

## THE POLICY OF ECONOMIC LIBERALISATION IN INDIA

### 30.1 INTRODUCTION

Economic activities such as production and distribution of goods and services have been carried on since ages both by private agencies (such as firms, individuals) as well as the state. The extent and nature of their participation depends upon the stage of economic development of the society, structure of the economy and the ideas of the time. Generally, in more developed economies, the role of the state in managing economic affairs of the society is less. The task of co-ordinating the consumers and producers carried by the price system (or the market mechanism) rather than by the state bureaucracy. A society where the state has a relatively small role to play in the economic affairs of the people is generally described as liberal. The societies with pervasive state presence in economic activities are socialist systems.

### 30.2 OBJECTIVES

After studying this lesson you will be able to:

- recall the meaning of economic liberalization.
- appreciate the rationale for adopting mixed economic system in India
- examine the strategy of developmental planning in India.
- explain the achievements of planned economic development
- recognise the deficiencies of the planned economic development
- appreciate the features of the policy of economic liberalization after 1991

### 30.3 ECONOMIC LIBERALIZATION : ITS MEANING

Economic liberalization has many meanings. In its widest sense it stands for a virtual withdrawal of the state from economic activities. However, liberalization has also been used in the limited sense, of withdrawal of direct discretionary controls by the government in favour of the market forces. Some examples below might make the idea clear.

1. Imports from abroad could be restricted either by imposing quotas (i.e. a quantitative

restriction) or by charging a very high tariff. While the former works counter to the price mechanism, the latter tries to influence the price system. A shift in government policy from quotas to tariff, thus, can be considered as a measure of economic liberalization.

ii) The government can discourage investment in a particular industry either through a system of quantitative licensing or by imposing higher taxes on profits accruing from that industry. An economic regime opting for the second choice would be considered a liberal type. Economic liberalization, in the sense of changing the nature and extent of state intervention in economic activities in India, have been attempted frequently in the past. The one initiated in the beginning of the nineties, has been the most far reaching and irreversible. In this lesson, we will try to understand this process which is currently being pursued by the Govt. But before that we must first understand the system that existed before and its achievements and limitations.

### 30.4 MIXED ECONOMY SYSTEM IN INDIA

Fifty years ago, when India attained freedom from colonial rule, it opted for a mixed economy to expedite economic growth. A mixed economic system assigns appropriate roles to both the market mechanism and the state to ensure rapid economic growth with social justice. Before India started its journey on the road to rapid economic development, it had the advantage of the experiences of capital development in Western Europe and the United States and the socialist path of the Eastern European countries and the U.S.S.R..

In the former category of countries economic growth was carried on largely by the market forces whereas in the latter group of countries it was the state that dominated. Experiences of the Western Capitalist world led Indian policy makers to believe that the growth process led entirely by the market forces would not be able to come to grips with the specificities of the Indian economic reality. At the time of independence, the country was economically backward. The level of industrialization was low. The agriculture sector was beset with low productivity and outmoded institutions like landlordism and tenancy. The level of savings and investment was low and incidence of poverty was rampant. What was needed in the country was rapid economic growth that could benefit the vast majority of people.

However, under the circumstances at the time of Independence, the planners believed that an entirely market-led development would neither ensure a sufficiently rapid growth nor lead to greater economic equality. Rapid economic growth requires developed infrastructural base which the private sector in an underdeveloped country is unable to undertake. Firstly, infrastructural industries like communication and transport require huge capital while returns take long and are often relatively low. Besides in underdeveloped countries, the small and weak private sector is usually unwilling to undertake such large scale activities. Secondly, the capitalist system tend to economise on labour and welfare expenditure in the name of efficiency and productivity. The system breeds economic and social inequality and tends to be unpopular. Hence a purely market driven economic system was unacceptable to India's political leaders.

Thirdly, private enterprise is usually insensitive to the long-term effects on the economy such as the environment, and overuse of exhaustible natural resources. Hence controlling private enterprise through a system of taxes subsidies and outright ban on certain activities by the state, become unavoidable.

