



IAS

GS PAPER - III

VOLUME-II

INDIAN ECONOMY



ECONOMY

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DEVELOPMENT EXPERIENCE OF INDIA

India's Development Experience : Policies, Priorities & performance Post
- independence Development Policy Regions.

For the first four decades after independence (in 1947)
India followed a development Strategy of import
Substituting Industrialisation, largely inspired by the Soviet
model.

- Central economic planning
- a mixed economy was envisaged
- Clearly assigned role for the private sector, but with pervasive regulatory control by the government
- the public sector was expected to reach the "Commanding heights" of the economy.

Post-Independence development Strategy (till mid-1980s)

- Restrictions on foreign investments; trade received very little attention, import Substitution for "Self reliance" was the buzz word. Indian planners were effectively operating under the assumption of a nearly closed economy
- The Second 5 year plan model was in a sense the backbone of India's post-independence development Strategy.
- It closely resembled Feldman's model of the Soviet Union in the 1920s.
- Stress on heavy industries (capital goods sector) primarily under the aegis of the state. Genesis of India's strategy of import Substituting Industrialisation for self reliance

Long Legacy of Colonial rule - do India's Strategy of Import Substitution do away with all elements of dependence on this Western World.

- Important to Signal to the rest of the World India's Capable of doing what the rest of World Can do - 'Nehruvian' Socialism - Lack of Faith in the market, role of State emphasized
- Influence of the Latin American Structuralist School of thought - elastically pessimism and Inequalising trade.
- Standard argument of infant industry protection.
- Almost all developing nations embraced import Substitution at the time. This Strategy was almost universally endorsed by the international development policy Circle.

Post Independence Trade policy Pre 1966: Pervasive import and exchange Control policy relying primarily on quantitative restrictions (QRs)

- Based On detailed estimate of Foreign exchange availability made by the Ministry of Finance
- After pre-empting for essential requirements (Embassy expenses, food fertiliser and petroleum imports), the rest was allocated to competing users through the mechanism of import licensing.
- Two principle Criteria (1) essentiality and (2) indigenous non availability, but absence of well defined set of Objective principles.

- Preference given to Small Scale (Over Large Scale) and public Sector (Over private Sector)

1962 Onwards: ORs were supplemented by increasing use of import duties.

Export policy - initially an attitude of indifference and "pessimistic neglect" - there were exports during the first two plans)

From the third plan (1961/62) deliberate policies of export promotion through export incentive (Subsidies, Fiscal incentive, and import entitlements.).

Devaluation of 1966 - a full policy package of devaluation with liberalisation - 57.5% devaluation of the rupee - Substantial elimination of export incentives on non-traditional exports - official declaration of a policy of liberalized import licensing and reduced import duties.

Post 1966:- Strikingly early revival of export Subsidies

- Continuation of ORs driven import control regime
- Import tariffs remained unusually high by international standards - 140% + for 70% of lines 100% + 88% of lines and 89% of all traffic lines. To summarise

The Objective of India's inwards-looking Self Strategy of Import Substitutions was to set up domestic Industrial Capacity for whichever goods (Consumer and producer) could be produced domestically and protect them

From International Competition - Very high effective Rate of Protection (ERP) - Calculations by Bhagwati and Srinivasan (1975) - Distorted resource allocation towards Capital Intensive Industries that would otherwise be unprofitable domestically under an "efficient" market determined allocation of resources To Summarise - Strong anti-export bias in the regime Sought to be Countered with export Incentives - Bhagwati and Desai (1970) aptly Summarises "India should produce whatever it can and should export whatever it produces, (2) encouraged diversified basket of manufactures (Import Substitutes) being produced and exported, Completely ignoring the dictates of natural Comparative advantage."

Post - independence industrial Policy

- Aimed at - Creating a large Public Sector reserving Certain industries for this Sector exclusively - mostly strategic and heavy industries - Consumer goods industries left to the Private Sector - Reducing monopoly and Concentration - Promoting Small Scale industries through extensive reservations - Promoting balanced regional development.
- System of industrial licensing formed the backbone of industrial policy - License must be obtained to set up industrial units and for major expansions - Small Scale Sector exempted - Govt. can lay down

Criteria regarding Size, location, foreign Collaborations etc.

