Economic Liberalisation- Challenges before India

POINTS TO DEVELOP

Concept and origin of liberalized economy.

India's liberalization efforts and global context.

Purpose.

Impact- economic and social; criticism.

Challenges- factors that would influence the success of the measures.

A cautious effort and good governance required.

As the Industrial Revolution entered its mature stage in the Europe of nineteenth century, liberalism began to spread, and with it the doctrine of 'laissez-faire' which advocated that the government of a state should have control at all over economic matters. It was believed that maximum economic performance was possible only where the power of market forces of supply and demand were left to work themselves out. The 'Perfect Competition' theories of work themselves out. The 'Perfect Competition' theories of economists like Marshall and Richards tried to show that an economy consisting of many equally small units f production would automatically work to maximize social value.

Although laissez-faire claimed a total independence of the economy and the political system, it was in fact dependent o political system, it was in fact dependent on political support for established power relations. And the champions of laissez-faire often demanded government protection in hours of crisis, especially when faced by the outside competitor. As social inequalities and mass poverty emanated from unbridled industrialization. A parallel advocacy form unbridled industrialization. A parallel advocacy for a command and directed economy spread.

While certain countries opted for command economies with full, state control on the economic system, India after independence followed the Nehruvian model of mixed economy which was based on self-reliance, equitable distribution, socialism and welfare state. This necessitated some state controls, curbs and regulations on the economy. It certainly had its uses, for it helped create a strong industrial base for the country. At the same time, it aslo created 'licence raj', with bottlenecks to development in the form of bureaucratic controls. The time seemed ripe for some change. Suddenly, almost, in the late eighties and early nineties, a whiff a freedom seemed to blow over the of the communist countries and along with that came economic liberalization. The transition to market economics gathered pace all over the worlds as governments dismantled state controls and opened new doors for participation and entrepreneurial activity. To some extent, the globalization of economies resulted from the progress and transfer of technology, spread of communications. And through UN organs and other international bodies like the world bank (WB) and the International Monetary Fund (IMF) which, at least in theory, at international co-operation in the economic arena. And India, too, got bitten by the liberalization bug.

India’s efforts at economic reform started in 1985, when the of government eliminated some licenace regulations and other controls that had inhibited competition. But after this initial attempt, the process slowed down. It was in 1991 that the new government initiated a fresh wave of reforms. Since July 1991, it has devalued the currency, and made it partially convertible; reduced quantitative restrictions on imports; reduced important duties on capital goods; cut a number of subsidies, progressively liberalized interest rates; abolished production licenses for most industries; eased restrictions on repatriating dividends and royalties; established a partial tax exemption on profits from export sales; allowed a partial tax exemption on profits from export sales; allowed a partial tax exemption on profits from export sales; allowed a partial sale of shares in selected public enterprises; reduced restrictions on foreign trading companies; revised the system of personal income tax and so on.

The government took these economic initiatives, as mid-1991 was a period of crisis as well as of opportunity. Prodigal policies, quick changes in government, corruption charges at higher levels, social tensions and an unprecedented flight of dollars had pushed the country to the brink of financial doom. Its battered credit rating saw all the sources of short-term commercial borrowings dry up. There was all round panic. But lurking in the depths of despair was the big opportunity- to unshackle the country form the chains of control, to throw open its windows to the world, and to unlock its ling-suppressed creative energies. The Narasimha Rao government chose to seize the latter to beat the former and put in place a ling term ‘solution’ which was in full accord with the IMF/WB prescriptions. Serious efforts were initiated to integrate the economy of the nation with that of rest of the world. The trade policy, the fiscal measures , the changes in economic legislations, et al, were part of the single-minded determination of the government to usher in a new era of economic liberalization, The rationale behind economic liberalization is that India cannot go on depending on the bounty of multilateral institutions or on commercial borrowings. India industry must, instead, build up export capabilities of the sort not possible in an economy tied up export capabilities of the sort not possible in an economy tied up in regulatory knots, fettered by red tape and locked out of the world by a cocoon of protectionist policies.

The initial years of reform showed creditable progress with the country recording a fast recovery form deep macro-economic crisis. Exports recovered and export earnings increasingly paid for the major part of imports. The foreign exchange reserves achieved a respectable look by 1999 form the precarious levels to which they had felled in 1991. The debt situation slowly but steadily moved away resulted in foreign direct investment increasing at a hopeful rate. The government also managed to control short-term capital inflows and capital flight.

