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**MASTER OF ARTS-POLITICAL SCIENCES
SEMESTER -IV**

**POLITICAL ECONOMY OF DEVELOPMENT
CORE 401
BLOCK-2**

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FOREWORD

The Self Learning Material (SLM) is written with the aim of providing simple and organized study content to all the learners. The SLMs are prepared on the framework of being mutually cohesive, internally consistent and structured as per the university's syllabi. It is a humble attempt to give glimpses of the various approaches and dimensions to the topic of study and to kindle the learner's interest to the subject

We have tried to put together information from various sources into this book that has been written in an engaging style with interesting and relevant examples. It introduces you to the insights of subject concepts and theories and presents them in a way that is easy to understand and comprehend.

We always believe in continuous improvement and would periodically update the content in the very interest of the learners. It may be added that despite enormous efforts and coordination, there is every possibility for some omission or inadequacy in few areas or topics, which would definitely be rectified in future.

We hope you enjoy learning from this book and the experience truly enrich your learning and help you to advance in your career and future endeavours.

POLITICAL ECONOMY OF DEVELOPMENT

BLOCK-1

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Unit 3: Classical political economy (Smith, Ricardo)

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BLOCK 2: POLITICAL ECONOMY OF DEVELOPMENT

Introduction to the Block

Unit 8 deals with Asiatic mode of production-feudalism in developing areas (India and Japan). The lifecycle of a product and the lifecycle of the respective production equipment intersect in the production phase of the product, which at the same time represents the use phase of the production equipment.

Unit 9 deals with Planning for Development. State the background and the logic for opting a conscious policy to adopt a framework of planning and development of the economy of India.

Unit 10 deals with Planning Commission to NITI AAYOG. As the freedom struggle progressed these ideas got concretized and took the shape of National Planning Committee in 1938 under the Indian National Congress. However due to the Second World War, when most of the leaders were imprisoned, not much progress could be made in this sphere.

Unit 11 deals with the concepts of develop a clear understanding about the concepts of liberalisation, globalisation and privatisation.

Unit 12 deals with In the context of globalisation, liberalisation primarily means removal of controls and relations at various levels of the economy facilitating market forces to determine its course and direction.

Unit 13 deals with Development theory is a collective term for a conglomeration of theories that seek to explain development as well as propound ways by which desirable societal change (development) can be achieved.

Unit 14 deals with 'Privatisation, is a term that is employed to convey a variety of ideas. The idea that it most prominently suggests is 'denationalisation' (in the sense of transferring the ownership of a public enterprise to private hands).

UNIT 8: ASIATIC MODE OF PRODUCTION-FEUDALISM IN DEVELOPING AREAS (INDIA AND JAPAN)

STRUCTURE

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Asiatic Mode of Production
- 8.3 Feudalism in Developing Areas
- 8.4 Indian Context
- 8.5 Development of Japan
- 8.6 Let us sum up
- 8.7 Key Words
- 8.8 Questions for Review
- 8.9 Suggested readings and references
- 8.10 Answers to Check Your Progress

8.0 OBJECTIVES

After this unit, we can able to know:

- Asiatic Mode of Production
- Feudalism in Developing Areas
- Indian Context
- Development of Japan

8.1 INTRODUCTION

The lifecycle of a product and the lifecycle of the respective production equipment intersect in the production phase of the product, which at the same time represents the use phase of the production equipment. Product development and production development however follow more or less independent pathways, making use of different terminology, methods and tools. Problems tend to occur especially on issues requiring deeper

domain-spanning integration. This leads to the questions, if and how both process streams could or should be interlinked any deeper or mutually adapted any further, and if an integrated methodology would be reachable and desirable. The presented research work proposes answers to these questions based on a comparison of both domains' processes, methods and tool/IT perspectives.

The lifecycle of a product and the lifecycle of the respective production equipment intersect in the production phase of the product, which at the same time represents the use phase of the production equipment. In this phase, both spheres have to fit together. In modern series production, products and production equipment are therefore often developed simultaneously

From a process perspective however, product development and production (equipment) development follow more or less independent pathways only synchronized through respective project milestones, see figure 1, and potentially supported by "design for the other domain" guidelines. In most companies, both domains' processes are owned by independent organizational units, they use different terminology, methods and tools. Problems tend to occur especially on issues requiring deeper domain-spanning integration, such as change management or tolerance management. This leads to the questions, if and how both process streams could or should be interlinked any deeper or mutually adapted any further, and if an integrated methodology would be reachable and desirable. These questions set the frame for the presented research work. In a first step, sections 2 and 3 analyze both development streams especially regarding their process, method and tools perspectives. Then, section 4 compares both domains regarding different criteria and discusses the findings. Finally, section 5 draws conclusions, proposes an integrated product and production development process model and gives an outlook on selected integration areas.

8.2 ASIATIC MODE OF PRODUCTION

While a more or less common understanding of the term product development exists, Production development is a term less common. Sometimes, it is understood as the development of the production

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process, sometimes of the factory or production equipment. In the context of this paper, it covers the scope of product development applied on production systems and equipment, thereby including more common terms such as layout planning, production planning and design of production equipment.

Process perspective

Development methodologies and process models dedicated to production equipment are not as well established as their product-oriented counterparts, and scientific coverage is comparably low. Literature approaches tend to focus on the detailing phases, leaving conceptual design and concept selection short. E.g., the VDI guideline 4499 proposes a process model representative for this view, see figure 3. It starts with an integrated systems engineering phase (layout planning), but then goes fast into domain specific design, detailing and commissioning steps.

Methods perspective

Methods in production development have similarly heterogeneous routes as in product development. With production development being a domain between product development and production management, methods in this area are influenced from both sides.

As the process steps of production development are heavily interlinked with the product to be produced, the methods applied have to be equally coordinated. Today however, dependencies between methods related to the product and to the production system are often not considered adequately. If they are, the methods get complex with interfaces to within, but also to outside the domain. As an example, figure 4 shows methods in body shop development together with their links to product development. It elaborates on this in more detail, showing also implications to related IT systems. Especially complex tend to be methods like change management or tolerance management, which have to be executed in joint responsibility between the product development and the production development domain. In industrial practice, for organizational reasons, such methods are often assigned to one leading

domain or set up in parallel in both domains, leading to integration problems and suboptimal results. With IT just penetrating or even just entering this domain on a comprehensive level, methods are currently being adapted to new possibilities of the supporting tools.

Tools/IT perspective IT coverage in production development is not as high as in product development, yet. Literature interprets this as a gap between the elaborated and still further broadening CAx/PDM world on the product development side and the equally comprehensive study.

8.3 FEUDALISM IN DEVELOPING AREAS

Karl Marx and Frederick Engels formulated the concept of the Asiatic Mode of Production on the basis of 19th century political economy. This section will try to demonstrate that Marx and Engels never upheld the view that India was 'feudal'. They developed the concept of the Asiatic Mode of Production in 1850s after studying India and there is no evidence that they deviated from this essential framework. Since the concept of Asiatic Mode of Production is attributed to them, it makes sense to look at their writings on the subject in some detail.

The first reference to oriental despotism can be found in Critique of Hegel's Philosophy of Right. Marx writes:

Either, as in Greece, the *res publica* was the real private concern, the real content of the citizens and the private man was slave, that is, the political state as political was the true and sole content of the citizen's life and will; or, as in Asiatic despotism, the political state was nothing but the private will of a single individual, and the political state, like the material state, was slave. What distinguishes the modern state from these states in which a substantial unity between people and state obtained is not that the various moments of the constitution are formed into particular actuality, as Hegel would have it, but rather that the constitution itself has been formed into a particular actuality alongside the real life of the people, the political state has become the constitution of the rest of the state.

The thrust of the above abstruse passage is that while the bourgeois state is very different from the states of ancient Greece or Asia, Hegel's view

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that the bourgeois state has resolved the conflict between private interests and the general interest was wrong. This passage may lend the impression that the young Marx subscribed to the conventional 18th century notion of oriental despotism, however in a letter written to Arnold Ruge in the same year Marx completely rejected Montesquieu's distinction between European monarchies and Asiatic despotism. He wrote, 'The monarchical principle in general is the despised, the despicable, the dehumanised man; and Montesquieu was quite wrong to allege that it is honour [Montesquieu, *De l'esprit des lois*]. He gets out of the difficulty by distinguishing between monarchy, despotism and tyranny. But those are names for one and the same concept, and at most they denote differences in customs though the principle remains the same' (Marx 1843b). It is quite clear from this letter that Marx rejected the conventional view of 18th century oriental despotism, especially as elaborated by Montesquieu.

Between 1843 and 1853 Marx did not write or publish any major pieces on Asia because he was occupied with the development of the basic principles of historical materialism in the context of European civilisation. For example, the *German Ideology* and the *Communist Manifesto* were principally concerned with the historical development of Western civilisation and they do not refer to Asia. In fact, Marx really began to study Asia after the failure of the 1848 revolutions and his exile to London. Influenced by Hegel, Marx began by pondering the question why the history of the East appeared as the history of religions. Upon reading François Bernier, Marx felt he had arrived at the answer and wrote to Engels, 'Bernier rightly sees all the manifestations of the East – he mentions Turkey, Persia and Hindustan – as having a common basis, namely the absence of private landed property. This is the real key, even to the eastern heaven' (Marx 1853a). Engels replied, 'The absence of landed property is indeed the key to the whole of the East. Therein lies its political and religious history. But how to explain the fact that orientals never reached the stage of landed property, not even the feudal kind? This is, I think, largely due to the climate, combined with the nature of the land, more especially the great stretches of desert extending from the Sahara right across Arabia, Persia, India and Tartary to the highest of the

Asiatic uplands. Here artificial irrigation is the first prerequisite for agriculture, and this is the responsibility either of the communes, the provinces or the central government' (Engels 1853). Marx, taking into consideration Engels' addition summarising his findings in his reply, 'The stationary nature of this part of Asia, despite all the aimless activity on the political surface, can be completely explained by two mutually supporting circumstances: 1. The **public works** system of the central government and, 2. Alongside this, the entire Empire which, apart from a few large cities, is an agglomeration of **villages**, each with its own distinct organisation and each forming its own small world' (Marx 1853b).

These two mutually supportive ideas, namely public works and the village community, formed the basis of a series of articles written between 1852-1858 for the New York Daily Tribune on the impact of British imperialism on India and China. The most widely quoted of these articles with respect to India are 'The British Rule in India' and 'The Future Results of British Rule in India'. Scathing in his criticism of British rule in India, Marx wrote in this series of articles that England had broken the entire framework of Indian society and uprooted that society from all its ancient traditions and past history. The handloom, spinning wheel, and union between agriculture and manufacture were the basis of Indian society before it was uprooted by British steam and science. Further, the great irrigation works had been utterly neglected by the colonial government, resulting in famine and the destruction of Indian cities. At the same time, he cautioned against any kind of romanticism of the Asiatic system. He said that the Asiatic system had made man the unresisting tool of superstition, enslaved it beneath traditional rules, and deprived it of all grandeur and historical energies. The result was an undignified, stagnatory, and vegetative life. He argued that the Asiatic system had been the solid foundation of oriental despotism that had 'restrained the human mind within the smallest possible compass' and was based on 'class and slavery' (Marx 1853c; 1853d).

Some scholars, such as Bill Warren have incorrectly interpreted these latter remarks as a justification for colonialism (Warren 1980). However,

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Marx's position on the 1857 War of Independence demonstrated clearly that his sympathies were with the colonial people. His emphasis in the above criticism of the Asiatic system is in line with his views of capitalism in relation to all pre-capitalist societies: In other words, that the way forward was not in the restoration of the pre-capitalist order but in the struggle for a new order based on the end of class exploitation that was made possible by the development of the productive forces under capitalism. In conclusion, he felt that the British, though motivated by the vilest interests, had inadvertently initiated a social revolution in India and through the introduction of steam and science were 'laying of the material foundations of Western society in Asia' that would inevitably create the socio-economic prerequisites for a new socialist society (Marx 1853d).