In an underdeveloped economy like that of India, the state alone was considered capable of creating suitable institutions and mobilise resources for faster growth. The remarkable achievements of centrally planned economy in Eastern Europe and Russia during the decades of the 1930s and 1940s further strengthened our policy makers preference for

planned economic development.

These considerations led to the option for a mixed economy in India.

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### **INTEXT QUESTIONS 30.1**

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Fill in the blanks:

- i) A highly developed economy goes with... state intervention in managing economic activities. (more/less).
- ii) A society with pervasive state presence in economic organization is called a ... system (liberal/totalitarian).
- iii) Economic liberalization signifies replacement of... on the part of the govt. by a ... that works along with the market forces. (direct discretionary controls, regulatory mechanism).
- (iv) Private economic decisions are usually unmindful of their adverse external effects on the economy such as on environment (True/False).

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The mixed economy framework as applied in the context of our economy essentially meant three things.

- i) The development of the agricultural sector was to be left in the hands of millions of farmers in the country, the state took up on itself the task of providing material and technological support to our farmers. Besides, the state also endeavoured to create a suitable proper institutional set up (such as tenancy reform, a remunerative price policy and a nation wide marketing network) for a faster growth of the agricultural sector.
- ii) In developing the industrial sector of the country the state assumed a direct and far bigger role for itself. In an attempt to control the 'commanding heights' of the economy, the state created a 'public sector' which consisted of industries of strategic importance. Besides, it tried to regulate private capital engaged in industries through such devices as industrial, licensing, import licensing, differential taxation and subsidies.
- iii) The state also intended to create an egalitarian society by redistributing income and wealth among people through such measures as progressive income taxation, ceiling on land-holding and Monopoly and Restrictive Trade Practices Act (MRTP) etc.

In what follows, we will briefly review the policies adopted by the state to develop various sectors of the economy such as agriculture, industry and the external trade and investment.

### **30.5 DEVELOPMENT STRATEGY FOR THE AGRICULTURAL SECTOR**

The partition of Indian subcontinent in 1947 led to massive dislocation of our economy. There was a shortage of foodgrains and raw materials for agro based industries such as jute and cotton, since the growing areas went to Pakistan. The first Five Year Plan (1950-1955) therefore, concentrated primarily at removing these imbalances. Fortunately, agricultural production responded well so that the country soon was able to bridge the demand - supply gap.

Towards the end of the First Five Year Plan a long-term approach towards developing the agricultural sector emerged. Based on the different strategies adopted, Indian agriculture

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could be seen as having passed through two distinctive phases:

- i) 1950-1965 and
  - ii) 1966 onwards.
- I) During the first phase, agricultural production was sought to be accelerated by improving traditional methods of cultivation and their wider diffusion. However, this strategy could not make much headway. The main source of growth of agricultural production consisted of an increase in net area sown. There was no substantial improvement in the productivity of agricultural operations.

As a result, the rate of growth of marketable surplus from agriculture could not keep pace with the rising demand from the fast expanding urban centers in the country. Agricultural prices were moving up and by the mid-sixties inflation began to threaten government's industrialisation programme.

The situation required urgent remedial measures. The government responded by a new strategy of development that relied primarily on technological innovations to boost productivity in agriculture. The new technological package consisted of the use of the HYV (High Yielding Varieties) seeds, pesticides and chemical fertilizers. The government heavily subsidized the use of these inputs. It also paid particular attention to the development of irrigation facilities as the success of the new method of cultivation depended crucially on the controlled availability of water. The new strategy led to the 'Green Revolution' that not only made India self-reliant in the production of food grains, but also enabled the country to export large quantities of agricultural goods particularly wheat and rice. However, the so-called green revolution was limited to a few crops and to select regions. The new strategy also led to widening of inequalities of income and wealth in rural India, and also between the various states of India.

