Washington Consensus and India
-- Experience of the Last Decade

S.K. Goyal & K.S. Chalapati Rao

1. The policy measures described as the Washington Consensus[1] were initially addressed to the problems faced by Latin American countries during the 'Seventies. Later the same set of policies was canvassed with other developing countries of Africa and Asia. The basic package remained the same in spite of wide differences in the nature and the problems experienced by the individual economies. The policy prescription was aimed to reduce state participation in the economies, end restrictions on trade and capital flows and reduce tax burden. The essence of the Washington consensus was to seek supremacy of the market-oriented system. Given the low-level of economic activity combined with wide inter and intra-regional disparities in incomes, consumption, education, health and social consciousness, in Third World countries, how a development strategy based on the market-oriented economies could work is examined in the context of India.

I

Role of State

2. In India, the need for a comprehensive change in the socio-economic life of the people emerged as the national agenda during the struggle for political independence.[2] Eradication of poverty, ending economic and social exploitation, enhancing national wealth and productivity, establishment of new institutions, movement towards balanced development of all geographic regions and commitment for a wide scale structural transformation of the society were the main elements of the agenda. In evolving an action plan to meet national concerns, it was clear that the state had to play a primary role in initiating and implementing programmes of change.[3]

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1 The term was coined by John Williamson. See: "What Washington Means by Policy Reforms" in *Latin American Adjustment: How Much has Happened*?, Washington: Institute for International Economics, 1990. The main elements of the Consensus defined in 1989 encompassed: (1) Fiscal Discipline; (2) Public Expenditure Priorities; (3) Tax Reform; (4) Interest Rates; (5) Exchange Rates; (6) Trade Liberalization; (7) Foreign Direct Investment; (8) Privatization; (9) Deregulation; and (10) Property Rights. Also see: "What Should the Bank Think About the Washington Consensus?", prepared as a background to the World Bank's *World Development Report 2000,* in July 1999.

2 See: National Planning Committee's reports, especially the *Report of the Panel on Economic Policy* under the chairmanship of Jawahar Lal Nehru.

3 *Bombay Plan* (also known as Industrialists Plan) was published in 1944 and *Peoples' Plan* was put forth by Trade Unions in 1946. Shri Shriman Narayan presented a Gandhian plan. There was unanimity among all sections of the society that Indian state had the primary responsibility to undertake planned development.

3. The role of state could not be limited to maintenance of law and order, revenue administration or provision of basic health and education services. The state had the obligation to (i) to establish basic and strategic industries, (ii) regulate growth and operation of economic activities, and (iii) protect and promote small scale and rural industries in the interest of employment and equity. The logical follow up of the new role of state was acceptance of planning as a system of national development. It needs to be underlined that planning as a concept and practice carried considerable premium during the post-World War II years. This was not true for India alone: most of the Third World countries soon after gaining political independence made a conscious choice for undertaking planning as a system of development. Adoption of planning invariably implied establishment of basic and key industries in the public sector and regulation of new investments in a manner that would help avoid duplication of investments and diversion of scarce national resources to low priority areas.[4]

4. Indian planners were aware that since the size of Indian population and the number of the poor were so large, massive amount of resources were required to develop the country. In this task, while help from friendly nations could be welcome, the country had to generate its own resources. No foreign country had the capital and manpower resources to transform India into a developed economy. Self-reliance was the only available option. The historical fact also remained that the country came out of foreign domination only a few years back. For self-reliant development there were a few pre-requisites. *One*, to support higher rate of productive investments the rate of savings had to be stepped up: this meant certain restrictions on national consumption. *Two*, as large part of the new investments was to be by the public system it was essential to adopt progressive rate of taxation in general and higher dependence on taxes which fell on the upper income strata, in particular. And t*hree,* the state was obliged to mobilise financial resources through a variety of fiscal measures. As a follow up of this approach, a network of administrative, legal and regulatory instruments were evolved some of these having the specific objectives of curbing monopolies and concentration of economic power, restricting diversion of the limited national resources to low priority areas, regulating prices of essential goods and conserving foreign exchange resources.

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[4] There were large many writings of scholars from within and outside India which supported adoption of planning and expanded role of state. Besides Indian economists like P.C. Mahalanobis, V.K.R.V. Rao, C.N. Vakil, M.L. Dantwala, D.T. Lakdawala and D.R. Gadgil there was vocal support from scholars like J.K.Galbraith, Oscar Lange, W.W. Rostow and A.H. Hanson.

5. Public sector was assigned the direct responsibility to undertake development of industries which were essential but had a long gestation period. It was visualized that the process of planned development would demand large investments in the industrial sector. Since the Indian private sector did not have the capacity to shoulder the overall demands of planned development, all basic, heavy and large capital involving industries were earmarked for public ownership and control. The public sector was to play a crucial role in structural transformation and the lead role in the economy. The *First Five Year Plan* underlined:

> In the transformation of the economy … the State will have to play the crucial role. Whether ... the problem of capital formation or of the introduction of new techniques or of the extension of social services or of the over-all re-alignment of the productive forces and class relationships within society, one comes inevitably to the conclusion that a rapid expansion of the economic and social responsibilities of the state will alone be capable of satisfying the legitimate expectations of the people ... [This] mean(s) ... a progressive widening of the public sector and a re-orientation of the private sector to the needs of a planned economy.[5]

6. Industrial Policy Resolution, 1956 reserved a large area of industrial activity both for exclusive (Schedule A) and priority (Schedule B) development by the public sector. The government took upon itself the task of providing essential infrastructure and utilities as also the heavy industries. By mid-'seventies public sector accounted for a little less than one-fifth of the GDP and nearly half of the Gross Capital Formation (GCF). In the organised industrial sector, it accounted for about two-thirds of the fixed capital invested.[6] In certain industries public sector acquired a dominating position, often accounting for ownership and production to the extent of near 100 per cent.

7. The *Industries (Development & Regulation) Act, 1951* (IDRA) under which industrial licensing was introduced, was the major instrument of translating policy objectives like: reservation of strategic and basic industries for development in the public sector; protection of village and cottage industries and promotion of small scale sector by prohibiting entry by large producers; and restricting new investments in non-plan and low priority industrial activity. Similarly, the *Monopolies & Restrictive Trade Practices Act, 1969* (MRTPA) was to ensure that operation of the economic system did not lead to concentration of economic power in a few hands. The *Foreign*

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5 See: INDIA, Planning Commission, *First Five Year Plan*, pp. 31-32.

6 Share of public sector was 18.82 per cent and 51.34 per cent of GDP and GCF in 1976-77. While the share in GDP continued to increase, the share in GCF fluctuated but continued to remain high. In mid-'eighties its share in GCF was more than half of the total while that in GDP reached one-fourth. See: Centre for Monitoring Indian Economy, *India's National Income Statistics*, October 1996.

Exchange Regulation Act, 1973 (FERA) owed its origin to the desire to achieve a self-reliant economic development.

8. For socio-economic transformation, high priority was assigned to education, building of new institutions and investment in R&D by the State. Without education, ability to absorb technology for sustainable development and structural change would be limited. Special administrative structure was built to carryout community development as a part of the efforts at transforming and developing the rural India. Nation-wide efforts were directed to implement a variety of land reforms to protect the poorest sections of the society who constituted tenants and landless labourers.

II
The Transition

9. During the initial period of planning critical reviews of the plans and programmes were made and widely discussed at public fora. Working of the Indian economic system was also under regular reviews by scholars and institutions from within and outside the country. From time to time, expert groups had dealt with differing aspects of India's planned development. The shortcomings of the planning system were well documented. The suggestions for corrective and timely reforms and improvements in the system were, however, ignored by those who held reins of political and administrative power.[7] The regulatory systems established after long and sustained thinking and efforts were left wholly under the care of the people who were unaware of ground realities and who had no heart in implementing them. In most cases, due to distorted implementation, the essence of the legislative and regulatory measures was defeated.

10. From the Third Plan onwards many developments having a direct bearing on the role and place of public enterprises took place. Though, officially speaking, the Industrial Policy Resolution of 1956 continued to be the cornerstone of the policy, a number of policy decisions were taken which negated the spirit of the 1956 Policy. The emphasis and the objectives of the Indian public sector kept on changing.[8] The

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7 For instance, the Indian public sector suffered utter negligence on part of the government in the matter of appointing top managerial personnel. More than half of the top executive positions, Chairpersons, Managing and Technical Directors often remained `vacant' for long durations. Civil servants got invariably nominated to look after multiple public enterprises as additional charge. Most bureaucrats do not have professional and management competence; nor do they have time or inclination to get involved in production, marketing or management of commercial establishments. The system of proxy management has continued for many years. Such neglect helped breed inefficiency and lack of responsibility.

8 For an elaboration, see : S.K. Goyal "Spectrum of Public Sector in India", in Balbir S. Sahni (ed.), *Issues in Public Sector Analysis*, Shastri Indo-Canadian Institute, 1987.

sector was even made to take into its fold private sector sick enterprises! The sector consequently, entered into areas which were neither in its original focus nor were part of the plan framework. By the 'eighties the sector came to be seen as a "pace setter" in high technology industries.

11. Along with the changing expectations, public sector started attracting wide criticism, both for justified and unjustified reasons. Though its contribution to creating essential infrastructure was well accepted, the losses incurred by it as per the usual financial accounting measures often got highlighted out of context and in a disproportionate manner. The performance of the Indian private and public sectors was compared using the same yardsticks. Alternative methods in the form of creating a separate cadre to manage public sector enterprises were mooted very early but never pursued. The political and administrative leadership did not respond adequately and appropriately to these warning signals and remedial suggestions.

12. Since the early 'eighties, and following India's availing of SDR 5 bn. loan from the IMF, the process of relaxation of the regulatory system was pursued to give greater freedom to the private sector. The period also witnessed extensive flouting of fiscal discipline at the centre and state levels. Public expenditure grew rapidly and the state failed to generate adequate internal revenues. Instead of mobilising internal resources for meeting enhanced expenditure on law and order functions and meeting other obligations, the political leadership of the country opted for heavy borrowings to cover the revenue account deficit. India took loans from international agencies to finance its current expenditure. The successive governments found themselves vulnerable to pressures from lending agencies and countries. Acceptance of the "Washington Consensus" in 1991 has to be viewed in this backdrop.