In the Grundrisse Marx continued working with this basic model of Asiatic society and clearly distinguished the Asiatic, Ancient and Germanic forms of pre-capitalist property. For example, he wrote, 'In the Asiatic form (at least, predominantly), the individual has no property but only possession; the real proprietor, proper, is the commune— hence property only as communal property in land' (Marx 1858a). Similarly, 'Amidst oriental despotism and the propertylessness which seems legally to exist there, this clan or communal property exists in fact as the foundation, created mostly by a combination of manufactures and agriculture within the small commune, which thus becomes altogether self-sustaining, and contains all the conditions of production and reproduction within itself. A part of their surplus labour belongs to the higher community, which exists ultimately as a person and this surplus labour takes the form of tribute' (Marx 1858a). Regarding public works in Asia Marx says, 'The communal conditions of real appropriation through labour, aqueducts, very important among the Asiatic peoples; means of communication etc. then appear as the work of the higher unity— of the despotic regime hovering over the little communes' (Marx 1858a). Therefore, we find in the Grundrisse all the features of the Asiatic system as described by Marx in his articles on India.

In 1858 Marx wrote on the controversy stirred up by Lord Canning's proclamation over the annexation of Oudh that the British Government

had confiscated proprietary rights in the soil. This stirred up a debate in Britain about the nature of the claims to landed property made by the zemindars, talookdars or sirdars. One side maintained that these were real private property holders, while the other maintained that they were to be considered as mere tax-gatherers. Marx stated that the latter view was based on a 'more thorough study of the institutions of Hindostan' and was also confirmed by the results of the Bengal settlement (Marx 1858b). He considered the entire controversy to be the result of 'English prejudices or sentiments, applied to a state of society and a condition of things to which they have in fact very little real pertinency' (Marx 1858b).

Finally, in his famous preface to *A Contribution to the Critique of Political Economy*, where Marx summarised the general conclusions of historical materialism, he introduced the term Asiatic Mode of Production: 'In broad outline, the Asiatic, ancient, feudal and modern bourgeois modes of production may be designated as epochs marking progress in the economic development of society' [emphases added] (Marx 1859).

This materialist analysis was carried forward into *Capital* without any substantial alteration. For example in Volume 1 he uses the phrase, 'In the ancient Asiatic and other ancient modes of production' (Marx 1954, 114). Similarly, in a footnote he says, 'A more exhaustive study of Asiatic, and especially of Indian forms of common property, would show...' (Marx 1954, 112). The most significant and detailed passage, however, is contained in chapter 16 on the 'Division of Labour in Manufacture, and Division of Labour in Society'.¹ It is clear from this passage that Marx continued to regard pre-colonial India as a society based on the village community with common property. Further, he also briefly mentions the state and the appropriation of surplus through tribute. One may object that Marx seems to have dropped any reference to public works. This apparent negligence exists because Marx's principle focus in the chapter is the division of labour in manufacture and society. The passage, therefore, describes the division of labour in the village community in India in order to contrast it with the capitalist

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division of labour. Public works receive attention in Chapter 16 where Marx says:

It is the necessity of bringing a natural force under the control of society, of economising, of appropriating or subduing it on a large scale by the work of man's hand, that first plays the decisive part in the history of industry. Examples are, the irrigation works in Egypt, Lombardy, Holland, or in India and Persia where irrigation by means of artificial canals, not only supplies the soil with the water indispensable to it, but also carries down to it, in the shape of sediment from the hills, mineral fertilisers. The secret of the flourishing state of industry in Spain and Sicily under the dominion of the Arabs lay in their irrigation works (Marx 1954, 736-7).

In *Capital* Volume 3, published posthumously by Engels, Marx comments on India and China that:

The broad basis of the mode of production here is formed by the unity of small-scale agriculture and home industry, to which in India we should add the form of village communities built upon the common ownership of land, which, incidentally, was the original form in China as well (Marx 1894, Ch. 20).

Similarly, in his discussion of ground rent in Part 6 of the same volume, Marx clearly distinguishes three sets of pre-capitalist landed property relations: Asiatic, slave, and serf based forms. The analysis of the 'The Genesis of Ground-Rent' in chapter 47 is based on the same distinction between Asiatic, slave and serf based landed property relations. In this context Marx writes:

Should the direct producers not be confronted by a private landowner, but rather, as in Asia, under direct subordination to a state which stands over them as their landlord and simultaneously as sovereign, then rent and taxes coincide, or rather, there exists no tax which differs from this form of ground-rent. Under such circumstances, there need exist no stronger political or economic pressure than that common to all subjection to that state. The state is then the supreme lord. Sovereignty here consists in the ownership of land concentrated on a national scale. But, on the other hand, no private ownership of land exists, although

there is both private and common possession and use of land (Marx 1894, Ch. 47).

There is little doubt that Marx continued to develop the idea of the AMP from his early journalistic writings in 1853 to the writing of his most celebrated work, *Capital*. The essential features that were elaborated in his journalistic articles on the impact of British rule in India – namely a natural economy based on the unity of agriculture and manufacture, the village community with common ownership of land, public works as a precondition for settled agriculture, and surplus appropriation by the state through tribute – form the basis of his various comments in *Capital* on India.

After *Capital*, Marx returned to the subject of pre-colonial society in India and he took detailed notes on Elphinstone's *History of India* and Sewall *Analytical History of India*, M. M. Kovalevsky *Communal Landholding, The Causes, Was and Consequences of its Disintegration*. These notes were published by the Institute of Marxism-Leninism under the title *Notes on Indian History* (1959). Marx's comments on Kovalevsky are extremely instructive on his views of India's mode of production. Kovalevsky had argued that India had become feudal under Mogul rule. He stated:

Of all the four factors usually, though unjustly, acknowledged by medieval historians to be the sole aspects of German-Roman feudalism, three – the beneficial systems, farming out and commendation – may be said to exist in India conquered by the Muslims. Only of patrimonial justice, at least, so far as the civil code is concerned, it is possible to say that it was absent in the empire of the Great Mogul (O'Leary 1989, 127)

Marx's comments on this were as follows:

On the grounds that the 'beneficial system', 'farming out' (the latter, though, is by no means purely feudal – the proof – Rome) and commendation occur in India, Kovalevsky sees here feudalism in the West European sense. But Kovalevsky forgets about serfdom which is absent in India and which is of the greatest importance. As to the individual role of protection (cf. Palgrave) not only of the bonded but also of the free peasants by the feudals (who functioned as vogts), this was in India of little importance, with the exception of the wakufs. The

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idealization of the Land (Boden-Poesie) characteristic of Germano-Roman feudalism (see Maurer) is as of little interest to India as it is to Rome. In India land is nowhere so noble in the sense of being, for instance, inalienable for the benefit of those outside the nobility. However, Kovalevsky himself sees the basic difference – the absence of patrimonial justice where civil law is concerned in the Empire of the Grand Mogul (O’Leary 1989, 127).

Thus Marx systematically rejected Kovalevsky attempt to categorise India as feudal stating that the latter has failed to prove the most important feature of feudalism, namely serfdom. As for the other features, (1) the ‘beneficial system’ existed in Rome and was not an essential feature of feudalism; (2) land was not considered a prized or noble object in India, as it was in Europe where it could not be alienated to commoners; and (3) ‘patrimonial justice’, by Kovalevsky’s own admission, was absent in India (L. S. Gamayunov & R. A. Ulyanovsky in Krader 1975). Marx also refuted Kovalevsky’s argument that the Muslim land tax (kharaj) on the peasantry had transformed land into feudal ownership (O’Leary 1989, 127).

Similarly, Marx’s notes on Lewis H. Morgan’s *Ancient Society* (1877), Sir John Budd Phear’s *The Aryan Village in India and Ceylon* (1880), Sir Henry Maine’s *Lectures on the Early History of Institutions*, and John Lubbock’s *The Origins of Civilization* (1870), published posthumously as the *Ethnological Notebooks*, also demonstrate that he continued to reject the theory that India was feudal. Commenting on John Phear he wrote, ‘That ass Phear describes the organization of the [Indian] rural community as feudal’ (O’Leary 1989, 128). Though it is not clear whether Marx regarded Phear as an ‘ass’ for believing that India was feudal or thought of him in those unflattering manner for Phear’s views in general, it is clear from this comment that Marx himself did not regard pre-colonial India as feudal.

The same ideas can be found in the works of Engels. For example, in the *Anti-Duhring* Engels says that the state and village community own the land in the East.

In the whole of the Orient, where the village community or the state owns the land, the very term landlord is not to be found in the various

languages, a point on which Herr Dühring can consult the English jurists, whose efforts in India to solve the question: who is the owner of the land?– were [in] vain (Engels 1934, 224).

In the same book Engels explains that that state power begins with the gradual separation from society of people vested with a “social function” in primitive societies. Further, in the specific case of Asia that social function included the maintenance of irrigation. Engels says:

there were from the beginning certain common interests the safeguarding of which had to be handed over to individuals, true, under the control of the community as a whole: adjudication of disputes; repression of abuse of authority by individuals; control of water supplies, especially in hot countries; and finally when conditions were still absolutely primitive, religious functions. Such offices are found in aboriginal communities of every period– in the oldest German marks and even today in India. They are naturally endowed with a certain measure of authority and are the beginnings of state power ... It is not necessary for us to examine here how this independence of social functions in relation to society increased with time until it developed into domination over society; how he who was originally the servant, where conditions were favourable, changed gradually into the lord; how this lord, depending on the conditions, emerged as an Oriental despot or satrap, the dynast of a Greek tribe, chieftain of a Celtic clan, and so on; to what extent he subsequently had recourse to force in the course of this transformation; and how finally the individual rulers united into a ruling class. Here we are only concerned with establishing the fact that the exercise of a social function was everywhere the basis of political supremacy; and further that political supremacy has existed for any length of time only when it discharged its social functions. However great the number of despotisms which rose and fell in Persia and India, each was fully aware that above all it was the entrepreneur responsible for the collective maintenance of irrigation throughout the river valleys, without which no agriculture was possible there (Engels 1934, 228-9).

Thus, Engels argues that the state that developed in Asia, which he calls Oriental despotism, was based on the village community, common ownership, and artificial irrigation.

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Where the ancient communities have continued to exist, they have for thousands of years formed the basis of the cruellest form of state, Oriental despotism, from India to Russia (Engels 1934, 231).

That is why when Russian populists advanced the argument that the Russian commune (obshchina) could be the foundation of a socialist society, Engels was scathing in criticism.

Such a complete isolation of individual communities from one another, which creates throughout the country similar, but the very opposite of common, interests, is the natural basis for oriental despotism; and from India to Russia this form of society, wherever it has prevailed, has always produced it and always found its complement in it (Engels 1874).

In conclusion, it is quite clear from the writings of Marx and Engels that they never upheld the view that India was 'feudal'. In Marx's opinion, his later studies of anthropologists and sociologists certainly added new dimensions to the detailed understanding of the AMP but did not contradict the essential features of his earlier formulation.² The following four points can sum Marx and Engels' characterisation of the AMP briefly.

1. Natural economy based on the unity of agriculture and handicrafts with a fixed division of labour. In the case of India and Egypt the division of labour is based on a caste system.
2. Communal (state) ownership with communal and individual possession of the land
3. Public works as a precondition for settled agriculture forming the basis of the state.
4. Surplus appropriation by the state from villages in the form of a tribute (unity of tax and rent)

Given that the theory of feudalism with respect to India finds no evidence in the work of Marx and Engels – they regarded the character of pre-capitalist relations as Asiatic rather than feudal – does a Marxist appraisal of pre-colonial relations require a thorough reworking of views on the agrarian relations in Pakistan that were hitherto based on the notion that pre-capitalist relations in Pakistan were feudal?