### **30.6 DEVELOPMENT STRATEGY FOR THE INDUSTRIAL SECTOR**

When India set about the task of developing its economy, industrialization was regarded as indispensable for economic development. Consequently, Indian policy makers emphasised on developing a strong and well diversified industrial sector. Towards this end, the basic policy framework was enunciated in the Industrial Policy Resolution of 1956. Though the policy has been revised periodically in 1973, 1977 and 1980, in conformity with the changing realities, the basic approach remained unchanged until the early 1990s. Therefore, we will attempt a review of the policy resolution of 1956 to see how the mixed economy system worked in the Indian context.

### **30.7 SALIENT FEATURES OF INDUSTRIAL POLICY RESOLUTION (IR) OF 1956**

The IR of 1956 classified industries into three broad categories.

#### **(i) Monopoly of the State**

Seventeen industries listed in Schedule A of the IR 1956 (Appendix I), were declared as the exclusive responsibility of the state that is the Central Government. Their development was to be carried on under the 'public sector'. These were defence, heavy industry, minerals, power, transport and communication. Of these industries four viz. arms and ammunition, atomic energy, railways and air transport were declared as government monopolies, while in the remaining thirteen, all new units were to be set up by the state alone.

## (ii) The Mixed Sector

Twelve industries listed in schedule B of IR 1956 (Appendix II) fell under this category. While private participation in these industries was welcome, the state was supposed to take the initiative in establishing new undertakings. The list of such industries included : machine tools, ferro-alloys and steels, basic chemical and intermediates, antibiotics and other essential drugs, fertilizer, synthetic rubber, chemicals, pulp, road and sea transport.

## (iii) Private Sector

All other industries outside schedule A and B, came under the private producers. These were mostly consumer items. The state protected the private domestic producers of these goods against external competition by following the policy of protectionism and by imposing high tariffs on imports. However, private producers were to carry on their activities within the overall supervision of the state. To control the private sector the state employed the following instruments.

## (iv) Industrial Licensing

Private producers had to obtain licence from concerned authorities for creation of new units as well as for expansion of the existing ones. With this provision the government exercised control on the production of the entire range of industrial goods in the country.

## (v) Importing Licensing

A tight exchange control was brought into place. All the foreign exchange earned by private individuals were to be deposited with the government. Import of foreign goods were subject to licensing

The industrial and import licensing policies enabled the government to control the activities of private sector. Other instruments to influence private producers included incentives/disincentives through taxes, supply of inputs selective institutional credits and price control.

## (vi) Small Scale Sector

The small scale sector which had its own list of regulations. Large companies from the private sector were not allowed to compete with them. This sector was also provided credit and infrastructural support on concessional terms by the state. The rationale behind the promotion of small scale sector was its labour intensive character and its potential to provide employment

The cottage industry sector existed in the villages since time immemorial. These industries provided livelihood to millions of Indians living in rural areas. During post independence period, products of the cottage industry such as handicrafts and handlooms became major sources of foreign exchange earnings for the country. Consequently, the government had a separate set of policies aimed at promoting this sector which included provision of concessional credit, subsidies in various forms and exemption from taxes.

## (vii) External Sector

**Export :** As must be obvious by now, Indian strategy of industrialization depended heavily on domestic market which was protected against imports by a high tariff wall. Prospects of exporting to foreign markets were considered bleak at that time as India had to face stiff competition from many other developing countries for its exports which were mostly agro-based.

**Foreign Capital :** Foreign capital was given restricted entry in the domestic market. Both

the extent and areas of their operation were regulated by the government.

### **30.8 SUCCESS OF THE OLD POLICY**

The experience of planned development in the last four decades has been a mixed basket of success and failures. On the positive side, India succeeded in raising considerably its rate of growth of GDP compared to its performance in the pre-independence period. However, per capita income has not grown sufficiently due to a higher rate of growth of population in the same period. India's performance also does not compare well with other developing countries which started their developmental efforts around the same time.

Nevertheless, thanks to the 'Green Revolution' India has not only achieved self-sufficiency in foodgrains production, but is in a position to export them.

On the industrial front, not only the rate of growth has improved, the country has also been able to create a well-diversified industrial base within a short time. The development of basic and capital goods industries under the aegis of the state has been particularly remarkable.