13. The process of adoption of planning and the decision for its liquidation followed differing routes. In sharp contrast to the process of evolution that the Indian development policy went through, especially during the initial years, announcement of the new economic policy package in 1991 had a large element of surprise for every one. The new policies were adopted without discussion in public, Parliament, the ruling political party or the press. The policy frame was delivered swiftly in order to quickly complete the process of changeover so as not to permit consolidation of any likely opposition to the implementation of the new policies. The strategy was to administer 'shock therapy' to the economy.[9] In spite of the fact that

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[9] The strategy was suggested by the World Bank. The Bank said: "… there is an interaction between the slowness of the reform and the final outcome, since a slow reform allows vested interests adversely affected by continued policy reforms to mobilize increasing support and halt the *Contd…*

the policy package had been in use for many years in a number of Latin American and African countries and had been known by differing connotations such as 'Washington Consensus', `Structural Adjustment Programme' and liberalization, in India it was projected as an indigenous and home-grown product.[10] Lack of critical debate on the issue and yielding of no space for honest disagreement led to the emergence of a conformist culture in administration, politics, media and worst of all in academics.[11] Thus came the era of scams, favouritism and corruption.

14. The Statement on Industrial Policy, 1991 (IPS 1991) and other measures announced during the year marked acceleration of the trends towards deregulation and an enlarged space for large private Indian and foreign capital. IPS 1991 virtually abandoned the industrial licensing system under the IDRA, removed the restrictions on large industrial houses under the MRTP Act and dispensed with the general ceiling of 40 per cent on foreign equity under FERA. The policy mix included increasing external competition through lowering of customs duties and relaxations in the quantitative restrictions. This was followed by dismantling of the Directorate General of Trade and Development (DGTD) and the repeal of *Capital Issues Control Act, 1947*.

15. The removal of entry point restrictions signalled the beginning of the liquidation of the Indian public sector and the planning system. IPS 1991 announced a number of important steps with regard to the public sector. The areas reserved for the sector under Schedule A of the Industrial Policy Resolution, 1956 were reduced initially from 17 to eight, later to four and now to just two. The remaining two relate to atomic energy and railway transport. Schedule B in which public sector was to

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process". World Bank, *India: An Industrializing Economy in Transition*, A World Bank Country Study, The World Bank, Washington, 1989, p. 38.

10 The Indian media projected the package as an indigenous product. An orchestrated public relations exercise was conducted by the government to influence the people. Foreign scholars, especially of Indian origin, were invited to support the new package. An independent observer reacted to the role of chosen economists in selling the package as:

> … economists have of late been closely associated with the reform process – not as advisers and experts, but more or less as propagandists. Advise and expertise are anyway superfluous, when the pace of economic change is being dictated from distant finance capitals. Propaganda, in contrast, serves the useful purpose of representing the capitulation to the dictates of international finance as necessary and inevitable.

See: Sukumar Muralidharan, "Winning economists, influencing people", *Frontline*, April 9, 1993. See also "Backroom boys", *Economic Times*, March 8, 1993.

11 Given the fact that Indian press is owned and controlled by large private conglomerates it was no surprise if the liberalisation package got abundant support in the Indian media. The Indian business has economic interest in continuance of the new economic policy package. Similarly, the new policy changes gained support from the middle and upper classes since they gained access to imported consumer goods at lower prices. The vocal sections of the Indian society provided the

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play the lead role was entirely dispensed with to enable greater private sector participation and to provide competition to the public enterprises (PEs).[12] The government also announced its intention to review the then existing portfolio of public investments with greater realism and to disinvest part of its holdings in the equity share capital of PEs.

16. Earlier in 1984, the government appointed a Committee to review and suggest a policy framework for public enterprise management.[13] The Committee suggested creation of holding companies to minimise the direct interface between the government and PEs and signing of MOUs by the two. Significantly, a World Bank study of 1989 also reiterated the recommendations of the Committee and further recommended removal of purchase and price preferences; access to capital and credit on concessional terms; limiting the social obligations in terms of employment and location; compensating the PEs for assuming such obligations and winding up of terminally sick public sector units. These measures were to be implemented in a phased manner, with appropriate transitional measures to assist affected workers.[14] This was the backdrop in which the divestment of government shareholding in public enterprises was proposed in 1991.

III

Structural Adjustment in Operation

17. The process of structural adjustment was expected to meet many objectives. Reducing fiscal deficits, enhanced capital flows to supplement domestic savings, upgradation of technology, enhanced capacity at exports, increasing competition in the domestic market and offering freedom to enterprises for raising resources directly from investors, increased growth opportunities, privatisation of public enterprises, providing a social safety net for the employees affected by the process of restructuring, reduction in poverty and increased spending on social sector are a few of these. In the following we offer a few observations on select aspects by way of providing some empirical base to the debate regarding the suitability of the main elements of Washington Consensus for a country like India.

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support structure to the liberalisation package.

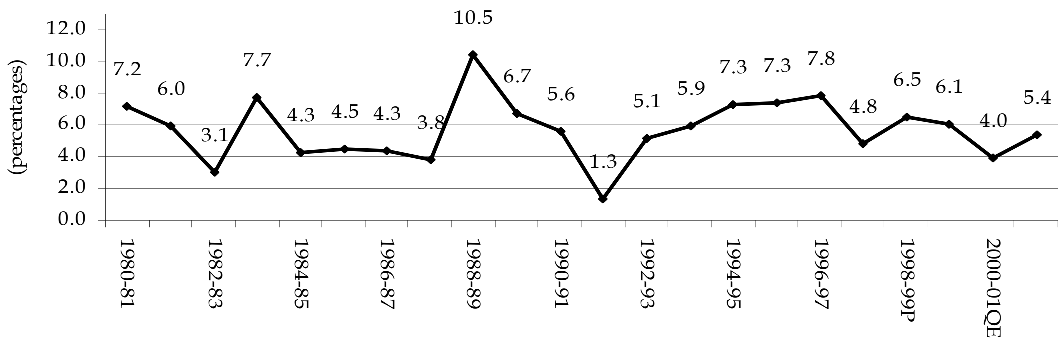
12 Dereservation has been accompanied by promotion of joint ventures by Central PEs. Mention may be made in this regard of the joint ventures between Indian Oil Corpn. (IOC) and Mobil, and IBP and Caltex. IOC pursued a refinery joint venture with Kuwait Petroleum. Similarly, Hindustan Petroleum and Bharat Petroleum planned a joint venture with Oman Oil Co.

13 See: INDIA, Ministry of Finance, *Report of the Committee to Review Policy for Public Enterprises*, December 1984. (Chairman: Arjun Sengupta).

Economic Growth

18. It was suggested that after the initial programme of macro-economic stabilisation, the economy will enter a high growth path. The experience has, however, been mixed.[15] After a brief period of recording high growth rates, part of which was due to the slump in the initial years, the economy entered a slow growth phase during the second half of the 'nineties (Graph-A)[16]. While the overall growth rate has not been very much different from the experience of the 'eighties, even the industrial production could not break free and achieve sustained high growth rates (Graph-B). More detailed studies have shown that not only the growth performance of industry during 'nineties was worse than that in the 'eighties, the growth during the 'nineties was shallow with heavy emphasis on consumer goods at the cost of basic, intermediate and capital goods.[17] In the event, contribution of the industrial sector to the GDP remained practically constant (Graph-C). Within the services which claimed increasingly larger shares at the expense of agriculture, two factors are prominent. With defence, public administration and financial sector having substantial shares in services, serious doubts arise about the overall growth performance of the economy.

Graph-A
Annual Growth Rates of GDP
(New Series Base =1993-94)



2000-01 Quick Estimates (QE) and 2001-02 Revised Estimates (RE)

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14 See: World Bank, *op. cit.* pp. 117-118.

15 With the dismantling of the regulatory framework, the statistical system in India has got weakened considerably. On many major macro-economic aggregates doubts have been expressed widely and repeatedly. For instance, the National Statistical Commission noted:

> … there is a growing concern regarding the quality of the data presently being made available by it (Indian Statistical System). The operational efficiency of the Indian Statistical System today is compromised by serious deficiencies with respect to credibility, timeliness and adequacy. … Revisions of data on … crucial variables such as national income and agricultural production have raised questions among the data users about the adequacy of the data collection system.

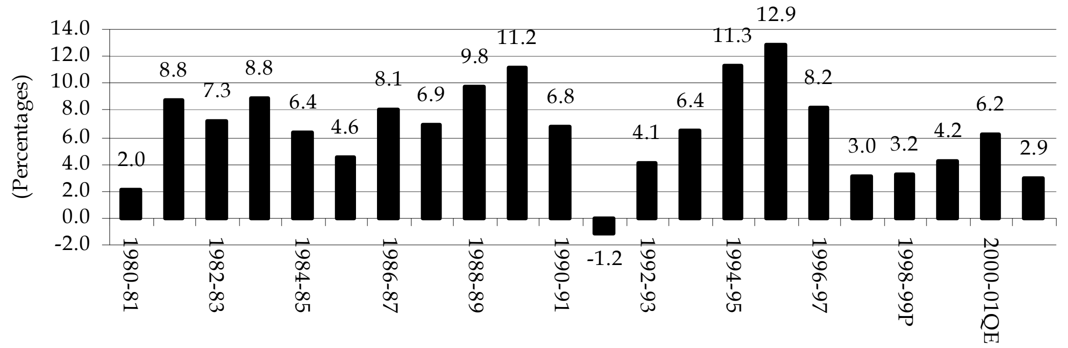
INDIA, National Statistical Commission, *Report of the National Statistical Commission,* Volume II, August 2001 (Chairman: C. Rangarajan). See also R. Nagaraj, "How to Improve India's Industrial Statistics", *Economic and Political Weekly*, March 9, 2002, pp. 966-970.

For the present exercise, however, one had to make do with the official statistics.

16 Basic data sources for these are: Reserve Bank of India, *Handbook of Statistics on Indian Economy, 2001;* RBI, *Annual Report 2001-2002;* and Press Releases and information provided by the Central Statistical Organisation in its website.

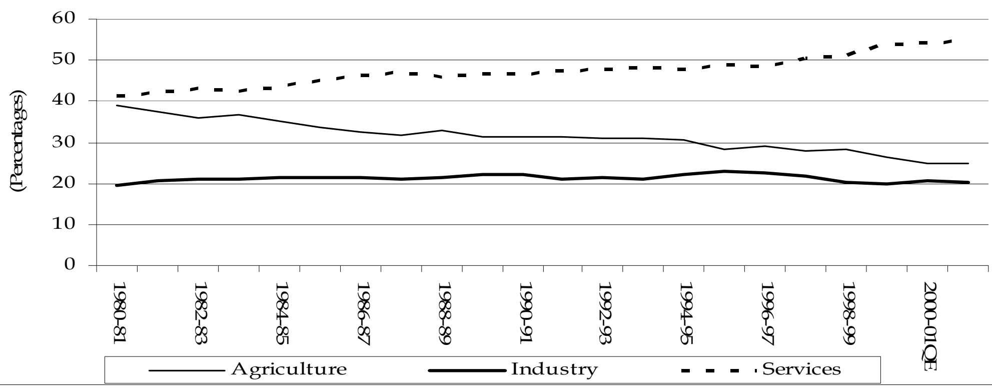
17 See: Sudip Chaudhuri, "Economic Reforms and Industrial Structure in India", *Economic and Political Weekly*, January 12, 2002, pp. 155-162.