8.4 INDIAN CONTEXT

The theory of the Asiatic mode of production (AMP) was devised by Karl Marx around the early 1850s. The essence of the theory has been described as "[the] suggestion ... that Asiatic societies were held in thrall by a despotic ruling clique, residing in central cities and directly expropriating surplus from largely autarkic and generally undifferentiated village communities".

In his articles on India written between 1852 and 1858 Marx outlined some of the basic characteristics of the AMP that prevailed in India. In these articles he indicated the absence of private ownership of land (self-sustaining units or communes), the unity between agriculture and manufacturing (handloom, spinning wheel), the absence of strong commodity production and exchange, and the stabilising role of Indian society and culture against invasions, conquests, and famines.

The theory continues to arouse heated discussion among contemporary Marxists and non-Marxists alike. Some have rejected the whole concept on the grounds that the socio-economic formations of pre-capitalist Asia did not differ enough from those of feudal Europe to warrant special designation. Aside from Marx, Friedrich Engels also focused on the AMP. In their later work, both Marx and Engels dropped the idea of a distinct Asiatic mode of production, and mainly kept four basic forms: tribal, ancient, feudal, and capitalist. In the 1920s, Soviet authors strongly debated about the use of the term. Some completely rejected it. Others, such as Leon Trotsky, in his writings on China, suggested that the 'Chinese feudalism' resembled that of the AMP.

Marx's theory focuses on the organization of labour and depends on his distinction between the following:

The means or forces of production; items such as land, natural resources, tools, human skills and knowledge, that are required for the production of socially useful goods; and

The relations of production, which are the social relationships formed as human beings are united ("verbindung") in the processes of the production of socially useful goods.

Together these compose modes of production and Marx distinguished historical eras in terms of distinct predominant modes of production

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(Asiatic). Marx and Engels highlighted and emphasised that the role the state played in Asiatic societies was dominant, which was accounted for by either the state's monopoly of land ownership, its sheer political and military power, or its control over irrigation systems. The classical forms of slavery as existed in Europe were entirely absent in these societies. In his Preface of A Contribution to the Critique of Political Economy, Marx writes: "In broad outline, the Asiatic, ancient, feudal and modern bourgeois modes of production may be designated as epochs marking progress in the economic development of society". He further distinguished the Asiatic production forms from all other pre-capitalist production forms in following words;

"Amidst oriental despotism and the propertylessness which seems legally to exist there, this clan or communal property exists in fact as the foundation, created mostly by a combination of manufactures and agriculture within the small commune (...) A part of their surplus labor belongs to the higher community, which exists ultimately as a person, and this surplus labor takes the form of tribute etc., as well as of common labor for the exaltation of the unity, partly of the real despot, partly of the imagined clan-being, the god".

In Das Kapital he writes that the "simplicity of the [Asiatic] productive organism ... supplies the key to the riddle of the unchangeability of Asiatic societies, which is in such striking contrast with the constant dissolution and refounding of Asiatic states, and the never-ceasing changes of dynasty. The structure of the fundamental economic elements of society remains untouched by the storms which blow up in the cloudy regions of politics"

Criticism

The Asiatic mode of production has been the subject of much discussion by both Marxist and non-Marxist commentators. The AMP is the most disputed mode of production outlined in the works of Marx and Engels. Questions regarding the validity of the concept of the AMP were raised in terms of whether or not it corresponds to the reality of certain given societies. Historians have questioned the value of the notion of the AMP

as an interpretation of the "facts" of Indian or Chinese history. The theory was rejected in the Soviet Union in the 1930s.

Karl August Wittfogel suggested in his 1957 book, *Oriental Despotism: A Comparative Study of Total Power*, that his concept of Oriental despotism showed that this was because of the similarity between the AMP and the reality of Stalin's Russia; he saw the authoritarian nature of communism as an extension of the need of totalitarian rule to control water in "the Orient".

Marxist historians such as John Haldon and Chris Wickham have argued that societies interpreted by Marx as examples of the AMP are better understood as Tributary Modes of Production (TMP). The TMP is characterized as having a "state class" as its specific form of ruling class, which has exclusive or almost exclusive rights to extract surplus from peasants over whom, however, it does not exercise tenurial control.

8.5 DEVELOPMENT OF JAPAN

JAPAN'S PRODUCT DEVELOPMENT STRATEGY

As can be seen from the above observations of Japan's technology development strategy, at the heart of Japan's electronics industry infrastructure is a highly focused market orientation that influences all activities from research to refinement of assembly processes. Although not all Japanese firms approach the market with identical strategies, there are a number of commonalities in their approaches. After examining Japan's microelectronics industry, the JTEC panel recognized the product development strategy's dependency on materials, component technologies, and production equipment, as shown in Figure 8.1.

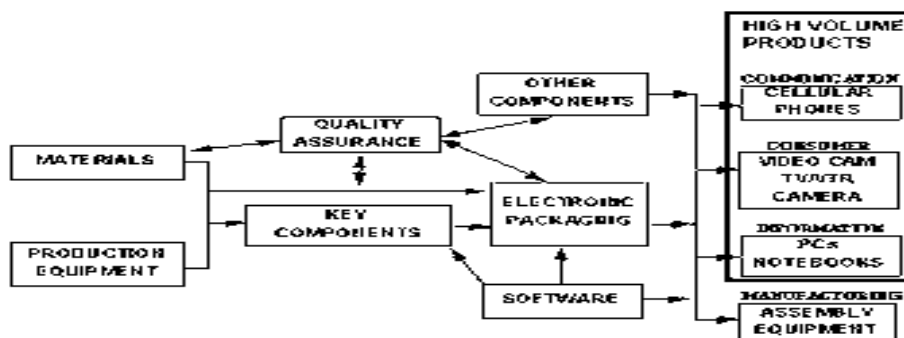


Figure 8.1. Japan's product development strategy ((William R. Boulton & Assoc., 1994).

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In Japan, electronic component and packaging leadership is based on continuous advances in both materials and manufacturing technologies. Japanese suppliers of advanced components frequently provide the manufacturing equipment necessary for further applications of their components into final products. Key products such as cellular telephones, portable video cameras, and portable computers have provided the demand for development of advanced materials, equipment, component, and packaging technologies.

Competitive Advantages in Component Technologies

Component technologies provide the greatest opportunities for Japanese companies to apply their manufacturing expertise to competitive advantage, because the mechanical and electrical components for most consumer products have long life cycles. Sony developed its CCD and Sharp its LCD in the mid-1980s. While external design changes in product color, shape, or features may occur every six months for products like Sony's Walkman or annually for products like Sharp's ViewCam, major improvements in component technologies occur only every three to five years. For example, during a time period that Sony introduced over 160 models of the Walkman, there were only five changes in its mechanical component "platform."

After developing key component technologies, Japanese companies have been able to design and introduce a wide range of products based on those technologies. Huge industries have evolved from development of components for such products as personal computers, VCRs, video disks, and cellular telephones. Sharp, for example, is applying LCD technology for home entertainment, audio equipment, home appliances, and medical equipment. Key components with broad applications provide long-term growth potential. Semiconductor and communications technologies have been the basis for many of today's product developments. In essence, these new products have created new market demands through a strategy of "technology push." When Sharp's president encouraged managers to apply LCD technology to their product lines, he implemented a technology-push strategy.

Competing in Next-Generation Components

Every industry has its own "rules of conduct" and strategies for targeting market segments to stimulate market share growth. With regard to high-volume electronic assembly, Japan's strategy has been to lower costs, reduce size and weight, and improve functionality. Camcorders, cellular telephones, VCRs, stereos, and CD players have all been subjected to this strategy. These product demands have then generated the roadmaps for component and packaging development.

Microprocessors are one of the few components that are still controlled by U.S. firms. According to Gordon Moore, CEO of Intel, the complexity of integrated circuit devices will roughly double every device generation, one generation lasting about 18 months, resulting in a straight-line on a log scale as shown in Figure 8.7. The semiconductor industry sees no short-term departure from this trend. As a consequence, feature size and resolution of geometries used in production follow the same trend, with feature size reductions of about 20% per component generation. At the same time, increased functional integration has led to larger chip sizes, which has required materials development for increased wafer size and equipment development for handling larger wafers. The projected characteristics of next-generation IC components allow designers to plan for next-generation products.

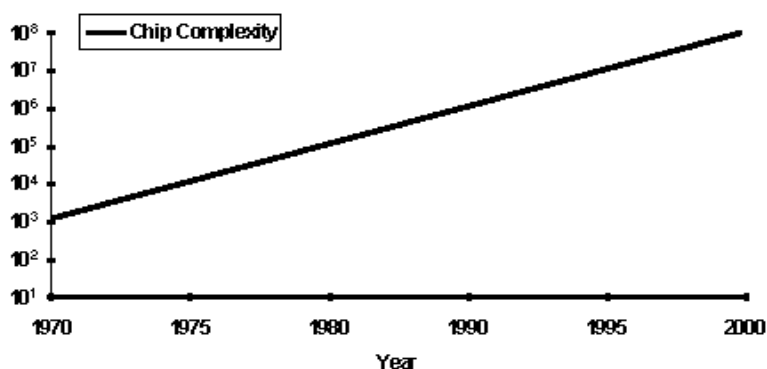


Figure 8.2. Moore's Law of Active Element Density.

Recent Intel advertisements have clearly presented the company's progress in improving processor performance. For example, using Intel's performance computations, the following ratings have been achieved with its most recent microprocessors:

<u>Rating</u>	<u>Relative Performance</u>
i486 SX-25	100
i486 SX-33	133
i486 DX-33	160
IntelDX2-50	233
IntelDX2-66	290
Pentium Processor-60	525
Pentium Processor-66	560

By adding increased capability with each component generation, microprocessor designers give potential customers a broader range of design capabilities. Moore once stated that while he did not know what people will do with all of the transistors being manufactured, he was confident that demand will exist for increased functions, power, and speed that give added design options to the innovative users of these advanced components. Indeed, demand continues to grow as new applications are developed for each new component introduction or update. In addition to providing next-generation complex instruction set chip (CISC) microprocessors, Intel provides a full range of processors to fit a wide range of product applications from servers to notebook computers. The United States has dominated the high-end semiconductor device market by continuing such rapid developments.

Higher Component Density and Better Assembly Equipment

The goal of Japanese companies involved in electronics products competition is to meet customer requirements. Of all customer requirements, five seem to dominate: lower cost, higher reliability, better performance, longer life before battery recharge, and lighter weight/smaller size. All five factors depend on a few key, "lower-tech" capabilities related to making more-integrated components; these in turn depend on good assembly equipment that can put a large number of small components into smaller and smaller areas.

With increased component density also comes an increase in the density of component assembly. For Matsushita's video camera, the component density increased between 1990 and 1993 from 8.5 components per square centimeter to 13.0 components, a 50% increase. Matsushita's and

Sharp's most recent consumer products have average component densities of 16 units per square centimeter. As customers seek smaller, lighter-weight, more sophisticated products, pressures mount for increased component integration and higher-density assembly technologies. Sony's model TR1 video camera was introduced at the end of 1992 with a component density of 20 components per square centimeter, and its component density is expected to reach 30 components per square centimeter.

The manufacturing law in electronic assembly that might be equated to Moore's law of chip element density is, "the density of assembled components will double every generation." Sony has suggested that PC board component densities could reach 50 pieces per square centimeters by 1998, as Figure 8.3. shows.

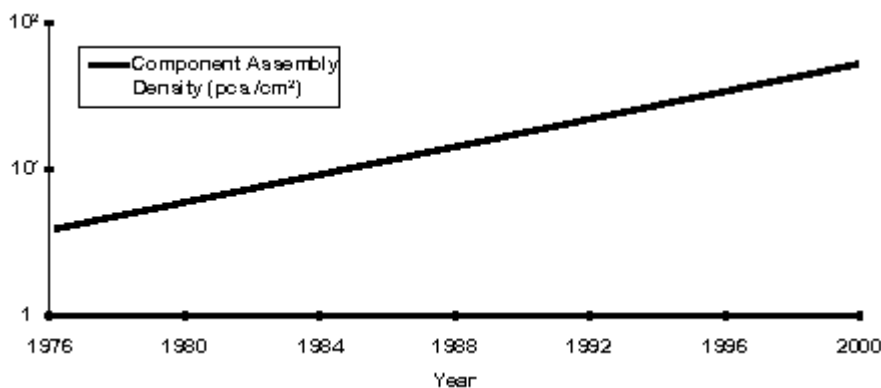


Figure 8.3. PC board component density.