India has been able to build up the infrastructure of irrigation, power, transport and financial and social services sufficient to integrate a large and diversified country into a single national market where resources like capital, labour and skills flow more or less freely across the country. Our pool of scientific and technical manpower ranks among the top few in the world. A democratic polity and the system of transfer of financial resources from the centre to the states provided in our constitution have prevented gross inequalities in the levels of development between the different regions.

### **30.9 FAILURES OF THE POLICY REGIME**

State-led growth had also its problems. The strategy of industrial growth was based entirely on domestic demand to the utter neglect of exports. As noted earlier, domestic demand was stimulated by protecting the home market through high import duties. This prevented competition between the domestic producers and their foreign counterparts. The result was that India became a high cost economy unable to compete in the world. The system of licensing prevented competition even amongst the domestic firms. Once the license was obtained, there was no fear of potential new entrants in the industry, and hence little incentive to improve efficiency.

Extensive licensing led to excessive bureaucratization of the economy breeding inefficiency and corruption. This phenomenon has been described as the 'license-permit-raj'.

Mismanagement and inefficiency was at its worst inside the public sector undertakings (PSUs). Political interference, lack of managerial responsibility, overmanning, indiscipline among the workers, financial profligacy etc. were rampant among the PSUs. Most of these undertakings were running at a loss. The PSUs, as a group, never reported a satisfactory rate of return out of the massive capital invested in them.

The low rate of return on PSUs, and leniency in tax collection led to resource crunch and subsequent decline in public investment. The domestic market was also getting saturated and high cost of production at home ruled out any possibility of growth via expansion of exports. Towards the end of the decade of 1970s the economy started stagnating.

During the 1980s government tried to accelerate the rate of economic growth by massive external borrowing. Imports, too, were gradually being liberalised. The growth rate picked up. But soon it was realized that India's external debt is approaching unsustainable levels.

It was obvious to policy-makers that unless drastic economic reforms were introduced the pace of economic development could not be maintained.

At around the same time, because of the Gulf-war India faced an acute foreign exchange crisis as its oil-import bill shot up and there was speculative flight of capital away from the country. Sensing the mood of the nation, the government ushered in drastic reform measures in a bid to convert the moment of crisis into one of opportunity. The thrust of the reform measures lay in deregulating the economy.

## INTEXT QUESTIONS 30.2

- (i) During the first phase of agricultural development, the main source of output growth was...(an improvement in the productivity of land; a substantial increase in the area under cultivation)
- (ii) The 'Green Revolution' technology package in India comprised essentially of ... (HYV seeds, water, fertilizer, use of tractors, harvesters).
- (iii) The green Revolution brought in a substantial improvement in ... (the productivity of land; the pattern of ownership of land).
- (iv) Some of the instruments deployed by the government to keep the private sector under control included.....
  - a. industrial licensing
  - b. import licensing
  - c. subsidies
  - d. price control
- (v) Excessive state control made India a high cost economy by... (preventing/encouraging) competition among domestic firms as well as between domestic firms on the one hand and ... (state/foreign companies) on the other.
- (vi) The licence-permit-raj refers to excessive..... of the economy leading to inefficiency and corruption (bureaucratization/privatisation).
- (vii) Towards the end of the decade of 1970s, the economy started stagnating as ... fell and the country was unable to go to ..... due to high costs of production at home. (private-investment; public investment; foreign market.)
- (viii) During the 1980s government tried to step up investment for higher rate of growth of the economy by going in for massive..... borrowing. (external/internal).

## 30.10 FEATURES OF THE NEW ECONOMIC POLICY

### (i) External Trade

#### Export

Since the immediate cause of the crisis was a scarcity of foreign exchange, fundamental corrective measures were introduced to tackle this problem. Earlier policies had indirectly discouraged exports by making domestic production profitable. The new policy tried to boost exports by substantially devaluing the rupee (22% in two steps), and by drastically reducing duties on imports. At the same time, the old and cumbersome system of incentive-to exports were scrapped. Such policies made production for exports as profitable as

production for the domestic market. In the past six years, India's exports specially of agricultural origin, has responded well to the new set of measures.