Graph-B
Anual Growth Rates of Industrial Production*



* Estimates of GDP from Mining & Quarrying, Manufacturing, Electricity, Gas & Water Supply.
2000-01 Quick Estimates (QE) and 2001-02 Revised Estimates (RE)

Graph-C
Showing Sectoral Composition of GDP (at current Prices)
(New Series: Base 1993-94=100)



2000-01 Quick Estimates (QE) and 2001-02 Revised Estimates (RE)

19. The last few years have witnessed a sharp reduction in the effective direct tax rates as also in the excise and customs duties. While the growth scenario has not been reassuring, the impact of these changes has been that the significance of the tax revenue of the Central and State Governments which had witnessed a gradual upward trend ever since 1951[18] entered the downward phase (See Table-1 and Graph-D). From 15.72 per cent in 1991-92, the ratio of tax revenue to GDP had fallen to 14.61 per cent by 2000-01. One significant fact responsible for the decline has been a sharp reduction in customs and excise duty rates. A reduction in revenue would naturally reduce the capacity of the state to transfer resources. The transfers might be in terms of current expenditure to savings for the future; from the relatively richer sections of the society to the poor; or from one region or sector to another.

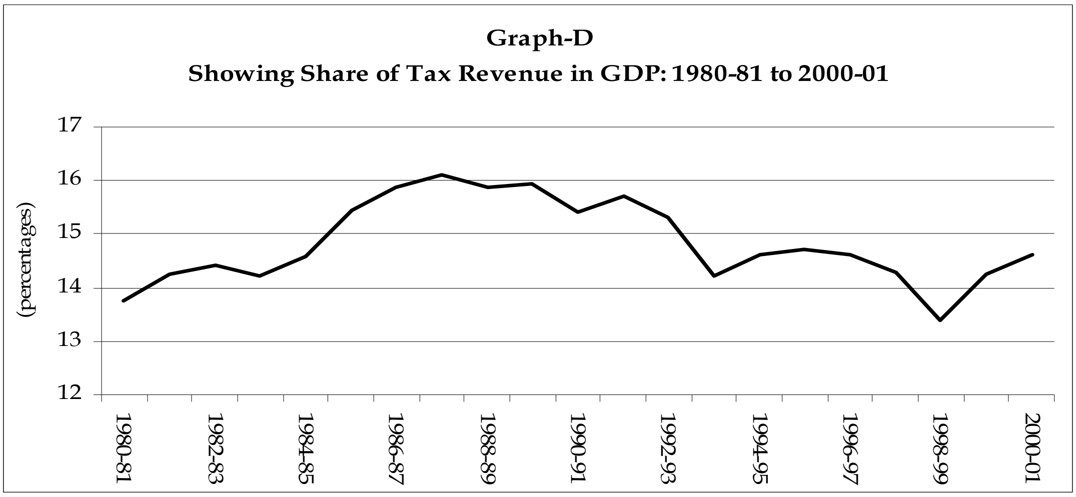
Table - 1
Showing the Share of Tax Revenue in GDP

(Amount in Rs. Crores)

Year	GDP at Current Market Prices #	Tax Revenue (Centre & States)	Ratio of Tax Revenue to GDP (%)
(1)	(2)	(3)	(4)
1980-81	1,43,762	19,763	13.75
1981-82	1,68,600	24,036	14.26
1982-83	1,88,262	27,138	14.42
1983-84	2,19,496	31,202	14.22
1984-85	2,45,515	35,765	14.57
1985-86	2,77,991	42,951	15.45
1986-87	3,11,177	49,415	15.88
1987-88	3,54,343	56,997	16.09
1988-89	4,21,567	66,888	15.87
1989-90	4,86,179	77,442	15.93
1990-91	5,68,674	87,564	15.40
1991-92	6,53,117	1,02,674	15.72
1992-93	7,48,367	1,14,492	15.30
1993-94	8,59,220	1,22,267	14.23
1994-95	10,12,770	1,48,073	14.62
1995-96	11,88,012	1,74,851	14.72
1996-97	13,68,208	1,99,840	14.61
1997-98	15,22,547	2,17,313	14.27
1998-99	17,40,935	2,33,069	13.39
1999-00	19,29,641	2,74,974	14.25
2000-01	20,87,988	3,05,080*	14.61

New Series (Base: 1993-94).
Source: This and the following Tables 2, 3, 8 and 10 are based on the data provided in Reserve Bank of India, *Handbook of Statistics on the Indian Economy*, 2001. Revised and updated data are taken from Reserve Bank of India, *Annual Report: 2002*, Ministry of Commerce & Industry and Central Statistical Organisation.
* Data regarding state governments are provisional.

18 See S.K. Goyal, et. al., "Economic Policies and Indian Development", ISID Working Paper, 1996.



20. A feature of the 'eighties is that public expenditure grew faster than the system's ability to collect taxes and generate other revenues. During the 'seventies revenue expenditure of the central government was essentially met out of tax revenues, but by the end of 'eighties tax revenue was less than sixty per cent. Continuing this trend, in 2000-01 the tax revenues could cover only about half of the expenditure. (See Table-2 and Graph-E).

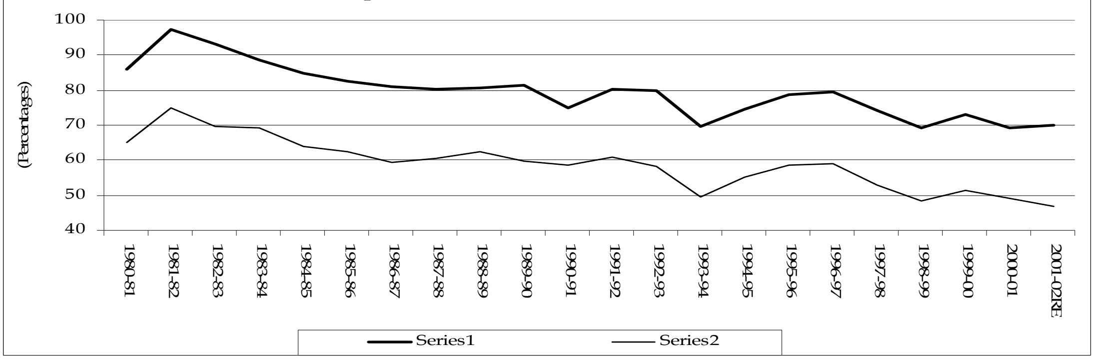
Table-2
Showing Total Revenue and Tax Revenue as a Percentage of Current Central Government Expenditure
(at current prices)

(Amount in Rs. Crores)

Year	Tax Revenue	Total Revenue Receipts	Revenue Expenditure	Revenue Receipts as % of Revenue Expenditure	Tax Revenue as % of Revenue Expenditure
(1)	(2)	(3)	(4)	(5)	(6)
1980-81	9,358	12,373	14,410	85.86	64.94
1981-82	11,542	15,024	15,408	97.51	74.91
1982-83	13,017	17,434	18,742	93.02	69.45
1983-84	15,441	19,711	22,251	88.58	69.39
1984-85	17,651	23,466	27,691	84.74	63.74
1985-86	21,140	28,035	33,924	82.64	62.32
1986-87	24,319	33,083	40,860	80.97	59.52
1987-88	28,015	37,037	46,174	80.21	60.67
1988-89	33,751	43,591	54,106	80.57	62.38
1989-90	38,349	52,296	64,210	81.45	59.72
1990-91	42,978	54,954	73,516	74.75	58.46
1991-92	50,069	66,030	82,292	80.24	60.84
1992-93	54,044	74,128	92,702	79.96	58.30
1993-94	53,449	75,453	1,08,169	69.75	49.41
1994-95	67,454	91,083	1,22,112	74.59	55.24
1995-96	81,939	1,10,130	1,39,861	78.74	58.59
1996-97	93,701	1,26,279	1,58,933	79.45	58.96
1997-98	95,672	1,33,886	1,80,335	74.24	53.05
1998-99	1,04,652	1,49,485	2,16,461	69.06	48.35
1999-00	1,28,271	1,81,482	2,49,078	72.86	51.49
2000-01	1,36,916	1,92,624	2,77,858	69.32	49.28
2001-02(RE)	1,42,348	2,12,572	3,04,305	69.85	46.78

Source: See Table-1.

Graph-E
Showing Share of Tax Revenue and Total Revenue Receipts in Revenue Expenditure of the Central Government



21. During the ‘nineties the share of revenue expenditure in the total expenditure of the Central Government rose substantially. From about 60 per cent in the beginning of the ‘eighties, the ratio rose to 70 per cent by early ‘nineties and by 1999-00, the share was nearly 84 per cent. While the share of defence expenditure declined substantially, significant increases were recorded at two stages in case of the interest payments; first during the ‘eighties and further during the ‘nineties. The

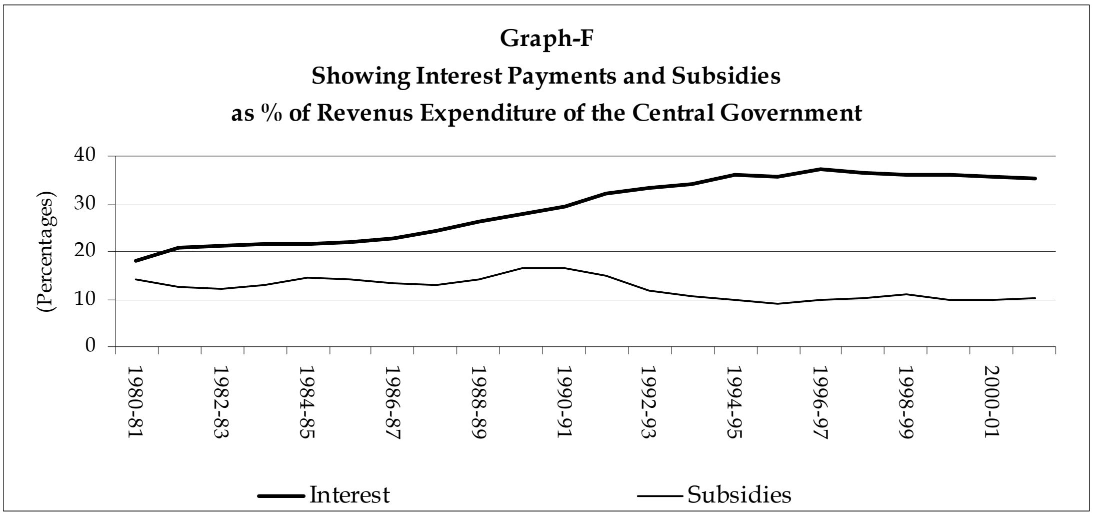
share of subsidies increased during the 'eighties but fell sharply during the 'nineties. (See Table–3) A similar picture emerges if the shares of interest payments and subsidies by the Central Government are compared with the GDP (See Graph-F)