- Consequences - Throttled Competition by restricting entry and exit - Pre-emptive licensing behaviour by large houses - Serious adverse implications for Scale of Production and plant Size - Preventing Full exploitation of Scale economies - Complex administrative procedures caused hurdles, delays, and Corruption resulting in inefficiencies.

Post-independence technology Policy

The basic objective was "the development of indigenous technology and efficient absorption and adaptation of imported technology appropriate to national priorities and resources" to attain self-reliance.

- The main focus of India's technology Policy was not only to build up search - Selection-, implementation-, absorptive Capability, but also to acquire technological Capabilities of adaptation and minor innovation through reverse engineering.
- Govt. Spent money on R&D and also offered fiscal and non-fiscal incentives for technological Capability building.

- Prior to the 1990's the main thrust of R&D incentives was to generate indigenous technologies primarily in the institutional sector and facilitate effective Commercialisation, transfer and absorption of such technologies in the industrial sector.
- Technology imports were restricted and highly regulated.
- Thus, India's technology policy in the pre reforms era was essentially grounded on building up or national level Capabilities through the public institutions, while at the same time the industry was encouraged to actively engage in R&D activities to develop absorptive and adaptive Capabilities of minor innovations.

3.2. Economic reforms since 1991 - New Economic Policy (NEP)

Economic reforms or structural adjustment is a long-term multi-dimensional package of various policies and programmes for further economic development. It includes reforms in agriculture sector, industrial sector, financial sector, fiscal sector, international trade, etc.

In India, the speedy and proper implementation for economic reforms were undertaken by the Narasimha Rao Government in July, 1991.

3.2.1 Objectives of NEP 1991

The objective of New Economic Policy are:

- (a) To reduce fiscal deficit and to have relative price stability.
- (b) To reduce the area of operation of the public sector and to open up more than areas for the private sector.
- (c) To liberalise industrial policy and abolish industrial licensing for most of the private sector industries.
- (d) To encourage inflow of foreign capital by granting more concessions to foreign direct investment.
- (e) To liberalise foreign trade by reducing tariff duties and abolishing quota restrictions in case of many imports.

The new Economic policy is also called the Policy of "Economic Reforms" since it seeks to remove the inefficiencies in the economic system.

3.2.2 Compose of NEP 1991

The two components of NEP, 1991 are:-

1. Macroeconomic stabilisation - Demand Side Management.

Macroeconomic stabilisation policies are short-run measures to return to low and stable inflation and a sustainable fiscal and balance of payments position. Thus, stabilisation policies bring about demand side management which includes measures like:-

- (a) Control of Inflation.
- (b) Fiscal correction.
- (c) Improvement in a balance of payments situation.

2. Structural Adjustment - Supply Side Management

Structural adjustment policies are long-run measures to remove the bottlenecks and obstacles in the growth path of an economy. These policies bring about supply side management which includes measures like:

- (a) Trade and capital flow reforms
- (b) Industrial deregulation.
- (c) Public sector reforms and disinvestment.
- (d) Financial sector reforms.

The goals of structural reforms is to abolish controls eliminate bureaucratic hurdles and redtapism and make the decision making process efficient and transparent.

3.2.3 NEP - Policy of Liberalisation, Privatisation and Globalisation

In the NEP 1991, structural reforms can be seen with respect to:

1. Liberalisation.
2. Privatisation.
3. Globalisation.

3.3 LIBERALISATION

3.3.1 Meaning of Liberalisation

Liberalisation means removing all unnecessary controls and restrictions like permits, licenses, protectionist duties, quotas etc. imposed by the government.

Prior to 1991, government was enforcing regulation in many ways:

- (a) Industrial licensing (in this every entrepreneur had to get permission from government to start a firm, expand a firm, or to start production of a new good).
- (b) Private sector was not allowed in many industries.
- (c) Some goods could be produced only in small scale industries.
- (d) Price controls and control on distribution of selected industrial products.
- (e) Import license (in this, license had to be taken to import).
- (f) Foreign exchange control.
- (g) Restrictions on investment by big business house etc.

These controls resulted in:

- (a) Consumption delays.
- (b) Losses.
- (c) High cost economy.