### **Import**

There was a considerable liberalization of imports too. This was brought about by substantially expanding the number of items under the open General Licence (OGL) and also by simplifying import procedures.

### **(ii) Foreign Investment**

- (a) The rules and regulations with regard to foreign investment in India were considerably eased. At present direct foreign investment in 34 high-priority industries is allowed automatically upto 51% of the equity capital provided the foreign equity covers the foreign exchange requirements for import of necessary capital goods.
- (b) In order to attract foreign capital, provisions relating to dividend expatriation have been made favourable to foreign investors.
- (c) Automatic permission for foreign technology agreements have been provided for 34 high priority industries subject to certain payment limits.

### **(iii) Industrial Licensing Policy**

- a) In order to promote competition at home the government has virtually done away with the industrial licensing system. Compulsory licensing has been abolished for all industries irrespective of the levels of investment, except for 15 industries such as coal, sugar, chemicals and those related to security, environmental and socially hazardous concerns. Exemption from licensing has been provided also for future expansion of existing capacity.
- b) Entrepreneurs are now required to file only information on new projects and substantial expansions.

### **(iv) Public Sector Undertakings (PSUs)**

PSUs have been the major target of economic reform policies. Some of the policy measures envisaged to restore the health of the PSUs include setting up of the institution of holding company for managing PSUs in core sectors, partial disinvestment of PSU shares, reducing the incidence of political interference in their day to day management by giving more autonomy etc.

## **30.11 POSITIVE ASPECTS OF THE NEW ECONOMIC POLICY:**

The policy of economic liberalization seems to have yielded dividends. After a temporary set back in the initial stages, the overall rate of growth of the economy has bounced back and there are indications that it would further accelerate in future. The achievements of the new policy measures have been particularly spectacular on India's exports which have picked up and foreign investors have shown considerable interest in investment in the country. Gone are the days when India used to have perpetual deficit on its external account. Today we have a comfortable reserves of foreign exchange which is sufficient to take care of our import requirements.

A substantial increase in foreign direct as well as portfolio investment has also meant a corresponding reduction in the state's burden of mobilising resources for promoting growth. The state can now concentrate more towards developing the areas of social overheads, such as education, health and rural development.

## 30.12 THE NEW ECONOMIC POLICY AND THE PROBLEM OF POVERTY

Reforms of the scale introduced in India have significant costs and benefits both economic and political. Therefore, in order to ensure the smooth passage of the reform process, the political leadership has to see to it that the interests of different social groups are properly balanced.

The policy of economic liberalization has been accompanied by those of 'stabilization' and 'structural adjustment'. The policy of stabilization essentially means keeping overall demand in line with the supply capacity of the economy so as to keep prices in check. This requires, a restrictive fiscal and monetary policy of the government. The policy of structural adjustment on the other hand, is a design by which the government attempts to restructure the level of output and prices. Both these policies are bound to generate unemployment in the short-term. In the medium to long term, however, the same sets of policies are supposed to unleash forces of growth which should lead to a net increase in employment rate. Deregulation of prices, better credit facilities and increased export possibilities especially of agricultural products may improve the lot of the poor in the long run.

However, in the short run, the poor might suffer when growth is mainly in response to market forces. The pattern of such growth would be shaped by the existing distribution of assets and purchasing power. This would lead to production and import of goods meant for ostentatious consumption. In a country where the majority of the population is living below the poverty-line, wasteful consumerism can not be justified in the name of higher growth.

Such a growth would also lead to widening of the existing regional disparities, as affluent states with better infrastructure and higher per capita income would attract relatively more private investment. Fiscal correction by the government entails, among other things reduction in subsidies as also in its development expenditure. This adversely affects the social sector projects such as those relating to public health, nutrition, child care and primary education. Since the beneficiaries of such governmental programmes are from among the less privileged sections of the society, it hits them hard. This may increase the social and political tension within our democratic structure. Consequently, to sustain the reforms, attempts must be made to keep a high level of government expenditure on social overheads. The government must have tried to keep a high not to drastically reduce the expenditure on the social sector. However, due to inadequate mobilization of resources by the government such attempts have fallen short of the problem.