Table-3
Showing Major Components of Revenue Expenditure of the Central Government

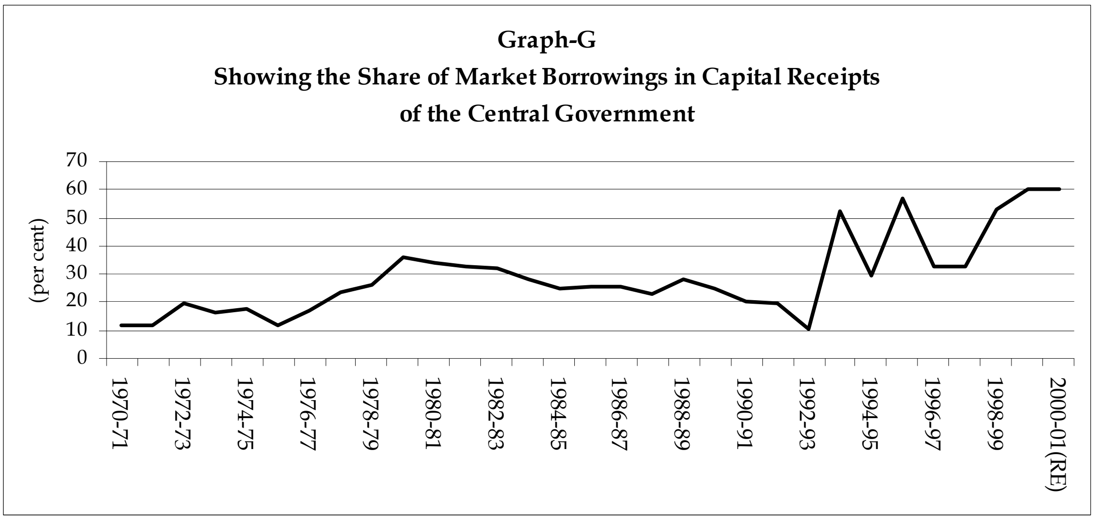
(Amount in Rs. Crores)

Year	Total Expenditure	Revenue Expenditure	Share of Revenue Expenditure in Total Expenditure (%)	Shares of Major Components of Revenue Expenditure (%)		
				Defence	Interest	Subsidies
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1980-81	22,768	14,410	63.29	22.75	18.07	14.07
1981-82	25,265	15,408	60.99	24.95	20.74	12.60
1982-83	30,791	18,742	60.87	23.98	21.01	12.07
1983-84	35,534	22,251	62.62	23.32	21.55	13.04
1984-85	43,632	27,691	63.46	22.84	21.57	14.58
1985-86	52,666	33,924	64.41	20.70	22.14	14.14
1986-87	62,916	40,860	64.94	22.46	22.63	13.34
1987-88	68,261	46,174	67.64	19.19	24.37	12.95
1988-89	79,111	54,106	68.39	17.67	26.39	14.29
1989-90	92,908	64,210	69.11	15.88	27.65	16.31
1990-91	1,05,298	73,516	69.82	14.79	29.24	16.54
1991-92	1,11,414	82,292	73.86	13.90	32.32	14.89
1992-93	1,22,618	92,702	75.60	13.06	33.52	11.68
1993-94	1,41,853	1,08,169	76.25	13.85	33.97	10.73
1994-95	1,60,739	1,22,112	75.97	13.45	36.08	9.71
1995-96	1,78,275	1,39,861	78.45	13.47	35.78	9.06
1996-97	2,01,007	1,58,933	79.07	13.21	37.42	9.75
1997-98	2,32,053	1,80,335	77.71	14.51	36.40	10.28
1998-99	2,79,340	2,16,461	77.49	13.80	35.98	10.90
1999-00	2,98,084	2,49,109	83.57	14.14	36.23	9.92
2000-01	3,25,611	2,77,858	85.33	17.86	35.74	9.66
2001-02(RE)	3,64,436	3,04,305	83.50	13.16	35.24	10.03

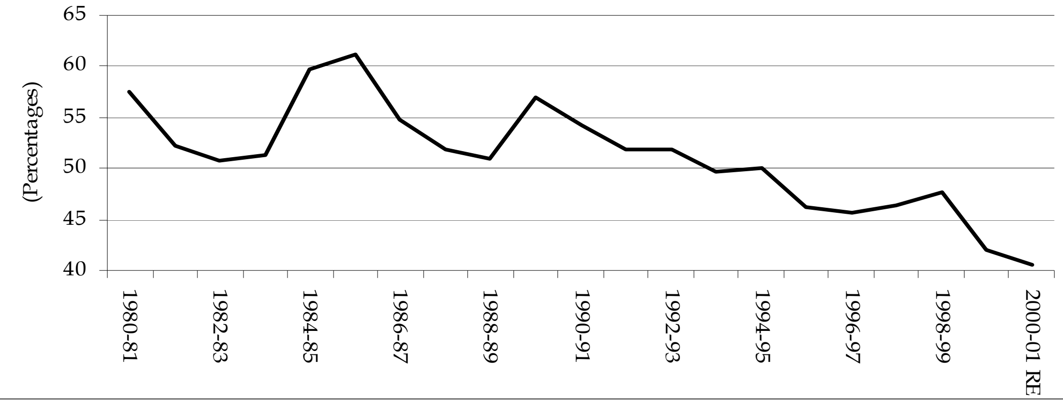
Source: See Table-1.



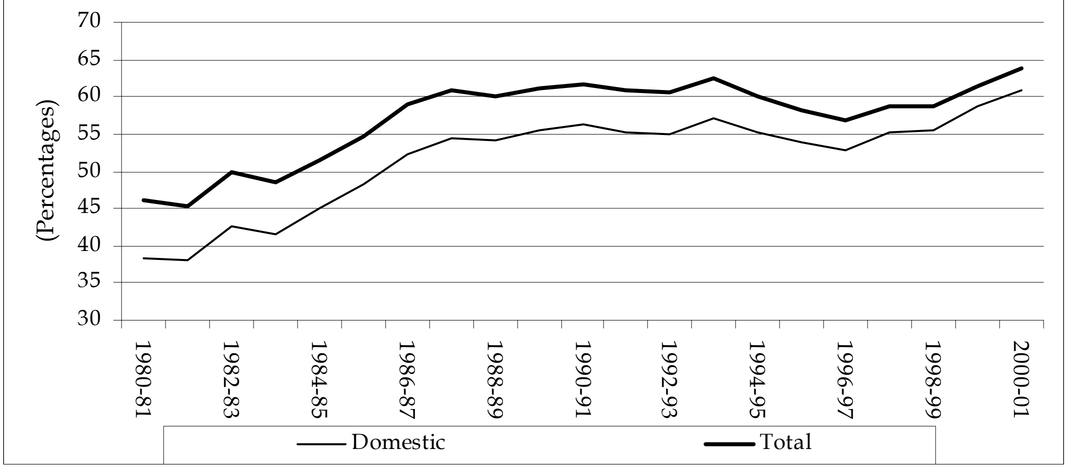
22. Since tax revenue was not adequate to meet the current account government expenditure, market borrowings were increasingly relied upon. A substantial portion of the capital receipts of the Central Government comprised of the public borrowings (See Graph-G). This explains the growing interest burden on the exchequer. Consequently, the share of the developmental expenditure in the total expenditure of the Central Government had to fall. (See Graph-H). Further evidence to the misaligned strategy of the 'eighties is evident from the fact that the debt burden of the government –central and states combined – grew fast during the 'eighties. It continued to remain high during the 'nineties. (See Graph-I)



Graph-H
Showing Share of Developmental Expenditure in Total Expenditure of the Central Government



Graph-I
Showing the Share of Government Debt in GDP

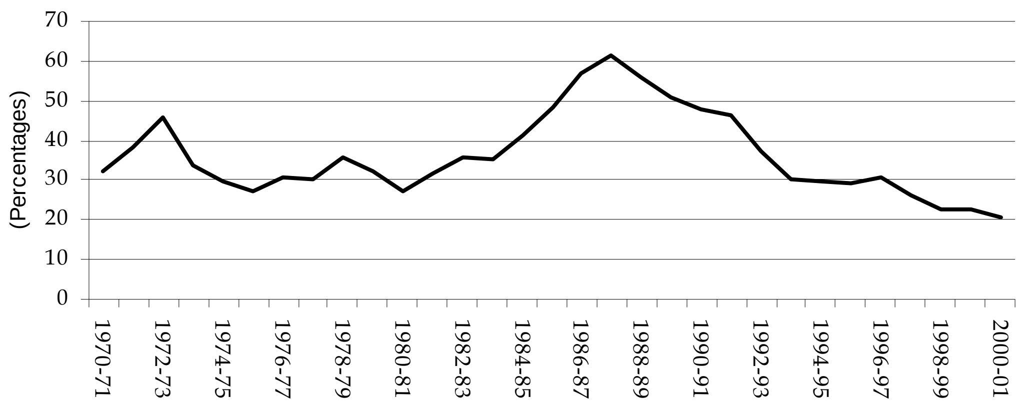


23. The new policy frame was justified to encourage free entry of goods and capital from abroad. It was argued that with larger imports of consumer goods Indian consumers would get quality products at lower prices. Once this starts happening, it was argued, the exploitation of the captive Indian market by obsolete technologies and Indian monopolies would be threatened and the Indian industry would be obliged to adopt modern and more efficient industrial technologies. As a consequence of this, inefficient units will have to close down giving way to emergence of enterprises that can harness economies of scale and thereby reduce cost of production to give Indian industry enhanced export capabilities. The initial plea of the multilateral agencies has been for reduction of customs duties.[19] If customs

[19] Similarly, contrary to the general belief that OGL accounted for only about 12-15 per cent of the total imports, a study of consignment-level data on imports, found that the share of OGL could be as high as 40 per cent. See: See S.K. Goyal, et. al., "India's Exports and Imports: Some Insights", *Contd…*

duties were reduced then there would have to be a matching reduction in excise. This was done. (See Graph-J for the extent of decline in effective customs duties.) The removal of import restrictions and lower tariffs raised foreign exchange demands and the balance of trade had to remain negative. Reduced revenue to the state and enlarged demand for foreign exchange provide the desired backdrop for proposing more liberal policies for capital flows from abroad on private account and cuts in development outlays.