So far so good. But how have the reforms affected the people? The masses? The ‘average’ citizen? Critics of the reform, most of them form the orthodox Left, charge that the process being followed is anti-poor, that it helps only the rich to get richer. No categorical statement on this issue can be made. Rise and fall of the poverty line are not only linked with reforms; they are dependent on other factors as well, such as drought and fall in food grain production and resultant price rise. It may be argued that the stabilization program me certainly cuts into funds for the social sectors and long-term welfare of the masses. Figures put out by the government, however, show an improvement in the poverty situation. Moreover, inflation, which is what directly hurts the poor, was kept in control.

Economic growth does spread, up and down and sideways; to that extent the ‘trickle down’ theory is not completely to be derided. However, if we merely wait for the benefits to trickle down, it may take aeons for them to reach the masses, especially the poor. Programmes target at the poor have to be maintained, indeed streamlined to be effective. Some effort has been made by the government in this direction, but more needs to be done.

The rural sector-which, to repeat a cliche, forms nearly 70 per cent of India- needs to feel the positive impact of reforms on a larger scale. Certainly, several homes in rural India today boast of television sets and refrigerators and other gadgets, but many more homes exist where there is no power and running water. A health support system is practically non-existents, and schools are inadequately equipped even if they exist in villages. Unless these aspects are improved, economic reforms would not have given the required impetus to development. And development, after all, cannot just mean economic growth encompass equity or social justice, at least in the minimal sense of satisfying the basic needs of all members of the community within a reasonable period.

The reforms inenitably involve some hard decisions which our politicians, used as they are to populist measures, will find it had to make. The reforms lack the popular ingredients of emotional appeal and unalloyed idealism and are, therefore, difficult to sell to the masses, especially the poor. Organized labour and trade unions, politicized as they are, find it difficult to accept the new economic policies which they see as encroaching upon their rights. The 'National Renewal Fund', our euphemism for an exit policy, has hardly been of use in reducing a bloated public sector to a mangeable size. On the other hand, on government can afford a blanket exit policy that leads to large-scale unemployment with the resultant social discontent and unrest. As it is with domestic industry not picking up as fast as it was expected to do the unemployment problem continues to be formidable. But some decisions have to be taken even if they prove upopular in the short term. It is an optimistic indication that, over time, practically all political parties have veered round to the idea that eco-anomic reforms are necessary and inevitable.

The major challenge before Indian economy is to increase the agricultural and industrial strengths of the country. Agricultures has to be modernized and diversified enough to enlarge its employment potential. Industry has to make itself quality-conscious and technologically advanced to be competitive in global terms. Competition, it must be realized, is the best available means of arbitrating between the interests of various economic factors in a manner that ensures overall social interest.

Our human resources have to be effectively harnessed for economic development along the liberalized guidelines. In today's world, the right kind of skills and education have to be imparted if the mismatch between the quality of the available job-seekers and the demands of the industry is to be avoided.

Beyond all this lies the character of the country, its people; our attitude to change and to work. Economic reforms cannot merely be a matter of policies, nor can economic efficiency be an automatic product of the right economic policies. If India has to forge ahead, the power of vested interests and the resultant corruption in every field-including education –must be curved. Some of our social practices that have mistakenly become 'sacred' under the garb of cultural tradition have to be bravely discarded. Casteism, religious intolerance, parochialism, an increasing inability (unwillingness?) to resolve disagreement through debate and the concomitant haste to adopt violence to settle disputes, the tendency to take every grievance to the street, the scant respect for law and order matched by the scant effort by law enforcers to do their duty , the readiness to disrupt work and destroy public and private property, a general tendency to cut corners in going ahead by means fair or foul- these are traits which have to be got rid of if economic reforms are to be effective.

Liberalization, universalisation, globalization, etc., are by themselves laudable concepts. Originally, these concepts were intended to sub serve a more just and equitable world order. They pleaded for an economic system that would shed rigidities and complexities so as to optimize efficiency and also end the alienation of man by providing him with new incentives. Perhaps India has also started liberalization in the same hope, but it would not do to be oblivious of the obstacles and challenges in the path and of the fact that forced liberalization may bring doom to its fabric. It is of utmost importance that in our quest for growth , were do not forget the human face of development.

What is called for, in fact, is not a reduction in the role of government, but making the government more responsive to the needs of the people, indeed, the popular base for economic reform can only be built when ordinary people perceive an improvement in the quality of their lives. Less government is no substitute for good governance.