testing of indigenous developed technologies.

4. **Public Sector Policy**: Except some strategic sectors, in other cases, de-reservation would be made thereby encouraging participation by private sectors hitherto exclusively reserved for public sectors. Similarly, in order to raise resources and encourage wider public participation, a part of the governments shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers. Later on however, government started selling cent percent to the private bodies i.e. BALCO.

5. **MRTP ACT**: MRTP has been restricted. The pre-entry scrutiny of investment decision by so-called MRTP companies will no longer be required. Instead, emphasis will be on controlling and regulating on monopolistic, restrictive and unfair trade practices rather than making it necessary for the monopoly houses to obtain prior approval of Central Government for expansion, establishment of new undertakings, merger, amalgamation, and takeover and appointment of certain directors. The thrust of policy, therefore, will be more on controlling unfair or restrictive business practices.

According to the Planning Commission "The process of de-regulation and structural adjustment recently initiated are bound to being in a qualitative change in the outlook of manufacturing sector during the next phase of development... A
shift from the Public sector to the Private sectors is anticipated in almost all the sectors of industry especially in engineering industry. Larger foreign investments and entry of multinationals are anticipated in electronics, telecommunications, consumer durables. The liberalized industrial Policy would offer substantial scope for private sector for investment in gas based power generation and oil exploration. The next phase of development should see a vigorous push in the process of industrialization and modernisation (Eighth Five Year Plan: 38).

**Structure of output:**

The Eighth Plan document has presented in its various tables, the output profile of the Eighth Five Year Plan in respect of important commodities and services (Eighth Five Year Plan: 68-71). According to the document “the following considerations have been broadly kept in view while preparing the indicative output profile for the next five years:

(a) The progressive elimination of protection to domestic industries, particularly in the organized sector, and its ultimate reflection in improved competitive efficiency should be reflected in larger foreign trade of bulk commodities. It should be desirable to import as well as to export the bulk commodities so as to bring the domestic production structure in line with the external levels of productive efficiency.

(b) Even in the Case of commodities where domestic production has strong base, it would be prudent to plan for imports to meet the fluctuating component of the demand, so that the domestic capacity utilization is maximised. Fertilizer is an example.

(c) It is recognised that the indigenous technology can not immediately adjust to the international levels particularly in village and small industries, where also the wage component value added is high. Therefore, a fair measure of protection to this segment of the industry will have to be ensured for a few years. (Eighth Five Year Plan: 67)

The following macro-economic policies were laid down in the eighth five year plan document.
a. The policy regime governing trade, technology and transfer of capital flows,
b. Industrial de-regulation and administered price policy,
c. Financial sector reforms, and
d. The stance of demand management as reflected in monetary and fiscal polices.

Broadly speaking, the first three of these policies taken together constitute what has now comes to be known as "Structural" policies by and large aimed at improving the supply-side of the economy. The last one corresponds to what has traditionally been covered under "Stabilization" policies i.e. policies aimed at controlling aggregate demand in accordance with the long run growth path of an economy (Eighth Five Year Plan : 84)

(a) Policies on Trade, Technology and Capital Flows:
According to document, a key move of trade policy regime was towards greater openness and to reap the full benefits of international trade. Keeping this in mind a series of trade policy changes were made i.e. the process of lowering the customs tariff rates initiated in the 1991-92 was carried further in subsequent budgets (ibid: 85).

It sought to achieve two objectives of further trade policy reforms: (i) a further pruning of the negative" lists of import and exports, and (ii) a gradual reduction in both the level and dispersion of tariff rates.(ibid : 86)

As part of the package of recent trade policy reforms, the Govt. liberalised capital flows in the form of foreign direct investment. Specific measures in this direction were: (i) Automatic approval of foreign technology collaboration as well as foreign equity participation up to 51 percent in about 31 areas; (ii) De-linking technology transfer from equity investment to import flexibility in sourcing of technology imports; (iii) Automatic clearance for import of capital goods in case where foreign exchange flows through foreign equity.