Graph-J
Showing the Effective Rates of Customs Duties



Foreign Liabilities

24. India's external debt increased from Rs. 1,63,001 crores at the end of 1990-91 to Rs. 3,35,827 crores by the end of 1996-97 and further to Rs. 4,78,915 crores by 2001-02. India's external debt figures do not reveal the true increase in the magnitude of the country's external liabilities. In the new policy regime, while the official external debt was seen as having been contained, capital flows on private account increased. The fast increasing foreign liabilities of the country on account of official debt, private borrowings, foreign direct investment (FDI) and portfolio investments have to be seen together. Table-4 shows that India's foreign liabilities on account of the non-official sector increased from Rs. 71,050 crores at the end of March 1991 to Rs. 2,32,611 crores by the end of March 1997. The gross foreign liabilities increased from Rs. 1,69,854 crores to Rs. 4,14,400 crores. An important development during the later years is the increasing share of foreign portfolio investments in the corporate sector's liabilities (See Table-5).

ISID, March 1991. The report, analysing Customs House data, was presented to the Ministry of Finance.

Table-4
Sector-wise Break-up of India's Foreign Liabilities

(Amount in Rs. Crores)

End March	Official Sector	Non-Official Sector	Total	Share of Non-Official Sector In Total (%)
(1)	(2)	(3)	(4)	(5)
1986	32,488	17,984	50,472	35.63
1987	38,277	23,839	62,116	38.38
1988	41,574	29,019	70,593	41.11
1989	51,090	41,628	92,718	44.90
1990	57,191	53,751	110,942	48.45
1991	98,804	71,050	169,854	41.83
1992	150,317	115,747	270,799	42.74
1993	170,480	121,251	291,731	41.56
1994	177,462	132,208	309,670	42.69
1995	190,500	152,575	343,075	44.47
1996	185,195	198,217	383,412	51.70
1997	181,789	232,611	414,400	56.13

Source: Reserve Bank of India, "Census of India's Foreign Liabilities and Assets", various studies published in *Reserve Bank of India Bulletin.*

Table-5
Showing Category-wise Foreign Liabilities of the Corporate Sector

(Percentages)

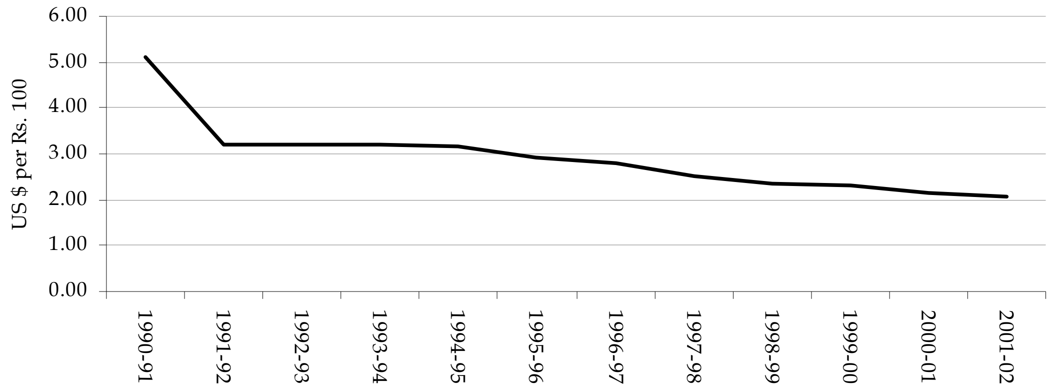
End March	Foreign Direct Investment	Foreign Currency Loans & Other	Portfolio Investment	Other Liabilities	Total Liabilities
(1)	(2)	(3)	(4)	(5)	(6)
1986	14.48	73.70	3.66	8.16	100.00
1987	11.87	75.64	3.13	9.36	100.00
1988	11.21	74.40	3.94	10.45	100.00
1989	8.72	71.99	3.71	15.58	100.00
1990	7.82	67.80	3.64	20.75	100.00
1991	7.59	70.01	3.24	19.17	100.00
1992	5.65	71.14	2.18	21.03	100.00
1993	6.83	74.80	3.69	14.68	100.00
1994	8.60	74.32	7.23	9.85	100.00
1995	9.52	67.61	13.54	9.33	100.00
1996	17.37	47.13	26.48	9.02	100.00
1997	21.31	42.84	26.63	9.22	100.00

Source: See Table-4.

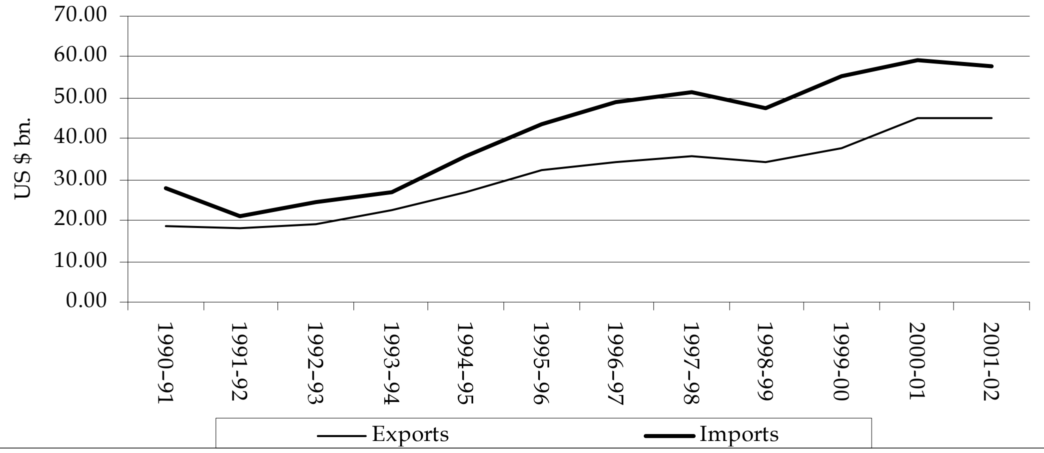
25. In July 1991, Indian rupee was devalued significantly to the extent of 18 per cent. Since then, the exchange value of rupee depreciated substantially. (See Graph-

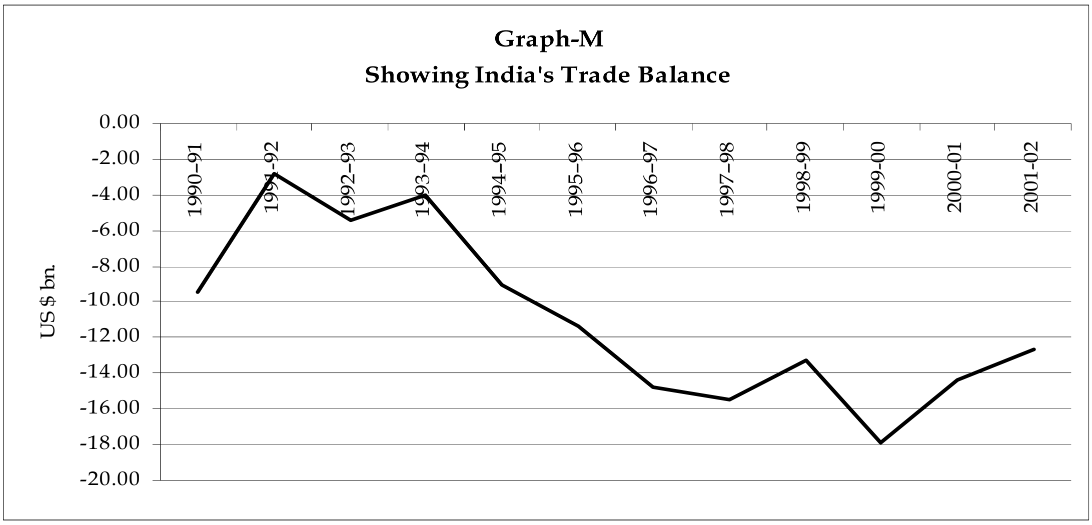
K) The main argument put forth at the time of initiation of the new policy package was that the artificially maintained high value of rupee was one important cause for lower performance of India at exports. The devaluation, however, did not cause any significant shift in India's capacity to enhance its exports and earn foreign exchange. The trends initiated in the mid-'eighties continued into the 'nineties. (See Graph-L) India's share in world exports continues to hover around 0.5-0.6. On the other hand, the trade gap started widening after experiencing a slight improvement in the early years of liberalization (See Graph-M). One needs to critically examine the cost of servicing FDI and portfolio investments as it is done for interest payments on borrowings.

Graph-K
Showing the Exchange Rate of Rupee vis-a-vis US Dollar
(Year-end Rates)



Graph-L
Showing Trends in India's Foreign Trade





26. It was believed that foreign capital flows would help meet the resource gap and improve technology and enhance productivity. This proved to be illusory. First of all, the expected level of inflows did not materialise. Even within the inflows a significant part entered the secondary stock market in the form of portfolio investments. A substantial part of the foreign direct investment flow was towards services with the manufacturing sector claiming progressively a smaller share. Out of the FDI approved after 1998, only just about a quarter of the amount falls under manufacturing. Services sector headed by Telecommunications and Computer Software accounted for nearly half of the additional foreign investments approved (See Table-6). Overall, till August 2002, *i.e.*, eleven years since the liberalisation of industrial policy, a little less than one-third of the approved foreign investment was for the manufacturing sector. A good part of the direct investments in manufacturing was, however, directed towards takeover of existing units or to consolidate control by foreign parents over their Indian affiliates and subsidiaries.[20]

[20] Takeover by foreign companies took multiple forms and often involved major players in the local market thereby giving the foreign investor market leadership overnight. Indian companies were taken over either completely or their manufacturing units/brands were acquired. In many instances, the takeover involved ejecting the local partner from a joint venture. The entry/growth of major TNCs such as IBM, Unilever, Coca-Cola, Pepsi, General Electric, General Motors, Gillette, Henkel, Heinz, Daewoo, Conagra, Zeneca, Monsanto, Yamaha, Glaxo, Lafarge, Ford, Thomson, Electrolux, Whirlpool, Kansai Paint, Fiat, British Gas, Tektronix, Goodyear, Saint Gobain, Tecumseh, Sara Lee, Bayer, Timken, Timex, Praxair and Black & Decker followed these routes.