Doubling component density every generation is a clear objective in Japan's electronics industry. As in the semiconductor industry where there is a cascade of new technology resulting from following Moore's Law, there is a cascade of technology resulting from following the "higher density law of electronic assemblies." In the latter case, this is a consequence of better, more reliable, highly flexible electronic assembly equipment.

New-Technology-Based Innovations Versus Process-Based Improvements

It has repeatedly been stated that U.S. research and development is driven by a technology push, in contrast to Japanese research and development, which is primarily driven by a product or market pull. There are, of course, occasions when the technology is virtually

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indistinguishable from the product driven by the technology; microprocessor technology, for example, is ubiquitous to digital electronics, but when referring to an Intel '486 or Pentium, it is often the personal computer product that comes to mind. Thus a technology innovation can spawn a new product and, at times, spawn a whole new industry.

Indeed, in the past several decades "new technology" has supported the development of many new electronics industries. Examples include the personal computer, VCR, CD-ROM, and cellular telephone, satellite communications, neural networks, expert systems, semiconductor memories for electronics, and information-sciences-based products. In the case of the personal computer, an entire industry that now affects the global economy developed from an innovation for making video games available to the home market.

When a new market is created around a new product based on a new technology, market demand is created largely by the customers' interest in the newness of the product. As the market develops, the technology creator can maintain market advantage by continuously enhancing the technology and introducing newer and more improved products in response to customer demands, as discussed in this unit. The product enhancements initiated by repeated introduction of new technology keep competitors in a continuous state of playing "catch-up." If successful, the technology leader captures a major share of the market long before the competition can respond, and the leader can sustain that position as long as the product family continues to be improved and meets customer demands. As pointed out in this unit, Sony and Sharp are two Japanese firms that have market strength based on introduction of innovative products.

In general, the United States has long operated under the belief that technology innovations will, by themselves, sustain industrial growth and market strength. New technology and resulting new products often originate in university or industrial research laboratories. The better and more attractive the technology, the broader the range of product applications is expected, and the stronger the customer demand for newer and more enhanced products based on the technology. The more rapidly

the market develops, the greater the advantage for the technology developer.

In contrast to this U.S. R&D operating scenario, Japan has operated under the belief that new technology developments have to be focused on continually upgrading products to meet customer demands for highest possible quality at lowest possible cost. The leader stays ahead of the competition by being faster or less expensive in bringing out upgraded products. Over time, however, process technology improvements can often be a deciding factor in whether or how fast product quality can be improved and cost reduced. Depending on the nature of the product and its state of market maturity, an aggressive manufacturer can take the lead away from the product or technology innovator and become a market giant. Matsushita did this in the VCR market, and Compaq appears to be doing this in the PC market.

The Importance of Process Technology

There is a clear market transition from the stage when an innovative product is first introduced, to the stage of continuing development of the product in response to consumer demands. In the first phase, the consumer is attracted to the product largely because of its novelty, and the innovator is temporarily unchallenged in the market. In the second phase, the consumer becomes increasingly cost and quality conscious, and many competitors may enter the market; then the emphasis on manufacturing technology takes over from the emphasis on new technology.

The camcorder, the cellular telephone, the Walkman, the CD-ROM, and the personal computer all appear to be maturing into more manufacturing-process-influenced industries. With the resulting increased competition in the marketplace, there is increased pressure to lower cost, improve performance, make the product easier to use, etc. At this stage, process technologies and component upgrade technologies can easily become more important than the original technology innovations. The market for Dynamic Random Access Memory (DRAM) invented by Intel is now dominated by innovative and highly competitive manufacturers, predominantly Japanese (Fujitsu, NEC, etc.) or Korean (Samsung, Gold Star, etc.). The market for VCRs, for which the

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fundamental technology was invented by Ampex, is now dominated by Matsushita and Sony.

Technology development activities of the Japanese manufacturing leaders are customer- and product-driven. Dominant market position is occupied by suppliers that best understand how to meet and increase market needs. The criteria for success are attention to detail, clear understanding of customer needs, and flawless execution. Clearly, with regard to high-volume electronic assembly, customers demand lower cost, improved functionality, smaller size, and lighter weight, especially for more mobile products. Japanese packaging, component, and process technology development is driven by these parameters.

While it might be reasonably argued that the U.S. "technology push" approach to R&D produces more Nobel Prize winners, the Japanese "customer (or product) pull" approach to R&D has produced market leadership for Japan, especially thanks to its emphasis on process technology R&D. U.S. automakers were pushed by Japanese competition into learning how to make cars quality-competitive with those made by the Japanese. Automated electronic assembly factories in the United States, such as SCI and AVEX, are now as good as any Japanese factory, although many use Japanese-built equipment. However, manufacturing in the electronic assembly and packaging arena has not been targeted as an area for U.S. attention, as in the case of the automobile industry. The implications of this omission may be truly ominous.

Check Your Progress 1

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1. Discuss the Asiatic Mode of Production.

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.....
.....

2. Discuss the Feudalism in Developing Areas.

.....

 3. What do you understand the Indian Context of development?

.....

 4. What do you know the Development of Japan ?

.....

8.6 LET US SUM UP

The tendency on the part of Kosambi, Joshi and Alavi to characterise pre-colonial India as predominantly feudal can be appreciated in the context of a critique of colonialism. The problem of the transformation of the AMP has been left largely unanswered by Marx who vacillates between two accounts of this question. In the *New York Daily Tribune* articles the AMP is perceived as inherently static and it is this statism that legitimates the colonial intervention. By contrast, in the *Grundrisse* and *Capital I*, a more dynamic view is expressed in which the AMP gives way to other modes. Marx's primary thesis provides an indirect justification of colonialism and imperialism, but that justification cannot be upheld if it is established that the prevailing mode in the immediate pre-British India era was feudal rather than Asiatic. By claiming a feudal heritage, Kosambi, Joshi and Alavi can maintain a position in line with Marxist analysis while rejecting Marx's legitimation of imperialism. If, however, it can be established that the AMP does have an inherent dynamic then the defence of the feudal view is weakened. Arguably, the maintenance of massive standing armies — which consumed two thirds of the surplus product but were essential for the reproduction of the mode — constitute the location of such a dynamic. The point at which the maintenance of armies becomes prohibitive is the point at which the mode must start to disintegrate since its reproduction

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can no longer be guaranteed. In the case of the AMP, unlike the capitalist mode of production, there are no offsetting factors.

The explicitly ideological and geographical connotations of the term “Asiatic,” which are central to Melotti's characterisation of Marx's analysis, are both misleading and unessential. It is difficult to a) reject the term ‘Asiatic’ without b) negating the mode to which that term has been applied. The rejection of the term, however, does not necessarily entail the negation of the mode. For Marx it is the tribute-raising state which appropriates the surplus product from the direct producer and which stands in the same objectively antagonistic relationship to that producer as does the slave-owner to the slave, the feudal lord to the serf, and the capitalist to the wage labourer. Thus, it is the means whereby the surplus product is appropriated which sets apart the mode in question — which may legitimately be designated “tributary” — from other modes. This is the sense in which the tax/rent couplet does have theoretical validity. However, while the tax/rent couplet may constitute the dominant mode of appropriation of the surplus product in a particular geographical location — Asiatic or otherwise — and at a specific point in time, this does not justify the conflation of mode and society.

8.7 KEY WORDS

Feudalism: Feudalism was a combination of legal and military customs in medieval Europe that flourished between the 9th and 15th centuries. Broadly defined, it was a way of structuring society around relationships derived from the holding of land in exchange for service or labour.

Production: Production is a process of combining various material inputs and immaterial inputs in order to make something for consumption. It is the act of creating an output, a good or service which has value and contributes to the utility of individuals.

Development: Economic development is the process by which the economic well-being and quality of life of a nation, region or local community are improved. The term has been used frequently in the 20th and 21st centuries, but the concept has existed in the West for centuries.

8.8 QUESTIONS FOR REVIEW

1. Discuss the Asiatic Mode of Production
2. Discuss the Feudalism in Developing Areas
3. What do you understand the Indian Context of development?
4. What do you know the Development of Japan ?

8.9 SUGGESTED READINGS AND REFERENCES

- Bernier (1934) *Travels in the Mogul Empire: 1656-1668*, Oxford University Press.
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- Marx (1853d) 'The Future Results of the British Rule in India' from marxists.org/archive/marx/works/1853/07/22.htm
- Marx (1858a) 'Grundrisse' from marxists.org/archive/marx/works/1857/grundrisse/ch09.htm#p471
- Marx (1858b) 'Lord Canning's Proclamation and Land Tenure in India, Marx 7 June 1858' from marxists.org/archive/marx/works/1858/06/07.htm

8.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1. See Section 8.2
2. See Section 8.3
3. See Section 8.4
4. See Section 8.5

UNIT 9: PLANNING FOR DEVELOPMENT IN INDIA

STRUCTURE

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Post-Independence Developments
- 9.3 Planning Machinery
- 9.4 Planning Objectives
 - 9.4.1 The Foremost Objective: Economic Growth
 - 9.4.2 Modernisation: The Second Objective
 - 9.4.3 Self-reliance: The Third Objective
 - 9.4.4 Social Justice: The Fourth Objective
- 9.5 Planning Policy Framework
- 9.6 Planning Strategies
 - 9.6.1 Phase of Control
 - 9.6.2 Phase of De-regulation
- 9.7 Performance of the Economy
- 9.8 Evaluation of Planning
- 9.9 Let us sum up
- 9.10 Key Words
- 9.11 Questions for Review
- 9.12 Suggested readings and references
- 9.13 Answers to Check Your Progress

9.0 OBJECTIVES

After going through the unit, you will be able to:

- state the background and the logic for opting a conscious policy to adopt a framework of planning and development of the economy of India;
- delineate the major objectives that were set forth in the beginning and were running theme behind the Plans;
- explain strategies followed in different phases as also the gradual shift in emphasis;

- analyse the performance of economy since planning; and
- evaluate the consequences of the planning.

9.1 INTRODUCTION

After achievement of independence, India became a republic. She chose to follow a path of ‘planning for social and economic development’, which meant that the State would play a pro-active role in deciding about ‘what, how, how much, where and whom’ in economic and social activities of the system while respecting, by and large institutions of private property and market. Our Constitution itself gave scope for market to function and yet asked the State to intervene in the functioning of the market.

Thus, we adopted the middle path, the concept of mixed economy, with public and private sectors playing complementary roles, remaining active partners in the common tasks of development. We opted for democratic planning aiming to achieve a high and sustained rate of growth, a progressive improvement in the standards of living of the people, eradication of poverty and unemployment to lay the foundation for a self-reliant economy. Planning strategy envisaging the role of state vis-à-vis market has drastically shifted in favour of market in the 1990s. In this unit, we will discuss the objectives and strategies as envisaged immediately after independence and how they have changed over a period of time. The performance of the economy will also be examined. Let us begin by stating the background of the planning first.