Besides, the Foreign Exchange and Regulation Act (FERA) had to be amended to place FERA Companies at par with the Indian companies for all operational purposes (ibid: 86). More recently, FERA was re-structured into FEMA as part of more liberal policy. Even before FEMA was made, foreign companies were
permitted to use their trade marks, accept appointment as agent or technical or management advisors. They were also allowed to borrow and accept deposits from the public and acquire and sell immovable property. Hence, more liberalisation apart from above facilities were given under FEMA.

(b) **Industrial Deregulation and Administered Price Policy**

As stated already in New Industrial Policy announced in July 1991, bureaucratic controls were removed and larger private sectors participation were sought. Industrial licensing had been abolished for all but 18 products. Eighth plan sought to further shorten the list of industries requiring industrial licensing. Recently, the list was shortened to only 6 and attempt are also made to further reduce it into only four. MRTP was required to be more liberalised under NEP. Recently, Competition Policy was made to replace the MRTP. As per New industrial Policy, the location policy for industries has been substantially simplified and liberalised.

The Govt. has also abolished the phased manufacturing programme, under which domestic manufacturers were hitherto required to increase the domestic input-content of their products in a Specified time period.

In another drastic step, a number of industries reserved for public sectors has been drastically reduced, thus opening a large number of industries for the private sectors.

According to Planning Commission these de-regulation and de-control would make the industrial sector more competitive both domestically and internationally (Eighth Five Year Plan : 87).

The document states that for maximum gain in efficiency, removal entry barriers should also be accompanied by freedom to exist. “Rules and procedures regarding the exit policy for industry, therefore, need a through review with the aim of making it much easier for any economically unviable firm to close down” (Eighth Five Year Plan 87-88).

Till VIIIth five year plan, the prices of industrial products such as natural gas, petroleum, petroleum products, coal, electricity, fertilizer, sugar and various non-ferrous metals were being administered by the government. However according to the eighth plan document, whenever the product concerned was internationally tradable, the government should de-control the prices. In order to ensure that price de-controls did not allow the
existing producers to hike prices, the tariff rates on the import of those products, however, should be suitably adjusted.

(c) **Financial Sector Reforms:**

As per the VIIIth five year plan, with a view to giving more operational freedom to the institutions and to inducing greater competition in the financial sector, some of the controls on the financial sectors have been relaxed. Till the eighth plan, the lending rates of DFI (Development Financial Institutions) were fixed by the government. As per policy change, however, DFIs were allowed to change interest based on market conditions subject to a floor rate of 15 percent. Similarly, the interest rates on corporate debentures, which were earlier fixed by the Government have been freed. In another important step, a mandatory convertibility clause, under which DFIs could convert 20 percent of their term loans into equity, has been scrapped, thereby removing a long-standing irritant to industry. The government also discontinued the tax-exempt status of the Industrial Development Bank of India (IDBI), the country's leading DFI so as to put it on a more competitive footing with other DFIs. Similarly, the mutual fund business in the financial sector, which until NEP, was reserved for public sector banks and financial institutions, has been opened up to the private sectors. Moreover, the formula-based pricing of new issues of capital by companies, hitherto being enforced by the Controller of Capital Issues, has been abolished. Companies are therefore, now free to price their new capital issues based on market conditions. As a general principle, government started allowing entry of private sectors into areas which were previously reserved only to the public sector, including, the banking sector (Eighth Five Year Plan:89).

As part of NEP, the SLR (Statutory Liquidity Ratio) of Banks were also liberalised. Direct Credit Programmes under which Priority sector lending operations of the banks have served a useful purpose in extending the reach of the banking system to cover sectors which were generally neglected before nationalisation of bank in 1969, was reviewed as according to government such concessional interest on priority sectors had been adversely affected the profitability of the banks (1bid: 90).