Table-6
Showing the Shares of Different Sectors in FDI Approvals in the Post-Liberalisation Period

(Amount in Rs. Crores)

	Sector/Industry	FDI approved since August 1991 and till December 1998	FDI approved since August 1991 and till August 2002	Share in (%) Approved till August 2002	Share in (%) Approved during Jan 1999 -- Aug 2002
	(1)	(2)	(3)	(4)	(5)
1	Agriculture & Allied	526.15	867.73	0.31	0.34
2	Mining	1,776.62	4,284.05	1.52	2.48
3	Manufacturing	62,426.99	88,145.96	31.20	25.41
	Transport Equipment	8,412.87	16,515.47	5.85	8.00
	Chemicals, Chem. Products incl. Fertilizers	12,943.39	16,851.21	5.96	3.86
	Electrical Equipment	6,211.29	9,646.57	3.41	3.39
	Non-Metallic Mineral Products	2,834.68	5,257.88	1.86	2.39
	Ferrous Industries	9,373.07	11,165.32	3.95	1.77
	Food & Beverages incl. Tea/Coffee	10,660.80	12,305.49	4.36	1.62
	Machinery, M/c Tools, etc.	4,083.72	5,683.12	2.01	1.58
	Paper & Pulp (incl. Products)	2,308.76	3,526.43	1.25	1.20
	Textiles (incl. Dyed & Printed)	2,806.91	3,434.62	1.22	0.62
	Office Equipment, Appliances, Instruments, etc.	1,440.00	1,775.09	0.63	0.33
	Rubber Goods	1,057.49	1,367.01	0.48	0.31
	Leather, Leather Goods & Pickers	274.22	567.01	0.20	0.29
	Misc. Industries	19.79	50.74	0.02	0.03
4	Power & Fuel	57,779.65	77,435.04	27.41	19.42
5	Services	56,825.91	107,082.42	37.90	49.65
	Telecommunications	32,740.85	56,250.34	19.91	23.22
	Computer Software	3,304.27	18,024.53	6.38	14.54
	Financial Services (incl. Banking)	7,315.15	12,969.85	4.59	5.59
	Hotel & Tourism	3,490.63	4,893.10	1.73	1.39
	Trading	1,218.83	2,423.23	0.86	1.19
	Ports	520.50	1,528.73	0.54	1.00
	Consultancy Services	1,708.23	2,645.64	0.94	0.93
	Air/Sea Transport	2,273.31	2,908.34	1.03	0.63
	Hospital & Diagnostic Centres	552.33	1,173.68	0.42	0.61
	Non-Financial Services	2,895.23	3,395.40	1.20	0.49
	Other Services	806.58	869.58	0.31	0.06
6	Miscellaneous	1,958.56	4,704.33	1.67	2.71
	Total	181,294.12	282,519.45	100.00	100.00

Source: Based on the data provided in: Ministry of Industry, *SIA Newsletter*, September 2002 and January 1999 issues.

27. An examination of the export performance of large FDI companies suggested that there was no appreciable change in their export-orientation during the 'nineties.[21] The performance of Indian companies was slightly better. (See Table–7) Given the export-house activity of some of the large companies, including FCCs, even this marginal increase may not reflect the true picture. The expectation of enhancing productivity and increasing exports thus could not be achieved. Freeing of foreign trade was expected to increase competition as a large number of new entities were expected to enter external trade due to abolition of quantitative restrictions. This again proved to be an unrealistic assumption. Foreign trade requires heavy investments from the participants and capacity to take risk. Our studies show that foreign trade is conducted only by a limited number of enterprises and the significant ones number only a few hundred.[22] A recent study of private sector companies for the period 1995-96 to 2000-01 noted that (a) exports of FCCs increased the slowest and their exports-sales ratio declined at the aggregate level, (b) share of imported finished goods in total imports was high in case of foreign-controlled companies, (c) share of traded items in sales is the highest in case of FCCs, net earnings in foreign currencies did not record any improvement in case of FCCs. The study also indicated, based on an examination of Customs House data, that compared to the late 'eighties share of FCCs in India's exports declined during the first half of 'nineties.[23]

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[21] A study of FDI approved during 1996 and 1997 suggested that only less than one-third of the approvals involved export projections. Those promising substantial exports were very few. The export items and type of collaborators were such that in many cases these were not associated with large foreign investors. Some of them were non-resident Indians (NRIs). In some cases given the small size of the project, it was doubtful if the projected exports would materialise. There was no strong direct relationship between size of foreign investment approved and the export projections. The sectoral characteristics of the proposals and the amounts of export earnings projected revealed that textiles, trading and software companies stand at the top. See: K.S. Chalapati Rao, M.R. Murthy and K.V.K. Ranganathan, "Foreign Direct Investments in the Post-Liberalisation Period: An Overview", *Journal of Indian School of Political Economy*', July-September, 1999, pp. 423-454.

[22] Supra Note 18. An examination of data till mid-nineties confirmed the continuation of this phenomenon. See: *India's External Trade during the 'Nineties: Some Aspects – An Analysis of Customs House and Company Data*, a report submitted to the Planning Commission, Institute for Studies in Industrial Development, 2002.

[23] *Ibid.*

Table-7
Showing Exports Sales-Ratios of Select 1000 Large Non-government Companies

(Percentages)

Industry	No. of Companies	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Fats & Oils	1	5.14	1.83	3.92	0.11	0	0.02
	30	*12.63*	*7.89*	*12.92*	*16.25*	*15.96*	*10.87*
Other Food Products incl. beverages	6	13.48	12.54	9.93	9.28	9.97	8.29
	51	*3.08*	*3.03*	*2.89*	*3.7*	*2.6*	*2.31*
Textiles	2	21.41	21.35	22.27	23.34	23.23	20.55
	160	*13.42*	*15.84*	*16.86*	*19.92*	*21.28*	*21.52*
Leather Products	1	3.87	3.53	4.27	4.01	4.05	3.7
	6	*65.19*	*53.39*	*60.47*	*58.97*	*55.32*	*58.38*
Wood Products	-	-	-	-	-	-	-
	5	*11.38*	*9.55*	*5.85*	*7.95*	*7.92*	*7.24*
Pulp & Paper	2	9.02	10.4	9.46	8.6	6.39	5.11
	17	*2.55*	*3.51*	*4.59*	*4.6*	*4.07*	*4.57*
Chemicals	36	5.32	5.81	6.11	6.24	6.9	5.4
	147	*6.53*	*7.79*	*9.46*	*9.9*	*9.73*	*10.4*
Plastics & Rubber	4	6.6	6.16	4.32	3.48	2.64	2.44
	55	*9.56*	*8.93*	*8.71*	*8.74*	*10.51*	*9.77*
Non-Metallic Mineral Products	4	1.52	1.63	1.44	1.62	1.73	1.95
	51	*11.63*	*10.98*	*9.55*	*8.39*	*10.22*	*10.11*
Base Metals	4	6.28	5.49	4.87	3.71	3.69	2.86
	106	*11.7*	*9.32*	*10.49*	*10.33*	*11.83*	*10.69*
Non-Electrical Machinery	19	11.85	11.27	9.45	10.26	14.27	13.24
	51	*5.1*	*5.11*	*4.61*	*5.03*	*5.45*	*5.65*
Electrical M/c Excl. Electronics	9	5.63	3.91	4.34	3.43	3.4	3.52
	56	*6.27*	*5.43*	*5.48*	*6.14*	*7.89*	*7.84*
Electronics	8	1.78	1.08	1.05	1.69	2.02	2.03
	51	*3.76*	*4.53*	*3.61*	*6.74*	*5.11*	*4.51*
Transport Equipment	5	9.63	10.2	8.14	6.92	11.92	16.14
	66	*6.94*	*6.85*	*6.21*	*5.26*	*5.55*	*5.71*
Misc. Manufactured Articles	2	0.56	3.08	2.95	4.07	6.49	12.12
	2	*3.87*	*5.74*	*8.61*	*11.37*	*7.11*	*6.35*
Diversified Companies	4	6.99	10.5	11.82	8.26	8.55	9.76
	39	*4.52*	*5.26*	*5.46*	*4.96*	*5.81*	*5.81*
A. Foreign-Controlled Cos.	107	8.85	8.83	8.25	7.52	8.48	8.06
B. Indian Companies	***893***	***7.94***	***8.08***	***8.54***	***8.89***	***9.53***	***9.29***
Total (A+B)	**1000**	**8.08**	**8.18**	**8.51**	**8.69**	**9.38**	**9.11**

Note: 1.Figures in italics and placed in the second row for each industry represent the corresponding values for Indian companies.
2. Selected on the basis of availability of data for all the years.

Source: Generated from a corporate database of Indian comprising mainly stock exchange listed companies.

28. The character of capital flows and the experience on the trade front does raise some important questions. How would the economy service the foreign exchange obligations on account of the increasing liabilities it is accumulating? Would the imbalances escalate into major crisis especially with the opening up of import trade? What would happen to the portfolio capital flows in such a situation? These were obvious questions but did not receive due attention from the policy-makers.

Direct Resource Mobilisation by the Corporate Sector

29. Another objective of the new policy frame was to enable corporates raise resources directly from the public. Towards this end the *Capital Issues Control Act, 1947* was abolished soon after adoption of the SAP. Due to severe regulatory breakdown and the entrepreneurs' inability to adjust to the liberal environment and consequent project failures, the number of capital issues and the amount raised through these, directly from the public, declined substantially. On the other hand, the assistance disbursed by the public sector financial institutions to the Indian private corporate sector appears to have recorded substantial increase over the same period (See Table-8 and Graph-N). The operation of the stock market did reveal the limitations as also the pitfalls in relying on foreign portfolio investments for its development.[24]

[24] See for instance, K.S. Chalapati Rao, M.R. Murthy and K.V.K. Ranganathan, "Some Aspects of Indian Stock Market in the Post-Liberalisation Period", *Journal of Indian School of Political Economy*', October-December, 1999, pp. 595-622 and "Foreign Institutional Investments and the Indian Stock Market" by the same authors in the same issue, pp. 623-647.