9.2 POST-INDEPENDENCE DEVELOPMENTS

Towards the end of 1938, National Planning Committee was set up under the Chairmanship of Shri Jawahar Lal Nehru. The Committee produced a series of studies on different subjects relating to economic development. Besides the National Planning Committee, eight leading industrialists of India conceived a Plan of Economic Development which is popularly known as Bombay Plan. There was also a Gandhian plan prepared by Shriman Narayan. All these plans were only of historical importance

because they were just paper plans which were never implemented. Immediate after independence, nothing perceptible took place except announcement of a resolution of Industrial policy, 1948. This resolution gives, besides State's role in vital sectors of economy, the mind of the Government with regard to establishment of a National Planning Commission, which would formulate programmes of development and would secure their execution. The Planning Commission, however, was constituted on March 15, 1950 by a cabinet resolution—well much after independence and fifty days after promulgation of the Constitution—as an extra-constitutional body. With a view to knowing the tasks of the Commission, it is important to read the Cabinet Resolution. See Box 1. You should carefully read the italicised words and phrases to catch the ethos, objectives and policy framework of planning. The Planning Commission was asked to prepare a six-year development plan covering the period of July 1951 to June 1957 for the Colombo Plan (for Cooperative Economic Development in South and South-East Asia, as was desired by its member-countries in May 1950. However, some time later, the Government of India chose to go independent and asked it to submit a blueprint of a Five Year Plan at its earliest. The Plan was to start and was started in April 1951, but the Draft Outline was ready only in July 1951. The final Plan (Report) came out in December 1952. The Draft Outline (of the First Plan) was meant, it was said, to arouse a lively debate in the whole country among different sections. In a democratic State, planning is a social rather than just technical process. It was reported that intellectuals and industrialists, people and parties, press and parliamentarians all participated in the debate. But more importantly, this Draft Outline suggested formation of the National Development Council with Prime Minister as the 7 Chairman and Chief Ministers as members. This Council was again set up by a Cabinet Resolution dated August 6, 1952. See Box 2.

Box 1: Resolution Constituting Planning Commission

The Constitution of India has guaranteed certain Fundamental Rights to the citizens of India and enunciated certain directive Principles of State Policy, in particular, that the State shall strive to promote the welfare of

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people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life, and shall direct its policy towards securing, among other things: a) that the citizens, men and women equally have the right to an adequate means of livelihood; b) that the ownership and control of the material resources of the community are so distributed as best to sub serve the common good; and c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. Having regard to these rights and in furtherance of these principles as well as of the declared objective of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production, and offering opportunities to all employment in the service of the community, the Planning Commission will:

- 1) make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements;
- 2) formulate a Plan for the most effective and balanced utilisation of the country's resources;
- 3) on a determination of priorities, define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage;
- 4) indicate the factors which are tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plans.
- 5) determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects;

6) appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and

7) make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it; or, on a consideration of the prevailing economic conditions, current policies, measures and development programmes; or on an examination of such specific problems as may be referred to it for advice by Central or State Governments.

Box 2: Functions of Developmental Council

The resolution constituting the National Development Council lays down the following functions:

- a) To review the working of the national plan from time to time;
- b) To consider important questions of social and economic policy affecting national development; and
- c) To recommend measures for the achievement of the aims and targets set out in the national plan, including measures to secure the active participation and cooperation of the people, improve the efficiency of the administrative services, ensure the fullest development of the less advanced regions and sections of the community and, through sacrifice borne equally by all citizens, build up resources for national development.

It is this Council which approves the Approach Paper on which the Planning Commission moves ahead for preparation of the Plan and also approves the Plan, which is placed in the two Houses of Parliament for discussion and adoption.

9.3 PLANNING MACHINERY

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At the national level there are two bodies: (i) The Planning Commission, which is appointed by the Union Government. It formulates the plans for the whole country in which States' Plans are dovetailed. The other is the National Development Council, which consists of Chief Ministers of all States, members of the Planning Commission and some Union Ministers. This body gives a go-ahead signal to the Commission for formulation of a particular Plan with some broad parameters. It also considers and approves the Plan before it is placed in the Parliament. The Prime Minister is the Chairman of the Commission in ex-officio capacity. However, the Deputy Chairman is the executive head looking after day-to-day affairs of the Commission. There are few Minister-Members, including invariably Ministers for Finance and Planning, and several full-time Members, each with a charge of a group of subjects. There are several divisions, which could be categorised as: general divisions (like perspective planning, policy, financial resources), subject divisions (like agriculture, industry, housing, education, health, labour, science and technology, social welfare, trade, project appraisal, etc.), area divisions (for states or zones like hill areas), and service divisions (concerned with administration, accounts and general services like computer service division, publicity etc.). The subject divisions keep in touch with concerned ministries, state governments and other official/non-official agencies; organise research studies on their own or through outside institutions/organisations. Programme Evaluation Organisation undertakes expert evaluation studies to assess the impact of selected plan programmes. There is only one National Plan and all State Plans are a part of it. While State Budgets are independent, State Plans are not. State Planning Boards exist. There is provision for formula-based transfer of resources, instead of scheme-based, from the Union for State Plans. However, the Planning Commission coordinates the development programmes of the Union Ministries with those of the State Governments and integrates those into a single national plan. Further, since our 9 planning is comprehensive, there is private sector plan component as well. However, this is an indicative exercise, combining both a forecasting and a policy-induced projection of economic activities. Implementation of the plan needs resources. Specific schemes of

financing are worked out for the Union and each of the States and required efforts for additional resource mobilisation are spelt out. These flows are then integrated with the overall flow of funds for the economy as a whole. Several Working Groups and Task Forces are appointed for seeking inputs on various sectors/sub-sectors/subjects for a particular Plan. These groups consist of economists, experts and administrators. Whereas implementation part of the plan programmes is the responsibility of governments of various levels, the Planning Commission (and State Planning Boards) has major responsibility of formulating the five-year and annual plans; appraise their progress from time to time; and recommend adjustments of policy measure, if desired. It may also be mentioned that with each five-year plan, a perspective plan for somewhat longer period (say, 15 years) is also prepared to take care of those investments, which have a long gestation period. It also initiates such new policy measures that strengthen the process of structural changes. See Table 9.1.

Table 9.1: Plans prepared by Planning Commission of India.

Plan	Plan Period	Perspective Plan Period	Remark
First Five Year Plan	1951-1956	1951-1981 (30)	
Second Five Year Plan	1956-1961	1956-1976 (20)	
Third Five Year Plan	1961-1966	1961-1976 (15)	
3 Annual Plans	1966-1969	No perspective Plan	Fourth Plan withdrawn
Fourth Five Year Plan	1969-1974	1968-1981 (12)	
Fifth Five Year Plan*	1974-1979	1974-1986 (12)	Perspective extended to 15
Annual Plan	1979-1980	No perspective Plan	
Sixth Five Year Plan	1980-1985	1978-1988 (10)	Perspective extended to 15
Seventh Five Year Plan	1985-1990	1985-2000 (15)	
2 Annual Plans	1990-1992	No perspective Plan	
Eighth Five Year Plan	1992-1997	1992-2007 (15)	
Ninth Five Year Plan	1997-2002	1997-2012 (15)	
Tenth Five Year Plan	2002-2007	2002-2012 (10)	
* Was Curtailed by a Year			
Fourth Five Year Plan	1966-1971		Abandoned after Launch
(Sixth) Five Year Plan	1978-1983		Scrapped in January, 1980

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Finally, the five-year plan is implemented through annual plans only, which are a part of respective annual budgets. With changes in conditions assumed, adjustments and adaptations are made during the course of implementation. Annual Plans thus introduce the needed flexibility.

Check Your Progress 1

Note: i) Space is given below each question for your answer.

ii) Check your answer(s) with those given at the end of the unit.

1) What is the role assigned to the Planning Commission?

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2) Give a brief account of the formulation process of a Plan.

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3) What do you understand by perspective planning?

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9.4 PLANNING OBJECTIVES

The basic objectives of Indian planning are growth, modernisation, self-reliance, and social justice. These objectives are, in fact, the guiding principles of Indian planning. Within this basic framework of objectives, each development plan lists some priorities in the light of immediate requirements and constraints. These have, however, to be subservient to the four basic objectives indicated above.

9.4.1 The Foremost Objective: Economic Growth

The first and the foremost objective of Indian planning is the growth of the economy as rapidly as possible within a democratic framework. In a

country with low per capita income and poor standard of living of the majority of the people, raising national income has naturally been the basic objective of development planning. The target growth rate of national income has generally been around 5 per cent with slightly higher rate in some of the plans, except the First Five Year Plan when the target was modest at 2.1 per cent. The anticipated rate of growth was 4.5 per cent during the Second Five Year Plan, which was raised to 5.6 per cent for the Third Five Year Plan, and further raised to 5.7 per cent for the revised Fourth Five Year Plan. However, the target was lower at 4.5 per cent for the revised Sixth Five Year Plan (1980-85). The target or the anticipated rate of growth was set at least 5 per cent for the Seventh Five Year Plan (1985-90). The growth targets for eighth, ninth and tenth plan were set up at 5.6, 6.5 and 8.1 per cent respectively.

9.4.2 Modernisation: The Second Objective

The second basic objective has been to modernise the economy. This amounts to structural and institutional changes in economic activities leading to a progressive and modern economy. This needs modernisation in all the three sectors of the economy, viz. agriculture, industry and services. One important pursuit is the shift in the sector-wise contribution to national income from agriculture to industry and the services. Agriculture has been the largest sector among all the three sectors in terms of production and employment as a matter of the colonial legacy. Another important aspect of modernisation is development of a diversified economy that produces a large variety of goods, including capital goods. This envisages establishing new industries in the fields of engineering, chemicals, petroleum, etc. A fundamental aspect of modernisation of the economy consists in advancement of technology and innovation for making the economy efficient by upgrading the quality of products and/or reducing costs; increasing the productivity of labour and other resources. Certain institutional changes become necessary for the modernisation and development of the economy.

9.4.3 Self-reliance: The Third Objective

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The third major objective of Indian economic planning was at least till 1980s to make the economy self-reliant. This implies progressively reduction and ultimately elimination of dependence on foreign aid and imports for certain critical commodities. This requires import substitution, i.e. producing the same commodities at home instead of importing them. This necessitates expansion and diversification of exports so that we are in a position to pay from our own earnings of foreign exchange. The emphasis in the case of agriculture is, however, on self-sufficiency in production of foodgrains and the raw materials for industrialisation. However, after July 1991, with the globalisation and opening of Indian economy, the shift has taken place towards outward orientation.

9.4.4 Social Justice: The Fourth Objective

Another important objective is to render social justice to all, more particularly to the deprived strata of the society. This implies improving the living standards of the weaker sections of the population, namely, landless agricultural labourers, artisans, members of scheduled castes and scheduled tribes, women and children etc. This also implies the reduction of inequalities in income and asset distribution, more particularly in the rural areas where land, the principal source of living, is unequally distributed. This also includes a variety of welfare schemes, namely, special employment programmes of the poor, land reforms in favour of the small farmers, supply of concessional or subsidised items for production as well as consumption Purposes.

Development Strategies in India Thus, the fundamental objectives of our development planning have been to secure rapid economic growth, modernisation, self-reliance, reduction in disparities of income and wealth, prevention of concentration of economic power, and creation of values and attitudes of a free and equal society. The vigilant reader will see that promoting one objective could facilitate another but there could be contradictions too inherent in simultaneously achieving all these objectives. Realising this, the First Plan said, 'None of these objectives can be pursued to the exclusion of others, a plan of development must place balanced emphasis on all of these.' The same objectives were

partially echoed when in some of the plans, the objective was stated as growth with redistribution. However, when one goes through the lists of objectives given in different Plan reports (See Appendix 1) one finds them couched in different language, often difficult to identify with the basic objectives suggested above. Part of the reason could be to divide the objectives on long-term as well as medium-term/shortterm basis. Long-term objectives do not differ from plan to plan but short-term may differ. Long-term objectives are couched in more general terms while shortterm ones are more specific. One may like to call long-term objectives as planning objectives and short-term objectives as plan objectives. Further, goals, objectives and targets are all different yet become blurred or indistinguishable at times. For instance, in all plans a target of growth rate for national income (or NDP or GDP) was stipulated but it was given as an objective only in a few of them. At times, even certain priorities and strategic means may substitute for objectives for they appear so important for the time being. Examples abound in documents of different plans. For example, in some of the plans, selfreliance, which was a basic strategy in earlier plans, was shown as a separate objective. Self-sufficiency in foodgrains was also indicated as objective in some of the plans while expansion of basic and heavy industry in others. In some plans one would find mention of growth with stability. In still some others, inter-regional balance is mentioned as an objective; and, perhaps, it could be stated as a separate long-term objective—also suggested as one of the functions of the National Development Council.