Similarly, from an elaborated administered structure of interests, the NEP allowed banks to move towards a more
simplified systems where only a few rates were prescribed by the monetary authorities (ibid).

Moreover, according to VIIIth plan "the privileged access of the DFIs to concessional finance through SLR and other arrangements should be gradually reduced. Instead the DFIs should obtain their resources form the market on competitive terms. In addition, the present system of consortium lending by the DFIs should be discouraged. Besides other things, this would require that the present system of cross-holding of equity and cross-representation on the Boards of the DFIs are done away with." (ibid).

However, according to the plan document, the above financial liberalisation were to be, in many case be regulated by prudential norms and guidelines of the government relating to capital adequacy, debt equity ratio, adherence to sound accounting and financial policies, disclosure, regulation and valuation of assets.

(d) Demand Management Policies:

According to the Plan document the above structural policies would help augment aggregate supply but appropriate demand-management policies aimed at keeping aggregate demand largely in line with increases in aggregate supply was necessary pre-requisite for successful macro-economic management (Eighth Five Year Plan: 91-92).

A three- pronged fiscal and monetary policy package aimed at, (i) providing a better balance between aggregate demand and supply, (ii) minimizing the distortionary effects of the tax system and (iii) forcing public enterprises to minimise costs and maximise efficiency, should form a key components of such a set of macro-economic policy initiatives.

A common cause behind high domestic inflation and worsening balance of payment (BOP) has been the large and growing fiscal deficit of the Government which rose from 7 percent of GDP in the beginning of 1970 to 9 percent in the beginning of 1980 and by 1990-91, constituted over 11 percent of GDP. Such high levels of fiscal deficits, both overall and on revenue account, are simply not sustainable. Hence, putting the fiscal house in order is a necessary pre-requisite to obtain a better balance between aggregate demand and supply.

One of the important means to correct fiscal imbalance, according to the planning commission, is to containment of the
government expenditures. Among the components of Government expenditure, two items which have grown substantially in recent years are (i) consumption expenditure of the government, and (ii) Subsidy payments.

With suitable de-regulation of industry and trade and a movement away from detailed and discretionary “micro-planning” of the economy many of the supervisory and regulatory functions of the government should be minimized. This would help a great deal in containing the growth of governments administrative expenditure in future. Similarly, the plan document sought to reduce defence expenditure.

The document also called for substantial reduction of subsidies. It writes: “A clear enunciated policy to contain Government subsidies needs to be formulated with the objective of rolling back subsidy payments as a percentage of GDP substantially by the end of the Eighth Plan. The key components of subsidy payments, where there appears to be some scope for containment, are subsidies on fertilizer, food and interest subsidy” (Eighth Five Year Plan: 93).

Further, the VIIIth plan, was of the view that the reduction of capital expenditure was unavoidable and Public enterprises were the major candidates of governments capital budget. Hence, Eighth Plan decided to reduce budget support to public enterprises. On its own words: “Over the Eighth Plan period, such budget support to public enterprises should be further reduced. In future, budget support should be provided only for social sectors. Budget support to commercial public enterprises in such areas as industry, surface transport, steel and mines, tourism etc should be phased out during the Eighth Plan period (ibid : 94).

Apart from expenditure containment measures, the plan also took some efforts at additional revenue generation both through tax and non-tax sources. According to Plan, the required additional revenues may have to be generated by a judicial mixture of broadening of the tax base, rationalizing the tax rate and though non-tax sources. It point out that an over all simplification and rationalisation of the tax system would help not only in broadening the tax base but also in providing a simple and rational incentive structure which would be conducive to an efficient growth of the industrial sector.
On excise levels, as per the plan document, the attempt should be to: (i) reduce the number and dispersion of tax rates; (ii) abolish commodity-specific and user-specific exemptions; and move the system further toward a value-added tax.