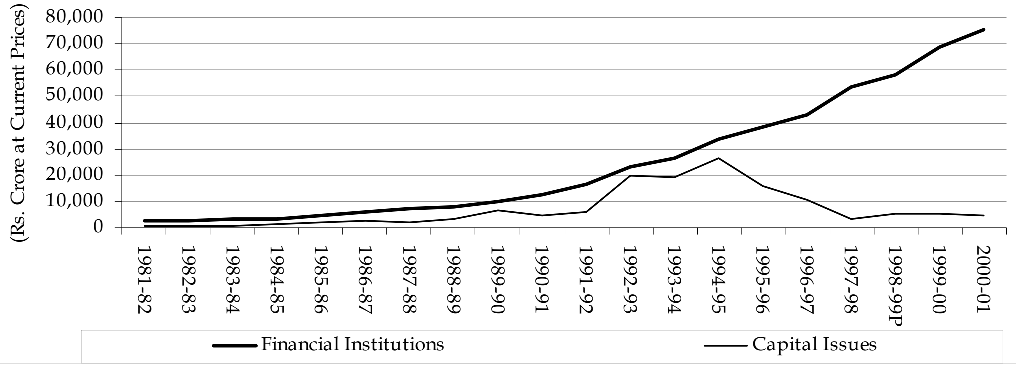
Table-8
Showing Assistance Disbursed by Financial Institutions and Capital Issues

(Amount Rs. Crores)

		Capital Issues	
Year	Total Amount Disbursed by Financial Institutions	No. of Issues	Amount
(1)	(2)	(3)	(4)
1981-82	2,352.00	435	598.4
1982-83	2,468.50	644	706
1983-84	3,138.40	794	837.5
1984-85	3,627.90	471	1,056.40
1985-86	4,940.00	850	1,745.30
1986-87	5,709.10	521	2,581.40
1987-88	7,061.10	225	1,787.70
1988-89	7,700.80	341	3,224.80
1989-90	9,639.70	407	6,509.90
1990-91	12,810.10	364	4,312.20
1991-92	16,260.00	514	6,193.10
1992-93	23,150.30	1,040	19,803.40
1993-94	26,624.30	1,133	19,330.30
1994-95	33,568.10	1,678	26,416.70
1995-96	38,649.50	1,663	15,997.60
1996-97	42,656.50	838	10,409.50
1997-98	53,647.90	102	3,138.30
1998-99	58,329.50	48	5,013.10
1999-00	71,177.90	79	5,153.30
2000-01(P)	76,139.20	139	4,890.00
2000-02	N.A.	19	5,692.20

P Provisional.
Source: See Table-1.

Graph-N
Showing Assistance Disbursed by Financial Institutions and Amounts Raised through Capital Issues



Poverty Reduction and Social Sector Spending

30. At the time of the change in economic policy regime in 1991 it was underlined that the new policies would help achieve higher growth rates which in turn would help reduce the incidence of poverty. Unfortunately, there is a high degree of ambiguity surrounding the poverty estimates. The undisputed fact, however, remains that poverty continues to affect an overwhelming number of India's population. Studies placed the percentage of the country's population below the poverty line at nearly 57 per cent during 1973-74. By 1989-90, the percentage was estimated to have fallen to 34.3. Subsequently, the trend got reversed. The percentage of poor rose to nearly 40 per cent by 1992-93.[25] A feature of poverty needing appreciation is that the severity of poverty is not evenly distributed. The disparity among different regions presents an alarming picture. Disparities are not confined to incomes and expenditure. There exist wide inter-state differences in the level of access to education and health. Many studies have shown that the disparities have grown both in the 'eighties and during the 'nineties and that there is a marked dichotomy between the developed and the backward states.[26]

31. An extremely disturbing trend is provided in the negligence of the social sector under the five year plans. The mid-term review of the Eighth Plan brings out two facts. *One*, the relative importance of the social sector has been on the decline in successive plans. *Two,* there is a large gap between the provision and actual expenditure. The Eighth Plan targets and actuals for the Social Sector investment are given in Table-9. These trends would result in lowering of the credibility of the government – a widening gap between the outlays proposed and the actuals.[27]

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[25] For a detailed discussion see: S.K. Goyal, et. al. *op. cit*.

[26] N.J. Kurian, "Widening Regional Disparities in India: Some Implications", *Economic and Political Weekly*, February 12, 2000, pp. 538-550. Also See: Ravi S. Srivastava, "Regional Growth and Disparities", in Alternative Survey Group, *Alternative Economic Survey: 2001-200:-- Economic 'Reforms': Development Denied*, 2002.

[27] The lowering of public outlay often hits the social sectors worst. This is evident in the pattern of expenditure of the 1996-97 Revised vs. original Budget Estimates. Under more than half of the developmental heads, the Government did not spend the amount sanctioned in the 1996-97 Budget. Thus the actual expenditure was lower by nearly 10,000 crores in one year. There was a shortfall of more than nine hundred crores of rupees on social services. Even the village and small industries faced a cut of Rs. 200 crores. Further instances may help drive home the point better. The Ninth Plan Approach Paper stated that the coverage of programmes such as the Prime Minister's Rojgar Yojana (PMRY) would be enlarged to create new self-employment opportunities for the educated unemployed. The revised budget for PMRY, however, was lower by Rs. 30 crores in 1996-97 and there was no increase in the Budget 1997-98 allocation. The revised estimate for Rural Employment Generation Programme was just Rs. 13.85 crores compared to the 1996-97 budget estimate of Rs. 130 crores. In real terms, 1997-98 budget provision is far lower than the previous year's original

Contd…

Contrary to the claims of the proponents of the liberalisation package, spending on the social sector in India during the 'nineties was not only low it was also lower than that during the earlier decade.[28]

Table-9
Showing Investment in Social Sector during the Eighth Five Year Plan
(At Seventh Plan Prices)

S.No.	Sector	Eighth Plan Target	Eighth Plan Actuals	Eighth Plan Actuals as % of Target
	(1)	(2)	(3)	(4)
1.	Education	13,616	8,553	62.82
2.	Medical & Public Health	5,263	3,553	67.51
3.	Family Welfare	4,516	2,962	65.59
4.	Housing	3,663	2,763	75.43
5.	Urban Development	3,666	2,598	70.87
6.	Other Social Services	24,166	16,218	67.11
	Total	54890	36647	66.76

Source: INDIA, Planning Commission, *Approach Paper to the Ninth Five Year Plan (1997-2002)*, January 1997.
Note: Eighth Plan figures are for the period 1992-93 to 1995-96.

32. India has a vast manpower resource. For this there has to be honest appreciation of the development strategy adopted under the Five Year Plans which built high quality of IITs, IIMs, and R&D centres in most critical areas ranging from space, nuclear engineering, medicine, industrial and communication technologies. It is the pursuance of state policies towards higher education with a large dose of subsidy by the state that enabled the build-up of the massive manpower pool. The preferred manpower was to serve India. Unfortunately, due to the failure of the state to exploit their full potential, young talent is obliged to migrate. Encouraging the skilled manpower to seek jobs in foreign and developed countries is convenient, easy and personally rewarding though not in the national interest. On the contrary, the need is to identify the strategic policies and implement these to best utilize the skilled manpower.

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allocations. For the Growth Centres Scheme revised estimate for 1996-97 was Rs. 28.96 crores against the original budget estimate of Rs. 50 crores. The problem of failing to meet budgetary targets in general was well brought out by the Committee on Fiscal Responsibility Legislation (2000) which noted that

> … the integrity of the budget has been questioned on account of large variations from the original estimates in the Budget. Such variations have been persisting and growing"…. The scenario implies severe fiscal stress and calls for bold measures either in terms of large mobilisation of non-debt resources or through expenditure compression.

See: Ministry of Finance, *Report of the Committee on Fiscal Responsibility Legislation*, July 2000 Annexure III. (Chairman: EAS Sarma).

[28] See for instance, S Mahendra Dev and Jos Mooij, "Social Sector Expenditures in the 1990s: Analysis of Central and State Budgets", *Economic and Political Weekly*, March 2, 2002, pp. 853-866.

33. An unfortunate consequence of the removal of the pressure on the state to provide jobs to the young educated professionals is that public investment in higher education is being withdrawn and private colleges and universities from within and outside India are being allowed to provide technical courses. This has led to commercialisation of higher education and overnight mushrooming of institutions and multiplication of teaching shops for providing diplomas and degrees of highly questionable standards. Admission to technical institutions is mainly available to those who can pay hefty donations to private managements in dubious forms. One can well understand the quality of the trained manpower that India would now be loaded with. In the long run this would prove counter-productive and costly.

Employment

34. India faces a serious challenge of providing employment to growing number of unemployed. The number of persons employed by both public and private sectors increased from 26.74 million in 1990-91 to 28.25 million by 1996-97. Since then, however, there has been a decline and by 1999-00, it fell to 28.06 million. On the other hand, those on the live register of employment exchanges grew from 36.30 million to 41.34 million (See Table-10 and Graph-O). It is not just the increase in the number, but the sheer size of the total number of unemployed is of major concern.

Price Trends

35. The liberalisation process has led to faster increase in the prices of essential items compared to the other consumer goods which had either declined or rose at a slower pace. Prices of imported consumer durables which go into the consumption basket of top few declined but not that of the essential non-durables.[29] Prices of food items which form a major portion of the consumption basket of the poor rose more sharply than the rest. While wholesale the price index of manufactured products (base: 1993-94=100) increased to 144.3 in 2001-02, that of food grains increased to 172.4. A similar pattern occurred between 1990-91 to 1993-94 when prices of food grains rose by 45.8 per cent while the price index of manufactured produces rose by 32.8 per cent. Understandably, those in the organised sector benefited significantly in the process. Since there are no offsetting provisions, the large many forming the unorganised sector suffered. A few obviously benefited at the expense of large many.

