Paradigm of New Economic Reforms in India: An Analysis

Prabhat Ranjan Singh*

Abstract-This paper analyses the recent developments of economic reforms in India. The fast economic growth of our country was started after various reforms in 1991. After reforms, the more energetic states having rich resources with superior infrastructure are capable to attract larger flows of domestic and foreign investment through market mechanism which in turn is enhancing their employment and per capita income. The economy moved in the positive direction in 1999-2000, when leaving gas, electricity and water supply, all other major sectors of economy witnessed acceleration in growth rate. The level of inflation again went upwards in touch the level of 10 percent in 1994-95. The level of inflation began retreating to 7.8 percent in 1995-96. According to the IMF's forecast, consumer price inflation in India will grow to 4.1 percent in 2020, 0.7 percent pints up from an average of 3.4 percent in 2019. This article is based on secondary sources. The analytical methodology has been used.

Key words: Economy, Fiscal Policy, Industry, Liberalization, Reforms.

Introduction-New economic reforms in India refer to the neo-liberal policies introduced by the government in 1991 and in the later years. The central point of the reforms was liberalization of the economy, simplifying regulations, giving more roles to the private sector and opening up the economy to competition**.** India has made significant economic progress over the last two decades and is rapidly emerging as a major economic force. Overall, economic growth has continued at an impressive rate while specific exponential rates of growth. This growth is really very impressive, especially when Indian economy is fraught with many impediments. Due to the failure of earlier economic policies till 1990 there was a need for new economic policies. The situation was worsening as India had foreign reserves which could last only for the next two weeks. There was a shortage of new loans and Indian people living abroad (NRIs) were withdrawing money in large amounts.[1]

***JRF (UGC), Research Scholar Department of Economics Patna University, Patna, Bihar**

There was a little confidence for international investors towards the Indian economy. These points will highlight the need for a new economic policy in India. Crisis in Gulf countries were increased in fiscal deficit, prices rising, the worse balance of payments, public sector units (PSUs) performing badly and many more. India approached the world and international monetary fund for loan and received $7 million to manage their crisis. As a result to this, international firms and agencies expected that India will open up the door in the country by removing various restrictions majorly on private sector and thereby removing the trade restrictions between India and the other foreign countries. India agreed to the terms and conditions and as a result, new reforms were introduced.[2]

Economic reforms refer to the fundamental changes that were launched in 1991 with the plan of liberalizing the economy and to quicken its rate of economic growth. The Narasimha Rao Government, in 1991, started the economic reforms in order to rebuild internal and external faith in the Indian economy. The reforms intended at bringing in larger cooperation of the private sector in the growth method of Indian economy. Policy changes were proposed with regard to technology up gradation, industrial licensing, removal of restrictions on the private sector, foreign investments and foreign trade. The essential features of the economic reforms are – Liberalization, Privatization and Globalization, commonly known as LPG.

Fiscal Policy Reforms-Attainment of equality in the distribution of income and wealth through the imposition of progressive direct taxes is the major objective of fiscal policy in India. Both direct and indirect tax reforms were introduced with an objective of widening of the tax base, better enforcement with equity and developing a globally competitive economy. Direct tax rates were reduced. Reduction in customs duty along with the changes in excise played a crucial role in moderating domestic prices**.** Considering the persistent mounting fiscal deficit as a major cause of hyperinflation, the government has made serious efforts to reduce the fiscal deficit. In spite of all, ironically, the fiscal policy of the country has failed to check the extent of inequality in distribution of income and wealth and has also failed to solve the problem of unemployment and poverty even after more than 70 years of independence.[3]

Monetary Reforms-Monetary reforms in India started on the recommendations of the Narasimham Committee on Financial Systems (1991). Based on the recommendations of the Committee, the Reserve Bank of India initiated the monetary policy reforms using two prime instruments namely, Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR). The Reserve Bank of India was permitted to frame the monetary policy of the country with the objective to accelerate the pace of economic development and the standard of living as well as to control and minimize the inflation which adversely affects the poor. Since the first plan onwards, the Reserve Bank of India followed the monetary policy to attain "economic growth with reasonable price stability". In recent years, the monetary policy of the country has been following two sets of objective:- (a) the policy is trying to enhance the flow of bank credit in adequate quantity to industry, agriculture and trade to meet the requirement and (b) provide special assistance for neglected sectors and weaker sections of the community.[4]

Banking and Financial Sector Reforms-The banking sector through its several policies has been supporting the poor section to obtain loans at a lower rate of interest. Since April 1989, a new strategy7 for rural lending named 'Service Area Approach' was implemented under the preview of 'Lead Bank Schemes'. Under this scheme branches of commercial banks were allotted certain specific semi-urban and rural areas. The banks were made responsible for overall development in the allotted areas. Reserve bank of India also issued essential directions to commercial banks in November, 1992 to eliminate various drawbacks of 'Service Area Approach'. In the backdrop of inadequate bank credit to the poor, micro finance programme of rural finance was launched as a pilot project in 1992. The economic survey 2004-05 observed in this connection that, "the programme has been providing to the poor, access of rural to the formal banking system and has achieved several milestones in terms of gender sensitization, empowerment and poverty alleviation."[5]

Industrial Reforms-Industrial policy was announced on July 24, 1991. The measures introduced in this area along with other economic reforms were as follow[6]:

(a) Industrial licensing was abolished for all projects except for a list of 15 industries related to security, strategy of environment concerns and certain items of luxury consumption that had a high proportion of imported inputs.