The long run objective of indirect tax reform should be one of replacing the various indirect taxes which were prevailing in early 1990s by a unified value-added tax. Though custom tariff could contribute significantly in revenue generation, the Plan, as per commitment to NEP, rather took steps in reducing those, as according to it only reduction of it would promote fiscal and BOP adjustment.

The Plan also sought to increase the user charges of public utilities. According to its own words: “Some increase in the user charges on some of these public utilities, especially utilities like electricity, irrigation, water and transportation, would become necessary during the Eighth Plan period” (Eighth Five Year: 96).

Apart from reform of the above macro-economic policies stated in Vol-I of eighth plan, sector specific reforms were also sought by the plan through its Vol-II.


After reviewing the strength and weakness of VIIIth five year Plan, The Ninth Five Year Plan stated following objectives:

(i) Priority to agriculture and rural development with a view to generating adequate productive employment and eradication of poverty;

(ii) Accelerating the growth rate of the economy with stable prices;

(iii) Ensuring food and nutritional security for all, particularly with vulnerable sections of society.

(iv) Providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter, and connectivity to all in a time bound manner;

(v) Containing the growth rate of population;

(vi) Ensuring environmental sustainability of the development process through social mobilisation and participation of people at all levels;

(vii) Empowerment of women and socially disadvantaged groups such as scheduled castes,
scheduled tribes and other backward classes and minorities as agents of socio-economic change and development;

(viii) Promoting and developing people's participatory institutions like Panchayat Raj Institutions, cooperatives and self-help groups;

(ix) Strengthening efforts to build self-reliance. (Approach Papers to Ninth Five Year Plan: 16-17)

According to Ninth Five Year Plan, the above objectives were needed to be seen in the context of four important dimensions of state policy. These are: (a) quality of life of the citizens; (b) generation of productive employment; (c) regional balance; and (d) self-reliance.

The Ninth Five Year Plan led more vigorous economic reforms even in those areas which the previous plan could not touch. The effort of new reform under the Ninth Plan is termed as "Second Generation Reform". The reform is directed toward more de-control and de-regulation, and in some sensitive areas too such as labour, education etc.

**CRITICAL EVALUATION OF NEP:**

The NEP, in its early stages has shown some progress. The Eighth Plan ended with an average growth of 6.5 percent per annum, and therefore, achieved more than the targeted 5.6 percent. The average growth rate of industrial production was also good-6 percent between 1991 and 1998. Similarly, it could also control the inflation pressure. More importantly, India's BOP deficit narrowed down from negative Rs 10,640 Crore in 1990-91 to Rs 3,809 (negative).

However, further developments of NEP was not satisfactory. As per economic survey 2002-03 economic growth will be 5.4 percent compared to 4 percent in 2000-01. Fiscal deficit will be 5.1 percent from budgeted level of 4.7 percent. Farm sector will grow at 5.7 percent up from negative rate of 0.2 percent in 2001-02. Similarly, industry grew at 2.3 percent in April-Dec-2001, the lowest in the last 10 years. BOP deficit showing declining at initial stages started increasing from pre-NEP period's Rs 10,640 Crore to Rs 16,325 Crore in 1995-96, Rs 20,103 Crore in 1996-97, Rs 24,075 Crore in 1997-98 and Rs 34,495 Crore in 1998-99. In fact,
the import liberalisation policy overshadowed the export-promotion steps initiated by the government. India's external debt comparison reported by Finance Minister (India's external debt 1995) is also questioned as country is in danger zone of debt trap.

Even foreign investment in India is also not satisfactory. In 1991-92 DFI was 129 mill US $ and portfolio investment 4 mill US $. The figure total however became 10,370 mill US $ of FDI and 15,527 mill US $ totalling 25,897 mill US $ in 1997-98. Moreover, foreign investors were investing only in those sectors which assured them high rates of profits (Ghosh 1994: 10).