The problem of rural development and poverty alleviation can not be effectively tackled unless the operational efficiency of social works programmes are improved, and corruption curbed. Substantial expansion of the public distribution system and making them more target oriented would also go a long way in preventing further marginalization of weaker sections of the society.

Moreover, social development and poverty alleviation are not merely a matter of financial allocations but requires strong political commitment. Reservations in jobs for the weaker sections and activation of Panchayati Raj institutions hold promise for progressive changes:

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### INTEXT QUESTIONS 30.3

- (i) The policy of economic liberalisation tried to convert the bias against exports by making export products ... production for the domestic market (at least as profitable

as, more profitable than, less profitable than).

(ii) The policy of Economic Liberalisation includes the following:

- a. liberalization of imports (yes/No)
- b. reduction in controls on foreign investment (Yes/No)
- c. doing away with the domestic industrial licensing system (yes/No)
- d. substantial easing of bureaucratic red-tapism (yes/No)
- e. privatisation of public sector undertakings (Yes/No)
- f. total withdrawal of state from economic activity (Yes/No)
- g. liberalisation of the financial sector. (Yes/No)

(iii) Tackling rural poverty requires, among other things, that

- a. government expenditure on social overheads should remain at adequate levels (yes/No)
- b. Operational efficiency of social works programmes are improved and corrupt practices indulged in by interested parties are curbed (Yes/No)
- c. Public distribution system (PDS) is further reoriented towards the urban poor (yes/No)

## WHAT YOU HAVE LEARNT

Economic liberalisation involves the replacement of direct government controls on the economic activities of private citizens by a regulatory system that works through the market forces. In 1991, the Indian government set in motion an ambitious policy of economic liberalisation which is wide-ranging in its scope and appears irreversible. Earlier, during the last forty years of planned economic development direct and indirect involvement of the state was pervasive. The present reforms aim to encourage private initiation by scaling down the level of involvement of the state.

In a mixed economy the scale of economic space between the state and the market is determined essentially by the stage of development of the society.

Generally speaking, in a less developed economy with inadequate infrastructure and poorly developed economic institutions, the state seems to perform better. This has been the experience of socialist societies. At lower levels of economic development, the state seems to carry on the tasks of mobilizing resources both human and material, building up of infrastructure and creating economic institutions with relative ease. Consequently the pace of economic growth happens to be faster and degree of economic disparity lower.

With this philosophy, India initiated the 'mixed economy model' of growth. Under this system the task of economic and social transformation fell primarily on the state. The involvement of the state in economic matters was both direct as well as indirect (i.e. by way of incentives and controls).

For instance, the task of developing the agricultural sector was left entirely on the farmers. The state only helped them by providing. It infrastructural support such as irrigation, power and concessional credit. The government also played a pioneering role in bringing in new technology to increase farm productivity. Besides, the government attempted some institutional changes in the countryside such as tenancy-reforms and ceiling on landholding.

In the sphere of industrial development, however, the role of the state was direct and

extensive. The state set up the 'public sector' fully owned and controlled by itself, to develop industries of strategic importance such as basic and capital goods industries, nuclear power and armaments. Simultaneously, the state devised an extensive network of indirect control mechanism for the private sector in the form of licence-permits, quotas, differential taxation, subsidies, price and industrial location policies.

The strategy of economic development in the last four decades has its achievements and failures. On the positive side, one may enumerate such gains as a satisfactory growth of the agricultural sector, building up of a solid infrastructural base of irrigation, power, transport, financial and social service sectors, development of a well-diversified structure of industries and creation of a pool of technical and scientific manpower that easily ranks among the top few countries in the world. A democratic polity and the system of transfer of resources from the center to the states have prevented so far the emergence of gross inequalities of income and wealth among social groups as well as between different regions.

