Study of the time before and after economic Reforms

Prof Shubham Rattan
Department of Management and Commerce
D.A.V College Chandigarh
Email - profshubhamrattan@gmail.com

Abstract: *This research paper talks about economic reforms which flagged off in 1991 after the legendary speech given by the then Finance Minister Manmohan Singh. Some people hold the view that the reforms started much earlier in 1980s. However, the sequence of incidents happening after the reforms were officially introduced remains unchallengeable. Therefore, it remains justified to evaluate and draw comparisons between the two states of the economy from a dirigisme to a market friendly regime even though some social indicators talk about a different performance of the economy altogether.*

Key Words: *Reforms, economy, finance, indicators.*

1. INTRODUCTION:

Economic reforms in India started in 1991. The socialist policies were adopted after independence in 1947. It was attempted to liberalize the economy in 1966 which was reversed in 1967 which lead to adoption of a stronger version of socialism. A bigger attempt was made in 1985 by PM Rajiv Gandhi but the process came to a stop in 1987 though avoiding the reverse gear unlike the last time. In 1991 after India faced payments crisis, it had to pledge gold of weight 20 tonnes to Union Bank of Switzerland and 47 tonnes to Bank of England which was a part of bailout deal with IMF. Apart from this, IMF wanted India to go through a volley of economic reforms. Because of this requirement, the then govt. of P.V Narasimha Rao and his finance minister Dr. Manmohan Singh initiated the reforms again missing out on some essential reforms that the IMF wanted.

This included opening for international trade and investment, tax reforms, the inflation controlling measures and deregulation initiation of Privatization.

The direction of liberalization has always remained constant without giving much concern to the ruling party. Though this is true too, that no party has taken powerful lobbies like trade union and farmers and reducing agricultural subsidies.

The liberalization reached its zenith in 2007, when India recorded its highest GDP of 9%. This made India become the second fastest growing economy in the world after China. The growth rate fell down insignificantly in the first half of 2012. According to the report of OECD, average growth rate 7.5% is most likely to increase the average income in a decade to double as much. The liberalization has always been a debate because of the in-sync economic growth strategy.

The GDP of India became the least in 2012-2013 over a decade at a very minimal growth rate of 5%. This lead to more criticism of India’s economic reforms since it failed to address the employment growth.

Privatization has made some considerable progress by reducing involvement of the state or the public sector in the economic activities of the country by moving the divide between public sector and private sector because of the introduction of new economic policy in 1991.

The fiscal dimension, which is also the first dimension stems from the govt’s need to decrease the fiscal deficit. Privatization for efficiency is the next dimension. In a way the parameter of efficiency forms the forte of privatization. The third dimension of the impact is on the linkages which need to be addressed by the privatization policy.

The economic reforms came entering into a new phase of liberalization, Because of elimination of industrial licensing. The public sector presence was eliminated, new avenues to foreign investment were opened and various initiatives were granted to private sector to expand its activities of business.

The policy of 1991 paved way for the lower taxes, bigger space of working, less govt. intervention and lesser paperwork.

2. PART PLAYED BY THE DOMINANT FACTOR:

Even though the public sector has shown some considerable progress in the time of planning, private sector has shown some dominance in the Indian Economy.

The private companies in 2006-2007 were of a number 1,24,941 of a total of 1,44,709 companies. Therefore, 86.3 % of companies were a part of private sector but when we consider it in terms of gross output, value added and fixed capital, the sector's share was much lower amounting to only 25.5% in 2006-2007. The value added in that year was only 32.2 % and 30.8%. the private sector's share was much more.

3. PERFORMANCE OF THE CORPORATE AFTER 1991.

After the economy was opened to foreign competition, this lead to considerable restrictions of the private sector through mergers and acquisitions since many business houses have been concentrating mostly on their selling points emerging from unrelated and diversified scenarios, The average rate of growth of sales was 14.0 percent per annum during 1990's (1990-91 to 1999 -2000) and 14.2 percent per annum during the period 2000-01 to 2006-07. Gross profits increased at an average rate of 12.5 percent per annum during 1990's and 20.04 percent per annum during 2000-01 to 2006-07.

The performance of the corporate sector in 2007-08 presented some decline vis-à-vis 2006-07. For instance growth rate in sales and net profits during this year decelerated to 18.3 percent and 26.2 from 26.2 percent and 45.2 percent respectively in 2006-07. Growth in gross profit of the corporate sector also decelerated from 41.9 percent in 2006-07 to 22.8 percent in 2007-08.

4. DATA INTERPRETATION:

The private sector has grown rapidly after economic reforms in 1991. The strategy of mixed economy seemed fruitful for India's development.
The entrepreneur is always seduced by profits and is responsible for introduction of new commodities, production techniques, collection of the particular plant and equipment and managing and organizing them.

In the new economic reforms that have emerged after the announcement of the new industrial policy in 1991, private sector has been assigned the dominant role in industrial development.

5. GLOBALIZATION:

Before 1991, India was largely isolated from the World Market to protect its growing economy in order to achieve self reliance. The Foreign Trade was restricted to any kind of import tariffs, export taxes while FDI was restricted by Upper Limit equity participation, export obligations, technology transfer.

When Indian economy was in deep crisis in 1991, Foreign currency reserves had plummeted to almost 1 billion, inflation had roared to an annual rate of 17 percent, fiscal deficit was very high, foreign investors and NRIs had lost confidence in Indian market, the globalization strategy was implemented which included the following:-

Devaluation- The globalization entered the Indian market with the declaration of devaluation of Indian currency by 18-19% against global currencies market.

Disinvestment-To make the process of globalization smoother, liberalization and privatization too were implemented and a large % of public sector was sold to the private sector.

Imports-A large number of import items were removed from the restricted list and were permitted free for imports,.

Reduction in Tariff-
The tariff rates were reduced from 255% to 150% on 35 import items. After sometime a few exceptions were reduced form 110 percent to 85 percent and volume.

There is a commitment made to the WTO to ceiling limit of tariff rates to 40% for the use of finished products and 25% in the case of intermediate goods and machinery.

6. FOREIGN CAPITAL:

Globalization has played its role well providing a facility for smoother inflow of foreign capital in the economy. Certain high priority industries were listed by the Govt. in which participation of foreign investors could be permitted without the approval of the govt.

7. CONCLUSIONS:

The process of reforms is still far from reaching its socio economic objective since the private sector only cares about its profit. Liberalization process decreased the role of public sector investment while the private sector failed to fill the vacuum created by the withdrawal of public sector infrastructure, esp in the backward states.

So, a great deal of work needs to be done. President Clinton emphasized in Hyderabad spoke on the requirement for harnessing new technologies for eliminating poverty. He feels that most Indians are connected to the Internet but no to fresh water. So, where we account for 30% of World's software engineers but 25% of the world's malnourished.
Lot of work needs to be done.

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