Role of Public-Private Sectors and Economic Reforms

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The focus of post-reform policy in India has been to attract private investments, mainly for expanding India's infrastructure. This policy is supposed to catalyze the economic growth and poverty reduction. The results so far of these reforms measures have been rather mixed. Procedures followed by the financial sector impose constraints on the funding of projects in India. Also, the slow pace of reforms in key infrastructure areas, critics point out, do not encourage private investor to come forward with heavy and long-term investment. Investment avenues, therefore, remain relatively weak.

In India, private investment since 1990, the year liberalization and globalization of Indian economy began, has averaged 15% of GDP. This size of investment is not enough to speed up the rate of growth to 8% Foreign Direct Investment in India has averaged $5 billion annually which is also not sufficient to sustain the intended rate of growth. In fact, Indian overall investment has so far depended on domestic savings.

According to available figures, in 2001, the manufacturing sector share stood at 17% of Indian GDP while in China it was more than double of 35%, and in other South East Asian expanding economies it was 25-35%. In non-agriculture exports, India was able to increase its world share from 0.5% to 0.55% from 1991 to 2001. India's services exports have done better and stood at 1.4% of global exports. But India's services exports have a very narrow base and the lion's share of achievement goes to the software services that have grown phenomenally at the annual rate of 49% in the second half of the 1990's decade.

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India's first four five-year plans entailed a total public sector outlay of Rs 314.1 billion. In the first plan (1951-56) agriculture received the highest priority and irrigation and power projects sere launched in different States of the country.

The fifth plan (1974-79) had for its goals the removal of poverty and the attainment of self-reliance. During this phase also the emphasis was on industry, with mining and manufacturing taking 22.5%, electric power 18.7%, transportation and communications 17.2% and agriculture 12.1%.

In 1980 began the sixth development plan (1980-85). Its goal, like that of the fifth, was the removal of poverty, but the planners were conscious of the mammoth undertaking that was difficult to accomplish within five years. The plan strengthened the agricultural and industrial infrastructure in order to accelerate the growth of investments and exports.

The seventh development plan (1985-90) projected 5% overall GDP growth that was exceeded, because of increases of 4% and 8% in agricultural and industrial output, respectively. Outlays totaled Rs 1,800 billion.

The eighth development plan (for 1992-97) was drafted in response to the country's looming debt crisis in 1990-91. Ground work was done for long term structural adjustment. The plan's thrust was toward stimulation of industrial growth by the private sector, and let the government deploy its resources for greater investment in basic infrastructure and human resources development. This Plan was devised with a clearer direction to create liberalized atmosphere for private and foreign investment. The foreign exchange system was reshaped and the Indian currency devalued. The maximum tariff got reduced from 350% to 85%, import barriers relaxed, and those for key intermediate goods were removed altogether. Reform of the tax system, reduction of subsidies, and other similar measures during this Plan supported expansion of private enterprise but the government moved cautiously toward privatization. Compared to structural adjustment programmers in other developing countries, India did not stipulate a large-scale privatization of the public sector.

Analysts proclaimed the eighth development plan (1992-97) was a success; economic growth averaged 6% year, employment marginally rose, poverty was slightly reduced, exports increased, and inflation declined.

The proclaimed focus of the ninth development plan (1997-2002) was the redistribution of wealth and alleviation of poverty. During these five years, privatization of the economy made a few more strides and efforts for attracting foreign investment and the reduction of the deficit continued. The reform Era appeared to have arrived now.

There were improvements on the Reform Front, including an increase in the GDP growth rate from an average of about 5.7% to about 6.1% in the Eighth and Ninth Plan periods. The reduction of the percentage in poverty from a third or the population to a fourth was recorded, and the increased literacy from 52% in 1991 to 65% in 2001 was achieved. India emerged as a decisive competitor in state-of-the-art technologies of the new information age. However, persistent inefficiencies-unemployment and underemployment, and welfare deficiencies-continued to gnaw at the economic sinews of the Indian nation

In the tenth five-year plan, 2002-2007 the government set the ambitious target of achieving an average8% growth, higher than achieved during the ninth plan and much higher than the 5% to 5.5% growth for 2002-03. Other economic targets included a reduction of the poverty rate by 5% by 2007, and by 15% by 2012; providing gainful and high-quality employment at least equal to the projected increases in the labour force; increase in forest and tree cover to 25% in 2007 and to 33% by 2012; all villages with sustained access to potable water by 2007; and cleaning of all major polluted rivers by 2007.

Agricultural development was a core element of the tenth plan. Such agriculture sectors as were to create employment opportunities were supposed to receive focused attention. The scope of agriculture for this reason was extended to construction, tourism, transport, Small-Scale Industries (SSI), retailing, IT, and communications enabling services. Industrial policy received continued emphasis on privatization and deregulation. Privatization, during the tenth plan, appears to have created more millionaires and billionaires but poverty stalked one-third of India's population. As a critic points our "the most remarkable thing about the Planning Commission's Approach to the Eleventh Plan is that there appears to be no planning in it. Planning in the economic sense requires, at the minimum, a constrained maximization exercise-

that is, a clear definition of the social goals, which are then sought to be attained as far as possible subject to the prevailing resource, economic, social and technological constraints. This in turn requires a specification of the proposed mechanisms of measures to be employed to attain these goals. This was certainly present in the earlier Plans of the government of India."

The Approach paper indicates that the government will rely on the private sector increasingly for economic, agricultural and industrial development of the country, hence the less emphasis on planning as the private sector does not like government sponsored plans. Political compulsions and bureaucratic clout on the governance of the country, however, would not allow the planning to be abandoned. The planning mechanism, in fact, helps government and private business nexus to operate smoothly and arbitrarily.

No wonder, then, that the current Approach Paper does not provide a clear statement of goals. Instead, it have resorted to a "uncritical "trickly-down" approach to economic growth", by pronouncing targets of annual GDP growth figure_either 7, 8 or 9 per cent per annum-as its ultimate goal that effectively subsumes all social goals, the presumption being that if 8-9% GDP growth is achieved all social goals, such as poverty reduction, resurrection of the small and marginal farmer, education, health, employment and employability shall be automatically achieved. That ad hocism continues to play havoc with the Indian economy, is evident from the Rs 60,000 crore ploughed into farming loan waivers and unplanned expenditure being incurred on Rural Employment Guarantee scheme.

It appears that the Private Sector has increased its dominance, not in size but surely in influence, and Indian planning has now lost its social direction.

References

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