On the negative side, the greatest drawback of the system has been an extensive and irrational state control on economic activity. Not only has it acted as an impediment to faster rate of growth of GNP, it has also prevented competition among domestic producers which in turn has made India a high cost economy. Inefficiency and high cost of production made Indian exports non-competitive in the world market. As a result, India could never succeed in earning enough foreign exchange through its exports. Thus, the roots of the persistent shortage of foreign exchange which acted as a constraint to growth could be traced to the faulty strategy of trade and industrialization.

Inefficiency and mismanagement has been high in the public sector undertakings (PSUs). The PSUs, taken as a whole, could never report a satisfactory rate of return out of the massive capital invested in them, though some of the units performed well. Inability of the PSUs as a group to earn profits was one of the major reasons of the resource crunch faced by the state which, in turn, led to lower rates of public investment and GDP growth.

Besides, excessive bureaucratization described as the 'licence-permit-raj' has led to corruption in the system.

The policy of economic liberalisation initiated in the early years of the 1990s aimed at removing these impediments to growth. The basic idea was to change the nature of government control over the economy to promote competition and efficiency. This is to be achieved by bringing in a new regulatory mechanism that is transparent and shuns unnecessary bureaucratic interferences in the economic management of the country. The role of the state has to be changed from a regulator of the economy to one that facilitates growth.

Moreover, the new reform measures are also aimed at reducing the resource crunch which has led to such problems as excessive deficit financing and unsustainable levels of public debt both external and internal.

Competition at home is sought to be promoted by virtually doing away with industrial licensing. This is expected to act as a major boost to private investment in the economy. The government is also devising policies to tone-up the PSU's. A significant policy step in this regard is the divestment of PSU shares to private institutional purchasers. This measure is likely to drastically change the operation of these undertakings.

To improve India's competitiveness in the world market, the new policy initiatives include a drastic reduction in import tariffs, an appropriate exchange rate policy and a liberal foreign investment policy that encourages multinational firms to invest in India.

The gains of the reform measures are visible. The rate of the growth of GDP in the post-

reform period has been relatively higher. The country is also out of the persistent foreign exchange shortage and is now worth a comfortable foreign exchange reserves. Besides, a larger foreign investment inflow is expected, the new policy measures have been seen as being investor- friendly. But there are gainers and losers in the society. It is the responsibility of the political leadership to see to it that the reform opens up opportunities for the majority of the populace. Two points are worth mentioning in this regard. Firstly, at least in the short to medium-run, policy devices such as 'stabilization' and 'structural adjustment' lead almost invariably to greater unemployment and a reduction in government outlays on development programmes aimed at the weaker sections of the society. This places a relatively higher burden of economic reforms on the poor and under privileged in the society. Secondly, since liberalization of the economy puts greater emphasis on the market mechanism the benefits of faster-economic growth are likely to be appropriated more by the wealthier sections of the society. These tendencies are bound to lead to a widening of income inequalities across social groups and between different regions of the country. This might create social and political unrest jeopardising, in turn, the very process of economic reforms. In India, given the magnitude and intensity of poverty, it is essential that the state keeps up the tempo of public expenditure on social overheads and maintains an effective Public-distribution system particularly in the rural areas. This would provide the reform process the much needed human face.

### **TERMINAL EXERCISES**

1. Explain the mixed economy system in India
2. What strategies have been adopted to develop agricultural and industrial sector?
3. Describe the features of new economic policy of India.
4. Examine the impact of the new economic policy on poverty.

## ANSWERS

### Intext Question

**30.1** 1. less 2. Totalitarian 3. direct discretionary control; regulatory mechanism  
4. True.

**30.2** 1. HYV seeds, water, fertilizer 3. The productivity of land 4. Industrial licensing,  
import licensing, price control. 5. preventing; foreign companies. 6. Bureaucratization.

**30.3** 1. at least as profitable as 2. (a) yes (b) yes (c) yes (d) yes (e) yes (f) No (g) yes 3.  
(a) yes (b) yes (c) No.

### Hints to Terminal Exercises

1. Refer to Section 30.4
2. Refer to Section 30.5 and 30.6
3. Refer to Section 30.10
4. Refer to Section 30.12