Another grim reality is that "The fast growing FDI and portfolio inflow may open up an Eldorado for the MNC's and FI's in the immediate future, but will not cater for building up the capital goods sectors and wage goods sectors of the economy. The prospects of technological independence are fast receding like the horizon. Technologies in making ice-cream or potato wafers screwdriver technology like assembly of Zen cars and IBM PC's do not make any contribution towards building the technological capabilities of the country. No country can risk the people's well being on fickle and volatile foreign capital." (Oommen 1994:35)

Similarly, instead privatising PSU, more responsible, capable, accountable, and honest managerial personnel through proper recruitment process preferably by UPSC could be appointed without bureaucratic and political interference to boost the growth and better response of PSU's (Jalan 1991:79)

Another point to be placed is that if bureaucratic control is failed, then is there empirical evidence to state that privatisation or liberalisation would be success, especially with regard to India's complex social reality. Will privatisation lead to growth with equity? In this context Streeten mentions: "The state minimalists are prone to argue asymmetrically. They have said, correctly the market failure is not automatically an argument for state intervention, for this may produce even worse results. But they forget that government or bureaucratic or state is not necessarily an argument for private markets, at least not until much more empirical evidence is produced that the outcomes of government action in a particular case are necessarily worse than those of markets" (Streeten 1994: 4-5).

Moreover, while carrying on the programme of disinvestments of PSUs, the government of India has not paid
adequate attention towards developing a plan of employee-ownership. According to studies, companies which combine ownership with employee participation in job level decision-making have much higher growth rates than companies that do not (Employee-ownership 1986).

In social justice front too NEP has failed utterly. Though the Economic Survey and Finance Minister claimed of increasing employment (Economic Survey-1995-96:13; Singh 1996:4), the fact was certainly much lesser than the target envisaged in the VIIIth plan. The government's labour displacement policy and the adoption of hi-tech by MNC and private companies resulted in fact, contraction of employment. According to a study by Bhattacharya and Mitra the NEP by its programme of technological up-gradation has promoted capital-intensive technologies and as a consequence, employment elasticities have further declined (Bhattacharya and Mitra 1992). Similarly, economic reforms have not successful in making a serious dent on poverty.

The impact of NEP on social sectors has been dealt separately on chapter: 'New Economic Policy and Social Justice in India'. Thus with the following comment of Streeten this chapter is summed up here.

"The World Bank promulgated the need for market friendly interventions. But free markets are neutral institutions, which can work good or ill. Whatever may be said for their efficiency. They are not tender hearted towards their victims. Joan Robinson said, the Invisible Hand can work by strangulation. The question asked in the spirit of President Clinton 'putting people' should be on what conditions markets are people friendly. Certain conditions have to be met to make markets work efficiently, and make them work for the benefit of people". The evolution of NEP in India with two main objectives-growth with equity, could be well questioned, especially if we further evaluate the recent developments in coming chapters. The budget passed by Finance Minister for 2002-03 on 28th Feb 2002 was criticised by almost every intellectuals for its anti-poor and pro-rich stand (Star News; Aaj Tak; etc on 28th Feb. 2002).

In his article entitled "Sinha hits you where it hurts’ in front page of the Times of India, dated 1st Mar. 2002, Mr. Dash says:"It is a budget that hurts everybody, unless of course, you are a non-resident or a foreign company. A harsh budget was perhaps,
necessary to kick-start the economy. But what Finance Minister Yashant Sinha has delivered in his fifth budget is pain without the prospect of gain"(Dash 2002:1).

Hence, the so-called NEP started becoming neither growth oriented nor people oriented but rich oriented and foreign oriented. Patel is perhaps, right in saying that these type of visionless economic policy made in India though out periods after independence are rather politically motivated than to truly serve the Nation and its people(Patel 2002). The economic policy in India in general and NEP in particular ,for its anti-social justice has been criticised by various scholars(i.e.Datt 1997; Ramanathan 1990;etc.) which are covered ahead of this thesis.