Table-10
Showing Employment in Public and Private Sectors

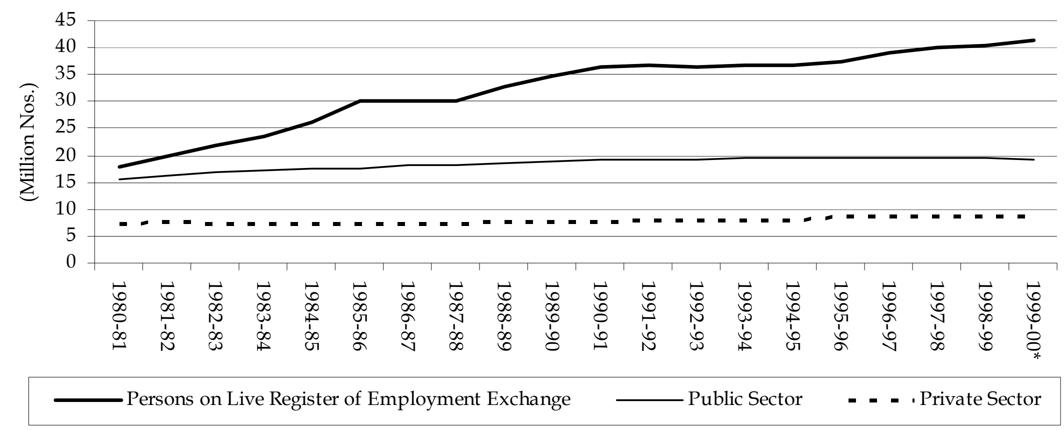
(Millions)

[29] S.K. Goyal, et. al, *op. cit.*

Year (End-March)	Public Sector	Private Sector	Total	No. of Persons on the Live Register of Employment Exchanges (End-December)
(1)	(2)	(3)	(4)	(5)
1980-81	15.48	7.40	22.88	17.84
1981-82	16.28	7.53	23.81	19.75
1982-83	16.75	7.39	24.14	21.95
1983-84	17.22	7.36	24.58	23.55
1984-85	17.58	7.43	25.01	26.27
1985-86	17.68	7.37	25.05	30.13
1986-87	18.24	7.39	25.63	30.25
1987-88	18.32	7.39	25.71	30.05
1988-89	18.51	7.45	25.96	32.78
1989-90	18.77	7.58	26.35	34.63
1990-91@	19.06	7.68	26.74	36.30
1991-92@	19.21	7.85	27.06	36.76
1992-93@	19.33	7.85	27.18	36.28
1993-94@	19.45	7.93	27.38	36.69
1994-95@	19.47	8.06	27.53	36.74
1995-96@	19.43	8.51	27.94	37.43
1996-97@	19.56	8.69	28.25	39.14
1997-98@	19.42	8.75	28.17	40.09
1998-99@	19.41	8.70	28.11	40.37
1999-00*	19.31	8.65	28.06	41.34

Source: See Table-1.
@ Based on Quarterly Employment Review.
* Based on Quick Estimates of Employment.

Graph-O
Showing Employment Trends in Public and Private Sectors and Persons Registered with Employment Exchanges



Public Sector and Privatisation

36. There is no denying the fact that public sector had had its deficiencies. Yet, it had served the economy and the society in large many ways. Public sector has been also the best bet for women and under-privileged sections of the society. Recruitment to public enterprises is governed by rules which make it obligatory for

the PEs to provide job reservations for different categories of workers. The categories are based on socio-economic considerations like Scheduled Castes and Tribes, backward classes, weaker sections, women and the handicapped.[30] As on 1.1.1998 employees belonging to the Scheduled Castes and Tribes constituted 26.83 per cent of the total employment in the Central PEs. Among the PE employees more than a quarter are supposed to be Other Backward Classes (OBCs) which are known to have remained economically and socially backward and had suffered social and economic deprivation for long. Public sector, in general, provides a larger share to women employees.[31]

37. Instead of seeking to improve its working and enforce professionalisation of managements, and far from following the recommendations of the official committees which examined the issue, following SAP, the public sector has been stifled and made to suffer. The process of disinvestment of government shareholding has got mired in controversies and scams from the very beginning. To make matters worse, the government did not allow the Disinvestment Commission to function properly and has even wound it up. The long drawn process of privatisation has kept the managements and employees of the public enterprises on tenterhooks. The promised operation of social safety net was reduced to doling out one-time compensation instead of providing retraining and redeployment opportunities to the affected workers.[32]

38. The process of disinvestment has taken a different course since 1999. In March 1999, PEs were classified into strategic and non-strategic areas. The areas classified as strategic are:

(i) Arms and ammunitions and the allied items of defence equipment, defence air-crafts and warships;
(ii) Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture medicine and non-strategic industries);
(iii) Railway transport.

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30 There is a 15 per cent reservation for Scheduled Castes, 7.5 per cent for Scheduled Tribes, 27 per cent for Other Backward Classes, 3 per cent for Physically Handicapped persons, making a total of 52.5 per cent. These percentages are applicable to all categories of employment. In addition, in Groups C and D, there is a provision for reserving 14.5 per cent and 24.5 per cent respectively for Ex-servicemen and dependents of those killed in action. See: India, Department of Public Enterprises, *Public Enterprises Survey: 1997-98*, Volume 1, p. 175.

31 Central PEs employed 0.11 million women who accounted for 5.72 per cent of the total employees in 1997-98.

32 For a detailed description of the process, see: S.K. Goyal, "Privatization in India", in Gopal Joshi (ed.) *Privatization in South Asia: Minimizing Negative Social Effects through Restructuring*, ILO-SAAT, 2000.

The official policy towards the public sector is presently described as:

- (i) Restructuring and reviving potentially viable PEs;
- (ii) Closing down unviable PEs which cannot be revived;
- (iii) Bringing down Government equity in all non-strategic PEs to 26% or lower, if necessary; and
- (iv) Protect the interests of workers.

39. In practice, however, the emphasis has been on disinvestment of government equity. With renewed emphasis on disinvestment since 2000 (Table-11) the contradictions within and outside the government on the issue have come into even sharper focus. Criticism has been directed repeatedly on the methodology, choice of units and the use of proceeds. From the approach it is apparent that disinvestment, as a part of the liberalisation package, has become an objective by itself. From the reactions of various quarters, selling large PEs will be a long drawn affair each of the actions leading to fresh controversy and accusations.

Table-11

Actual Disinvestment from April 1991 onwards and Methodologies Adopted

Year	No. of Companies in which equity sold	Target receipts for the year (Rs. Crore)	Actual Receipts (Rs. Crore)
(1)	(2)	(3)	(4)
1991-92	47 *(31 in one tranche and 16 in other)*	2,500	3,038
1992-93	35 *(in 3 tranches)*	2,500	1,913
1993-94	--	3,500	Nil
1994-95	13	4,000	4,843
1995-96	5	7,000	362
1996-97	1	5,000	380
1997-98	1	4,800	902
1998-99	5	5,000	5,371
1999-00	2	10,000	1,829
2000-01	4	10000	1,870
2001-02	10	12,000	5,632 #
2002-03	6	12,000	4,777 #
Total	48 *	78,300	3,0917#

* Total number of companies in which disinvestment has taken place so far.

\# Figures (inclusive of amount expected to be realised, control premium, dividend/dividend tax and transfer of surplus cash reserves prior to disinvestment etc.)

Source: Ministry of Disinvestment.

IV

The Agenda

40. A decade after adoption of the policies of liberalisation, India is facing a number of challenges and problems in the form of growing unemployment, deceleration of economic growth, widespread poverty, a variety of disparities which have the potential to create disorder in the society, change the manner in which governments function and respond to people's needs, the possibility of getting into a serious balance of payment crisis, etc. This is the picture that emerges in spite of the fact that there have been serious allegations of statistical manipulations by official agencies. In India, the saving grace, however, is that due to popular pressure the government could not go ahead with the same thrust and speed as suggested by the proponents of the shock therapy. Unlike many developing countries India has a strong tradition of democracy, debate and analytical base. Otherwise, the country might have found itself in even a far more difficult situation.

41. Undoubtedly, not withstanding the attempts to deflect criticism, the economic policy package administered in 1991 was not home grown. It was in the same frame as "Washington Consensus". Not only this, implementation of the policy package was being formally monitored by the Bank and the Fund. It is not a matter of national sensitivity alone; the essential problem with this is the half-hearted manner with which it gets pursued by the administrative system. The political leadership, academia and senior civil servants have a far better insight into the ground realities than any set of experts operating with a remote control.

42. India's experience is not unique. Adoption of free market oriented policies have accentuated disparities worldwide. The liberalisation policies did not have a global, national or a long-term perspective. The package did not project itself into the future nor did it make an attempt to outline the type of society likely to emerge in future, and its relative position in the global frame. It also failed to portray as to what would be the relative position of the developing countries *vis-a-vis* the developed ones in the new international economic order. The question as to what would be the system to deal with problems of the vulnerable ones remained unresolved. The same package was geared to reduce budgetary deficit, encourage capital movements, abolish regulatory administrative mechanisms, and privatise public sector in many developing countries. But it failed to bring about any hope to ensure basic requirements of nutrition, education, health, housing and entertainment to all in these countries. There was repeated emphasis on the merits of free markets at home and internationally. However, little attention was paid to indicate the limits and potential dangers of excessive reliance on free market system especially in societies with large inter-personal disparities. The package had hardly anything to

offer to the artisans based in rural and backward surroundings as it represented the concerns of the organised, vocal and the influential sections and not the overwhelming majority of the Indian population and their socio-economic problems.

43. The need for government action and corrective measures including the unpopular ones had been a subject matter of many reports and research studies. There was more than one reason for taking drastic steps in 1991. However, due to the misinformation propagated by certain interest groups and the misplaced faith in the new policy frame the options were closed very soon. There was a mismatch between what happened and what ought to have happened. Having moved in that direction in a big way and in the process gradually losing the levers of control over the economy, the solution to the present problems is being seen in applying more of the same medicine. This is also preferred because of the easier options it provides.

44. Evidence clearly indicates that the international community is learning from the past mistakes and presently an intense debate is going on regarding the process of globalisation. Even the UN has recognised the negative effects of globalisation and is working towards ameliorating the situation. National governments cannot feign ignorance of this reality. The recent disclosures regarding governance of large private corporations in advanced market economies should provide an additional pointer to the pitfalls in blindly following external models. Indian policy makers should not treat the policies of liberalisation as sacrosanct and instead they should make an honest appraisal of the situation by taking various sections of the society into confidence. This is the prerequisite for seeking alternatives and taking bold and direct steps to address the problems confronting the country. If one was prepared to look at, examples do exist within the country where not growth per se but reforms of a different nature -- land reforms and emphasis on education -- have helped certain states to do better than many in terms of human development.

45. There is no escaping from the fact that the state has to take the initiative to directly attack the problems of poverty and inequality instead of leaving it to market forces. To equip itself to play this role effectively the state has to start mobilising resources through widening the tax base and improving tax administration. Far from expending energies on privatisation of public enterprises genuine attempts have to be made to make PEs autonomous professional bodies not serving the interests of private business interests whether Indian or foreign. Most PEs by their very nature are large and disinvestment is bound to create private monopolies. The problem of monopoly could be tackled better if the government retains certain amount of direct control over these enterprises.