9.5 PLANNING POLICY FRAMEWORK

When we were embarking on the course of planning for our social and economic development, the developed world seemed to be divided into two major blocks— one was completely market oriented, essentially capitalistic in nature but an interventionist State for course correction and the other was pursuing socialistic goals through socialistic means using the State as the major instrument of change. While there were launched programmes and projects in the capitalistic world by the State in larger interest where the private enterprise would not enter, the socialistic world

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adopted a comprehensive approach with dominance of the State sector. In such scenario, India opted for a policy framework of mixed economy. Further, while private sector was supposed to have full freedom in many spheres and qualified freedom in several other areas, it was decided that India would opt for comprehensive planning—comprehending all sectors and all regions. Mixed economy, as the term suggests, signifies the co-existence of public sector and private sector with respect to business enterprises—industrial, commercial¹³ and financial. It is believed that public sector enterprises shall primarily be guided by public interest, private sector enterprises will not be solely guided by profit consideration. They shall not assume antagonistic posture but shall cooperate in the endeavour to boost the economic potential of the country. It can, thus, be articulated as a coordinated coexistence of both private and public sectors demarcated in spheres of operation with little overlap but mutually supportive of each other. There had never been perfect market economy or perfectly socialist economy. All economies were mixed in the sense that the State did play some role of regulating market functions. Economies in the West, characterised as mixed enterprise system till sixties of the last century, are now being called as mixed economies. Our conception of mixed economy was somewhat different than the one held by Samuelson and Naurdhus as economy relying primarily on price system but using a variety of Government interventions to handle macroeconomic instability and market failure. However, there was a cataclysmic change in the role of planning in the beginning of 1990s. Thanks to foreign exchange that we faced in 1991 due to Gulf war. Within mixed economy framework, the role of planning underwent a fundamental change. Market fundamentalism was now to guide the economy. But in the areas like environment and forest, rare minerals, land and water, where market fail to play an allocative role, planning will continue to play an important role. For public sector, the talisman was changing: do not enter an area unless you can decidedly do better. Thus, instead of resource allocation or investment planning primarily through public sector investment unmindful of its productivity, the planning was now to be oriented to more towards development of social infrastructure, where market will fail in bringing balance between

societal need and private supply. It is still conceded that where a long-term perspective is needed, planning is needed. With change in attitude, planning was to become more indicative.

Check Your Progress 2

Note: i) Space is given below each question for your answer.

ii) Check your answer(s) with those given at the end of the unit.

1) Differentiate between Planning objectives and objectives of a particular Plan.

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2) In what sense, almost all the economies are viewed as ‘mixed’?

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3) Discuss essential features of planning policy framework adopted in India

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9.6 PLANNING STRATEGIES

During the last more than fifty years we cannot claim to have followed one single strategy. In fact, we find, there has been a sort of evolution and in the view of some of us, a metamorphosis since the mid-1980s or early 1990s of the century just gone by. The shift in emphasis is eloquent and noticeable. The period could be divided by broad congruence in approach. We find it convenient to divide the total period into two phases. The common features between both the phases have been indicated in the earlier section. The strategies characteristic of each phase, which we may call as phase of control and phase of regulation, are discussed below.

9.6.1 Phase of Control

During the phase one, starting from the early fifties to late eighties, the common elements that run across the plans were: expansion of public sector, industrialisation and import substitution, self-sufficiency in foodgrains, state control on financial resources, control on foreign capital, protection of small scale industries, regulation of large scale industry, curb on monopolistic practices, security to labour in organised sector, provision of public health measures and spread of education and literacy, redistribution of assets like land and curb on concentration of economic power. However, the dominant features that deserve special mention may be listed as: interventionist state, expansion of public sector, development of heavy industries, emphasis on import substitution. We may note that the last three are all in the industrial area.

Interventionist State

State will intervene in the market processes so that it secures adequate livelihood for the poor and brings down disparity among classes. It will make laws whereby intermediary interests in land are abolished and concentration of wealth is avoided. It will create institutions, which will promote agriculture, industry and trade. It will adopt such fiscal policy, which would promote growth and social justice both. It will have such monetary policy that would make adequate funds available to the industries, which are essential for the economy and/or which employ a lot of people. It would not allow free flow of foreign capital investment in the country and will direct the use, in case it allows. Keeping different interests in mind, it will determine the ownership, scale, and use of funds—particularly in industrial sphere. In short, the State will influence much of the economic activities of the private sector through various instruments like license and allocation of critical inputs, including foreign exchange under its control. This phase came to be known as license-permit-quota raj.

Expansion of Public Sector Role of the State particularly in relation to the industries was debated in the 1930s itself. While there was unanimity in the National Planning Committee that defence industries should be owned and controlled by the State, state control was considered in other

key industries as well. Much before we thought of formulating a plan, an Industrial Policy (Resolution, 1948) was already in place, which delimited the scope of public ownership of certain industries. We may note that at the time of independence, except the railways, there was nothing spectacular in economic sphere, which could be said to be in the public sector. Industrial Policy Resolution, 1956 clearly stated that ‘the State would assume predominance and direct responsibility for setting up new industrial undertakings and for developing transport facilities’. It was widely believed that the private sector would be interested in quick-yielding industries, which would give the owners large profits in a short time as well as industries which are less risky and have short gestation period. Moreover, the indigenous private sector did not have adequate capital either. In order to initiate and accelerate the process of development, large-scale investment was needed in infrastructure and in basic and key industries. Public sector was assigned to undertake this role. In short, the basic strategy was that the public sector assumed the responsibility of developing heavy and basic industries (steel, fuel and power, machine-building and chemical industries) and social and economic infrastructure (such as banks and other financial institutions, railways and airways, power, etc.) whereas the private sector was given the right to develop consumer goods industries and trade—almost whole of internal trade and most of external trade, besides agriculture, livestock, plantation and fishing etc. Public sector supposed/ expected to have the position of commanding heights.

Nationalisation Many private industries, for one or the other reasons were nationalised, presumably in overall national interest. Coal mining and exploration, extraction, refining and distribution of crude oil, not within the exclusive public sector, were nationalised for spurring growth. Many textiles mills were nationalised to protect labour. Banks were nationalised in many phases in 1956, 1969 and 1980 to make available credit to priority sector and to expand branches in unserved areas.

Development of Heavy Industries The development of heavy industries like engineering and machine-making industries, universal intermediaries like electricity, basic industries such as cement, heavy chemicals including fertilisers, metallurgy like iron and steel, aluminum and

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manganese, was accorded a priority. It was increasingly realised to develop our own machine-making capability as well production of steel, fuel, power and chemicals.

Import Substitution Substitution of home produced goods for imported goods wherever we could, was the common refrain at least since the mid-fifties of the twentieth century. Indigenous production of both capital goods needed by producers, and consumer goods, needed by the masses was given priority. It was viewed that development of some of these industries might require a kind of protection for some time 16 Development Strategies in India from competition from foreign goods. We should provide it. It will save us from pressure for export on the one hand and unnecessary borrowing on the other. Import substitution was primarily a strategy of industrialisation but secondarily a strategy to conserve foreign exchange, which was scarce due to limited export potential. But it could scarcely be said to be a non-import strategy. Reducing dependence on foreign inputs or foreign food would make vulnerable. We had experience of arm-twisting in general and within so-called aid. Therefore, we might have been extra-cautious. In spheres where we cannot do without importing, we did import. For example, importing crude petroleum was never to be substituted; only use has to be discouraged/economised first to conserve foreign exchange, later to preserve our environment. In fact, developmental and maintenance imports for industries in power and transport, export oriented industries, import-substituting industries, substitution of imports in consumer goods, particularly food, could definitely be our interest and that in energy, edible oils and nitrogenous fertilisers, was said once upon a time, could easily be seen as good. However, if we engaged in inefficient import substitution, we may not do much good. With this in view, a tilt towards export promotion was attempted rather early

Self-reliance Though nothing in the statement that Nehru made in April 1949 in the Parliament on foreign capital should have dissuaded flow of direct foreign investment but it was not coming for a variety of other restrictions varying from the field of operation to seeking strategic partnership with Indian firms to restrictions on repatriation on account of shortage of foreign exchange reserves etc. Foreign assistance or aid,

which is a euphemism for concessional loan, could not be depended upon for its political implication. So freedom from foreign aid, including food aid and critical inputs for our industries, should become nil in due course of time for they have geo-political implications. Moreover, this strategy has great historical roots. Yet we were far away from autarky in approach, which is sometimes suggested in literature. Various components discussed are so interlinked that one could be subsumed within another with ease. Therefore, many an analyst have chosen to describe the strategy of this phase as inward-looking policy/strategy or as autonomous development strategy.

9.6.2 Phase of De-regulation

The distinctive features of the phase two derive partly from the base, we have achieved by mid-1980s and partly for global trends of change. Our general policy in the second phase has been one of reforms. They are characterised in two ways. One is in terms of stabilisation and structural adjustment and the other, in terms of liberalisation, privatisation and globalisation, often referred to as LPG model. In the context of planning, which is more in the nature of long-term development, the second characterisation is more suitable. You will find the detailed discussion on LPG model in previous unit. In fact, since 1977 and especially after 1985-86, a series of economic reforms have been underway. As a result, in view of some of the economists, the longterm economic growth moved well beyond 5.5 per cent per annum compared to 3.5 per cent per annum during the first three decades. For example, import liberalisation and export promotion were pleaded for a long time by many committees set up by the Government. In mid-1970s, imports were categorised for graded restriction as: (i) banned, (ii) restricted and (iii) open general license. But real break came with EXIM Policy 1985 and then in 1990. Many more items, including consumer goods, were re-categorised under OGL category. Gulf War purchase of the crude oil at prevailing high prices put us under severe strain of foreign exchange, the reserves falling below two-weeks requirements. NRI deposits accumulated over 1980s fast depleted and international commercial banks refused to extend new credits. The other course of seeking loans

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from World Bank/IMF would mean a lot of conditionalities and advice. Since 1991, we charted a new path with many implications for planning. The detailed discussion on liberalisation, privatisation and globalisation has been provided in the next unit.

Check Your Progress 3

Note: i) Space is given below each question for your answer.

ii) Check your answer(s) with those given at the end of the unit.

1) Discuss salient features of planning strategy adopted in the first three decades of planning.

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2) Point out the important elements of inward-looking policy.

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3) Discuss salient features of the dominant strategy during the second phase.

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9.7 PERFORMANCE OF THE ECONOMY

Even though all achievements could not be attributed to the planning strategies adopted nor could it be said that the strategies did not change mid-way, it is a good idea to recount what we achieved in so many years since planning. In fact, to say that we achieved this and failed in that, rather is difficult. There is nothing like black and white. Things are actually gray and we could at most say that to this extent we achieved and to that extent we failed. It is normally with respect to Development Strategies in India to period as whole that performance is usually judged. One reason for it may be that we have taken a comprehensive view of planning—all sectors, whether economic in nature or of ownership, and

all fields of activities—economic or social. We refer, for this purpose, first to our long-term basic objectives of maximum production, full employment, reduction in inequality in income and wealth, and concentration of economic power. We then refer to some other areas too, which are more or less elaborations of these objectives.