(b) The Monopolies and Restrictive Trade Practices Act applied in a manner which eliminated the need to seek prior government approval for expansion of present undertakings and establishment of new undertakings by a large number of companies. The MRTP Act restriction was removed.

(c) The set of activities henceforth reserved for the public sector was now much narrower than before and there would be no ban on remaining reserved areas being opened up to the private sector.

Exchange Rate Policy Reforms-The exchange rate policy reforms have been done by Indian government in 1992.

Devaluation of Indian rupee by 20 percent in July 1991 and introduction of Exim Scrips marked a period of trade policy reforms in India. This scrip was allotted to exporters as import entitlements against the value of exports. The scrip was freely tradable. In 1992, this system was replaced by a dual exchange rate mechanism under partial convertibility. In 1993, the economy moved to a combined exchange rate system i.e. full convertibility of rupee on current account. In order to encourage exports, a value based advance license was introduced in permit duty-fee imports of necessary raw materials and components to the extent of certain value of indicated exports. The Export Promotion of Capital Goods scheme was further liberalized to allow imports of capital goods at a concessional customs duty.[7]

Inflation-During the phase of reforms in the 1990s, the government approaches were entirely offsetting in effectively cutting down the level of inflation all through the time of reforms. Appropriate steps were taken every year to check such occurrences. The Indian economy reached the peak level of inflation rate that is 16 percent in September, 1991. The level of inflation again went upwards in touch the level of 10 percent in 1994-95. The level of inflation began retreating to 7.8 percent in 1995-96. The change in the expansion circumstance in India might be because of a few variables, which are credited to both demand and supply side components. In January 2016-17 the headline inflation was 5.7 percent as compared to 6.6 percent of financial year 2015-16. According to the IMF's forecast, consumer price inflation in India will grow to 4.1 percent in 2020, 0.7 percent pints up from an average of 3.4 percent in 2019.

Savings-After the liberalization, the Gross Domestic Savings (GDS) as proportion to GDP declined in 1991-92 and 1992-93 and subsequently continued to grow since 1994-95. The pattern of investment funds proportion was stimulated in the late 1990s. The aggregate saving of family sectors and private sector saving was 23.5 percent of the GDP in 1999-2000 yet the Gross Domestic Savings declined to 22.3 percent. The decrease in the investment rate had adversely affected the development prospects of the nation. The way of interest in the public sector is critical for the development of the area in the 1990s. It is accounted for that a significant part of people in general segment investment was occupied for building sustenance stocks instead of building settled capital stock for the segment. The private segment investment proportion recorded 9.6 percent of the GDP in 1995-96, yet it declined to 6.5 percent in 1999-2000. Twelfth five year arrangement set the goal to accomplish the saving rate 38.8 percent of the GDP at current prices during the 2012-17.[8]

Recent Developments-The planning commission, which was established by a resolution of the Government of India on 15th March 1950, has been replaced with a new institution name NITI (National Institution for Transforming India) Aayog by another resolution dated 1st January 2015. The rationale given for setting up of NITI Aayog is that India has 29 states and 7 union territories, and all these entities are different from each other. If some states are rich in minerals, others are not, many are agriculture dominated and only a few are industrialized, some are near sea and others are not, some have very high per capita income and others have much less, so much that Maharashtra's per capita income is nearly 4.5 times that of Bihar. In some states, infrastructure is not much developed while others have very developed ones. Some states have approx 100 percent literacy, and others have literacy rate of less than 70 percent. With these diversities in the country, how can the same policy be applicable to all the states? Therefore, we need to respect these diversities and make policy accordingly. NITI Aayog is expected to suggest policies accordingly.[9]

GST-On 1st July, 2017 the Indian government approved the Act to uniform Goods and Services Tax (GST) in India. Within economic crisis across the world, India has posed an ideal of hope with aspiring growth targets, sustained by a group of planned undertakings such as the 'Make in India' and 'Digital India' campaigns. The Goods and Service Tax (GST) is such undertaking that is predictable to offer the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and service. GST is

also anticipated to eliminate the cascading effect of taxes. India is projected to play a significant role in the world economy in the years to come. The anticipation of GST being introduced is high not only within the country, but also within neighbor countries and developed economies of the world.

Conclusion-In the light of above discussion it can be said that there were many economic reforms introduced under liberalization in India. These included expansion of production capacity, abolishing industrial licensing by the government, de-reserving producing areas and freedom to import goods. It is evident from the reforms introduced in Indian economy that from a planned economy it has moved towards a free-market economy. Though we still have mixed economy with both the public and private sectors coexisting but the role of private sector which is governed by market forces has been greatly increased and that of the public sector greatly diluted. So we now have a mixed economy with greater orientation towards a free market and private sector. But, new economic reforms of India had a multitude of impacts, some of which were positive and others negative for its people.

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