Production

In the 1950s, 1960s and 1970s, we did not achieve a rate of growth beyond 3.5 per cent per annum on a long run basis and never met the targets set for a particular plan, which were normally more than 5 per cent per annum. It is difficult to assert that we did not fully exploit the potential or to say that our targets were realistic or reasonable. For example, for the First Plan we had set a very low target (1.8 per cent per annum) for rate of growth and achieved twice of it, thanks to good monsoon. During the Second Plan, we did better on growth front than the First Plan, we were unhappy as we could achieve only 4.2 per cent per annum while target set was 5.0 per cent annum. We miserably failed in Third Plan and achieved only annual average of growth rate of 2.4 per cent per annum (at 1980-81 prices) and 2.8 per cent per annum (at 1993-94 prices) against the target of 5.0 per cent per annum. Again this is due to wars with China in 1962 and with Pakistan in 1965 and curse of monsoon god in 1965-66. From the mid-1970s onward and definitely after 1979-80, one finds that the growth trajectory of the Indian economy got shifted from the path of 3.5 per cent per annum to the path of 5.5+ per cent per annum, though there were occasional setbacks. See the Table 9.2 below for Plan-wise growth rate.

Table 9.2: Plan wise Growth Rate

	Five Year Plan	Target	Achievement
1.	First Five Year Plan (1951-56)	2.1	3.6
2.	Second Five Year Plan (1956-61)	4.5	4.2
3.	Third Five Year Plan (1961-66)	5.6	2.7
4.	Fourth Five Year Plan (1969-74)	5.7	2.0
5.	Fifth Five Year Plan (1974-75)	4.4	4.8
6.	Sixth Five Year Plan (1980-85)	5.2	5.5
7.	Seventh Five Year Plan (1985-90)	5.0	6.0
8.	Eighth Five Year Plan (1992-97)	5.6	6.7
9.	Ninth Five Year Plan (1997-2002)	6.5	5.4

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On the whole, our rate of growth over the long stretch of more than 50 years was more than 4 per cent per annum. Taking rate of growth of population as 2 per cent per annum, our per capita income could be said to have risen by more than 2 per cent per annum. Thus, on an average, the people in the new millennium are living thrice better in comparison to their parents in the same age in the wee hour of Independence. More importantly, compared to first half of the twentieth century, our performance in the second half of the century was distinctly superior, 19 almost three-four times and within second half of the century, the later half did better than the first half, may be by more than 50 per cent. We need to recognise much we malign our earlier performance of planning. It laid the solid foundation to stand on, be it agricultural breakthrough, industrial diversification, spread of financial institutions or physical infrastructure. But perhaps more important is to know what was it that grew at whatever rate it did? If people are hungry, we ought to know whether we grew enough food. In 1951, we had in net terms less than 50 million tonnes foodgrains, including all cereals and pulses. Around the close of 1980s, we produced as much as 150 million tonnes and at the dawn of new millennium more than 200 million tonnes. In 1951, we imported around 5 million tonnes to feed ourselves. Normally, the situation was not that bad, our imports only improved food availability. While in early fifties, we had less than 400 grams of foodgrains per person, thanks to continued rise in domestic production over time by 1990 the per person availability rose to nearly 500 grams. This simply means our production in foodgrains grew at much faster pace than our population. However, we should remember that we faced very bad days in the mid-1960s when we had to import more than 10 million tonnes and we received food aid from other countries, chiefly the U.S. The U.S. once threatened to monitor food-aid on monthly basis. This forced us to usher in green revolution in the late sixties, a term for use of high-yielding variety seeds, intensive irrigation, chemical fertilisers, pesticides, etc. Thanks to its success our imports of foodgrains have been nominal. We even exported, on net basis, though at nominal scale in recent past but now our agri-exports are showing good spurt. As far as

other items of mass consumption are concerned, during the years under review, we improved our per capita consumption of edible oils and vanaspati, sugar, clothing, milk, eggs, fish and tea of electricity. However, except foodgrains, we were behind our targets and are behind many other developing countries. We needed to improve further. During the period under review, employment did not grow at a rate higher than that of population, resulting in the same rate of growth of the unemployed. The rate of unemployment, on a long run basis, continued to be the same with wide fluctuations over years, depending upon the peculiar circumstances. There was never a year when the level of economic activities in the economy demanded so much labour that we felt shortage, barring harvest seasons. Data on unemployment and poverty, on a comparable basis, is available from 1972-73/1973-74 only. Three findings deserve our attention:

1) Unemployment on usual status basis fluctuated between 1.6 per cent in 1972-73 and 3.9 per cent in 1977-78, being 2.5 per cent in 1983, 3.7 per cent in 1987-88, 2.5 per cent in 1993-94 and 2.81 per cent in 1999-2000;

2) On current daily basis, unemployment reduced from over 8.0 per cent person-days in early seventies to 6.0 per cent person-days in late eighties and back to around 8.0 in ninteens;

3) Poverty in terms of absolute number continued to be around 32 crore from 1973-74 to 1993-94 but reduced to 26 crore in 1999-2000;

4) Poverty in terms of proportion of people below poverty line reduced from around 55 per cent in 1973-74 to 39 per cent in 1987-88, 36 per cent in 1993-94 and 26 per cent in 1999-2000; and 20 Development Strategies in India

5) Proportion of the unemployed among the poor is less than that among the non-poor. Supposing that the trends were similar in the 1950s and 1960s, we can infer that, despite fluctuations in

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employment/unemployment by usual status, per person per day employment improved and wages improved. As a result, poverty reduced to some extent. However, low unemployment rate among the poor shows that the poor cannot remain unemployed as there is no other way they can get their livelihood. There were not enough employment opportunities for all that wages could rise adequately. Many people refer to such situation as jobless growth. Our growth pattern did not create enough opportunities is evident from the fact that the government had to run a number of programmes for creating supplementary self-employment opportunities or wage employment. Some of these programmes concentrated on small farmer/manufacturer/trader so that they employ themselves and earn their livelihood by producing gadgets or providing service.

Inequality We wanted to reduce inequality in the distribution of income and consumption as well as concentration of wealth. It is believed that in the initial stages of development, inequality tends to increase while the lot of everybody improves. We do not have practically any data on distribution of income over households. What we know is that the percentage of income tax payers has increased over the years and poverty as per centage of people below poverty line has reduced. In case of income tax payers, both the proportion and the absolute number of income tax payers rose. Size of the middle class has also risen both in proportion and number. However, unless we show that income of top 10 per cent has reduced from y1 per cent to y2 per cent during a long period of time, we cannot say much about reduction of inequality. In the case of total private consumption expenditure incurred by the households, it appears that share of bottom 40 per cent in rural areas, for each of its deciles, has improved. On the other hand, the share of bottom 80 per cent in urban areas, for each of its deciles, has worsened the case of total private consumption expenditure incurred by the households. Even then the rural-urban disparity is on the rise. Of the total 14 crore hectares of net sown area, we find that in the forty years since 1951, after stringent ceiling laws formulated in 1972, not even 20 lakh hectares were found to be surplus and only a little more than 10 lakh hectares were distributed to about 44 lakh persons-on an average a little over one acre. However,

time has resolved the issue to a great extent. In 1951, there were 72 million households of which 60 million were in the villages and 50 million might have had land. By 1991, there were 170 million households in the country of which 125 million would have been in the villages and 100 million holders. Average holding size is just 1.4 hectare. Thus, over time increase in population leading to division of holdings has hardly left 2 per cent holdings, which are in size bigger than 10 hectares and could be said to be large. Of course, they possess almost 20 per cent land. Modal class is one with less than 1 hectare. 21 Let us have a look at concentration of economic power in industrial (nonagricultural) sector, which we wanted to check while promoting industrial development. We know that there are government companies and there are private sector companies and in the latter case, public limited and private limited. Paid up capital used in government companies to be as much as in the non-government companies. Out of lakhs of companies (with 2.5 lakh registered factories), less than 2000 may be considered very big by any standards. With somewhat old data, companies with less than Rs. 100 crore, with average assets worth Rs. 27 crore, account for 83.7 per cent with total assets about 30 per cent whereas companies with more than Rs. 1,000 crore, with average assets worth Rs. 1,823 crore, account for less than 1 per cent and control assets worth 20 per cent. Now we discuss, in short, some of the other objectives, which were explicitly stated in later plans.

Poverty To begin with the idea was that strategy of growth along with redistribution of wealth, like land, of income through fiscal instruments of taxation, and of consumption by intervention in market of essential commodities through price control and public distribution, mass poverty would automatically be removed. Despite modest growth and operation of redistribution instrument, it was discovered that poverty was not reducing to a significant extent. Fifth Plan started the removal of poverty as its prime objective though a few supplementary programmes for poor sections of the society were launched during the Fourth Plan itself. Rigorous exercises were carried out. Controversies after controversies took place on methods of estimation. We find that poverty, as proportion of people below poverty line, did not reduce till 1973-74 but reduced

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thereafter from 56 per cent to 36 per cent by 1993-94 and 26 per cent in 1999-2000. Those below poverty line also came closer to poverty line. However, absolute number of poor remained 32 crore till 1993-94 to reduce to 26 crores in 1999-2000.

Diversification of Economic Activities Our industrial base, contributed by the public sector and supplemented by the private sector, got quite diversified by 1991 even though our growth rate was not rated very high. Many things, which we can produce, were not to be imported by necessity. Petroleum and petroleum products were being imported in order to conserve our own reserves. In any case we cannot do much in the area. Many heavy chemicals and fertilisers, which we had to import earlier, were being produced domestically. Contribution of agriculture to the GDP, which used to be around three-fifths in the early 1950s, has come down to less than one-fourth and that of services, which was less than one-fifth in the early 1950s, has gone up more than a half. Contribution of industries has increased from one-tenth to one-fifth.

Well-being and Welfare Many things have happened which do not get captured in what we have discussed above. Our life expectancy at birth (and at other ages) has more than doubled from around 32 years in 1951 to around 65 years in 2001, with female expectancy exceeding the male counterpart by 3 years. Infant mortality rate has considerably reduced from 140 per thousand in the fifties to 80 per thousand by the close of eighties and less than 70 per thousand by the close of the century, with good 22 Development Strategies in India differential between urban and urban scene, though it was yet very high in comparison to other countries. Our death rate came down to about 8 per thousand in 2001 from around 23 in 1951. By the way, birth rate too reduced to 30 per thousand by 1991 and about 20 in 2001 as against 45 per thousand in 1950s.

9.8 EVALUATION OF PLANNING

Planning seems to have lost its charm to many countries after collapse of the USSR in 1989 as a credo. Very few books are being published with title 'planning'. Complexion of national planning for development is drastically changing from 'doing by State' to 'watching by State' in so

far as economic sphere is concerned. Two major spheres still left with the State are physical infrastructure and social services. In former, public-private partnership is basically suggested as the major mode and in the latter, involvement of the NGOs is being recommended. In economic and financial sphere, it has to play the role of a regulator between players. Though a considerable chunk of economic activities still continue to be in public arena, no expansion is being sought. However, planning as a teleological exercise will continue to be important. We embarked upon comprehensive planning for the country as a whole within the policy framework of mixed economy. Despite a metamorphosis in the late 1980s and early 1990s in our major planks of strategy, we continue to hold on to the technique of planning, if not ideology. Strategy, as the term itself suggests, ought to be grounded in realities of time and therefore ought to change even if our objectives to be achieved continue to be the same. We can look at the scene with this perspective. Further, it is under State planning that we could be able to break-off from the colonial past in decisive manner. Not only that our growth trajectory changed from around 1 per cent annum in the first half of the 20th century to 3-4 per cent per annum in the third quarter and 5-7 per cent per annum in the last quarter but we could lay a solid foundation with diversification of economic activities, adequate production of foodgrains and competence in modern areas of technology.

Check Your Progress 4

Note: i) Space is given below each question for your answer.

ii) Check your answer(s) with those given at the end of the unit.

1) Do you think that well-being and welfare of the people has been enhanced by five year plans?

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2) Discuss the changing role of planning in the wake of globalisation.

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9.9 LET US SUM UP

We have learnt about the rationale for resorting to planning as also pre independence thought on planning. Planning machinery and roles of the Planning Commission and National Development Council have also been discussed. We adopted policy framework of mixed economy with comprehensive planning. While mixed economy means co-existence and mutual support of public and private sectors, comprehensive planning means our planning exercise will encompass economic and social spheres and public and private sector both. Next, we discussed objectives and differentiated between planning objectives and plan objectives. Planning objectives, which could be said to be long-term goals, were delineated as growth, employment and reduction in inequality to which could be added the goal of reducing inter-regional imbalance. Planning strategy has been divided in two phases; we called them as the phase of control and the phase of regulation. While in the early phase, our strategy revolved around tighter control on many important flows, in later phase still to continue, the State is increasingly withdrawing from doing and controlling except in a few spheres but developing regulatory framework. Main features of the early phase were outlined as interventionist state, expansion of public sector, development of heavy industry, self-reliance and import substitution. Main features of the latter phase were detailed as liberalisation, privatisation and globalisation to which were added programmes of directly attacking poverty. Finally, we discussed achievements and failures of planning as pursued in the last more than fifty years since 1951. We emphasised that we improved on all counts. Our growth rates accelerated in each subsequent period though our achievements fell short of our expectations. Our achievements were definitely commendable when we compare them with what was happening before independence. And this owes to our policy of planning for social and economic development. But we failed to some extent in

reducing poverty and banishing unemployment. We utterly failed in reducing concentration of wealth or economic power in industrial sphere

9.10 KEY WORDS

Globalisation: Globalization or globalisation is the process of interaction and integration among people, companies, and governments worldwide.

Privatization: Privatization can mean different things including moving something from the public sector into the private sector. It is also sometimes used as a synonym for deregulation when a heavily regulated private company or industry becomes less regulated.

9.11 QUESTIONS FOR REVIEW

- 1) Do you think that in the era of globalisation, privatisation and liberalisation, planning is still needed? Give reasons in support of your answer.
- 2) Critically examine the achievements and failures of planning in India.
- 3) In the wake of economic reforms, do you think that Government has abandoned the objective of social justice? Explain.
- 4) 'Public sector still has to play a crucial role.' Comment.

9.12 SUGGESTED READINGS AND REFERENCES

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- Gupta, S.P. (1989); *Planning and Development in India: A Critique*, Allied Publishers Private Limited, New Delhi.
- Krishnamachari, V.T. (1962); *Fundamentals of Planning in India*, Orient Longmans, Bombay.
- Planning Commission (2002); *Tenth Five Year Plan*, New Delhi.

9.13 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

- 1) i) Making assessment of the stock of material, capital and human resources; and ii) Formulation and appraisals of plans.
- 2) 2) See Section 9.3
- 3) 3) See Section 9.3

Check Your Progress 2

- 1) Planning objectives refer to long-term objectives whereas short-term objectives are called plan objectives.
- 2) From the point that states played role in regulating market functions, all economies are viewed mixed.
- 3) See Section 9.5

Check Your Progress 3

- 1) See Sub-section 9.6.1
- 2) See Sub-section 9.6.1
- 3) See Sub-section 9.6.2

Check Your Progress 4

- 1) See Section 9.7 under the sub-head 'Well-being and Welfare'.
- 2) See Section 9.8

UNIT 10: PLANNING COMMISSION TO NITI AAYOG

STRUCTURE

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Functions of Planning Commission
- 10.3 Planning Commission : Structure
- 10.4 National Development Council
- 10.5 Planning Procedure
 - 10.5.1 Five Year Plans
 - 10.5.2 Annual Plans
- 10.6 Role of Planning Commission
- 10.7 NITI AAYOG
- 10.8 Let us sum up
- 10.9 Key Words
- 10.10 Questions for Review
- 10.11 Suggested readings and references
- 10.12 Answers to Check Your Progress

10.0 OBJECTIVES

After reading this unit, you should be able to :

- explain the structure and functions of the planning Commission
- highlight the composition and role of the National Development Council
- discuss the process by which Five-Year and Annual Plans are formulated and the
- role of agencies involved in the process.

10.1 INTRODUCTION

India is a developing country. It does not yet fall under the category of economically advanced nations. But this was not the case always. In the seventeenth century we were economically more advanced than Europe. But it was the colonial rule and the impact of the industrial revolution

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which destroyed our economy resulting in widespread stagnation and poverty. Dadabhai Nauroji, writing in 1876, focused on the detrimental impact of British rule and the laissez-faire policy on the Indian economy. Many nationalist leaders stressed the point that for removal of mass poverty the state must play an active role. And that this was to be done by an independent and popular government. As the freedom struggle progressed these ideas got concretized and took the shape of National Planning Committee in 1938 under the Indian National Congress. However due to the Second World War, when most of the leaders were imprisoned, not much progress could be made in this sphere. Again in 1946, before the network of power, a Planning Advisory Board was appointed which recommend the appointment of a Planning Commission to devote total attention to the task of planned development. This unit will highlight the structure and functions of the Planning Commission and the National Development Council. The process of formulation of Five Year Plans which has been discussed in the previous block will also be dealt with in some detail. The planning process at the state, block and village levels will be explained in the subsequent units of this Block. We will now first look into the task assigned to the Planning Commission in independent India.

10.2 FUNCTIONS OF PLANNING COMMISSION

The role of the Planning Commission is directly related to the economic and social tasks assigned to the government by the Indian Constitution in its Directive Principles. The Directive principles of State Policy urge upon the state to secure right to adequate means of livelihood for its citizens and control the inequalities in the ownership of wealth and means of production. In other words, the state is required to ensure reduction in mass poverty which implies that it has to ensure growth in production and its equitable distribution among the various sections of people. In March 1950 when the Planning Commission was set up by a resolution of the Government of India it meant that the state had decided to play a major role in socioeconomic transformation as required by the Directive Principled of State Policy.

The functions of the Planning Commission with which you must be already familiar are as follows:

1) Planning Commission makes an assessment of the material, capital and human resources of the country, including technical personnel, and investigates the possibilities of augmenting such resources which are found to be deficient in relation to the nation's requirements;

2) Formulates a plan for the most effective and balanced utilization of country's resources;

3) On a determination of priorities, defines the stages in which the plan could be, carried out and proposes the allocation of resources for the due completion of each stage;

4) Indicate the factors which tend to retard economic development, and determine the conditions, which in view of the current social and political situation, should be established for the successful execution of the plan;

5) Determines the nature of the machinery which will be necessary for securing the successful implementation of each stage of the plan in all its aspects;

6) appraises from time to time the progress achieved in the execution of each stage of the plan and recommends the adjustments of policy measures that such appraisal may show to be necessary; and

7) makes such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it or on a consideration of prevailing economic conditions, current policies, measures and development programs or on an examination of such specific problems as may be referred to it for advice by the Central or state governments. In addition to the functions referred to above, the Planning Commission has been entrusted with responsibility in respect of

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the following matters as provided for by the Government of India
Allocation of Business Rules:

a) Public Cooperation in National Development;

b) Hill Area Development Programme;

c) Perspective Planning;

d) Institute of Applied Manpower Research; and

e) National Informatics Centre. The functions appear to be really colossal. But a little explanation will make them clear. In simple terms it means that the Planning Commission has been made responsible for almost all aspects of planning except its execution. To plan we must have a set of objectives or goals which we try to achieve like the growth of national income, reduction of the percentage of people below the poverty line and so on. We must also decide on the time-frame and the stages in which these goals are to be achieved. But to do this we need to estimate our resources. For example, do we have enough resources to give gainful employment to everyone in say five years? Together with estimating resources we must also determine a strategy by which we can make the best use of our limited resources. For example, the decision whether to use our foreign exchange for importing petrol or food has to be made or not? In short, the formulation of a plan implies the setting up of priorities and stages; estimating the resources and deciding on a strategy. This is the task of the Planning Commission. After the plan is formulated its execution is the responsibility of the Central ministries and the state governments which through their departments execute the plan by building bridges, setting up factories, importing oil and raising taxes. The Planning Commission has to keep an eye on the progress of the plan and must identify impediments and suggest remedial measures. Further it must also make a postmortem of the past plan and learn lessons which can then be used to build subsequent plans. Monitoring and evaluation of plans are therefore essentially the responsibility of the Planning

Commission. The Planning Commission is assisted in its tasks by the National Informatics Centre which runs a national computer based information and data system and by the Programme Evaluation Organisation which periodically undertakes detailed or quick studies of the implementation of selected development programmes for the Commission. Under the present scheme of things the National Informatics Centre and the Programme Evaluation Organisation are attached to the Planning Commission and together the three form the Department of Planning.

10.3 PLANNING COMMISSION: STRUCTURE

We have seen that the Planning Commission was set up by a resolution of the Government of India. It is therefore not a statutory body and the plans formulated by it have therefore no legal status. Further, we noted that its tasks are primarily the formulation, monitoring and evaluation of plans and not their execution or implementation. All this makes the Planning Commission appear as an advisory body though in practice it wields considerable amount of power. To understand this we have to understand the structure of the Planning Commission and its position relative to other governmental agencies. Let us now explain the internal structure of the Planning Commission.

Chairman

The Prime Minister of India has since the very inception been the Chairman of the Planning Commission. This has sometimes been a subject of difference of opinion. It lends status to the Planning Commission and is a great aid in coordinating functions of ministries. However, the Administrative Reforms Commission recommended against this practice. It must be noted that the Prime Minister attend only the most important meetings of the Commission which ensures that the Commission's proposals coming up before the cabinet are viewed objectively.

Deputy Chairman

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The day-to-day work of the Commission is looked after by a full-time Deputy Chairman who is usually a politician of standing belonging to the ruling party at the Centre. He has the rank of a Cabinet Minister although he/she may not necessarily be a member of the ministry. If this be the case, then for answering to the - Parliament a Minister of State, sometimes assisted by Deputy Minister, is given the portfolio of planning.

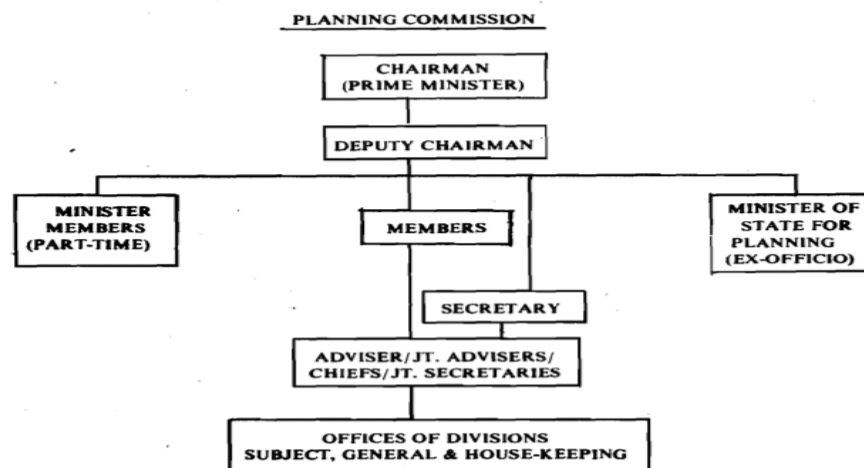
Members

There are two types of members of the Planning Commission in addition to the Minister of State for Planning who is also an ex-official member of the Commission. First, there are a few full-time members who are eminent public persons, administrators, economists' technical experts. In addition, the Commission has d its members a few important Cabinet Ministers who attend only the most important meetings of the Commission. The meetings of the Commission which all members, full-time and minister-members, attend are called the meetings of the full Commission. These are few and cover only important decisions. Otherwise the Commission consisting of full-time members alone meets frequently and acts as a team. The day-to-day work of the Commission is looked after by the Deputy Chairman and the full-time members. The full-time members are appointed by the Prime Minister after consulting the Deputy Chairman from among prominent public persons and experts. They are given adventures but normally continue till there is a change in government. Only in 1990 we had the odd case of three Planning Commissions in a single year (the full-time members were changed thrice). Each member looks after a specific set of subjects as indicated in Chart I. However, the Commission has collective responsibility and works as a collective body. While each member individually deals with the technical and other aspects of his/her allotted subjects, all important cases requiring policy decisions and cases of differences of opinion between members, are considered by the Commission as a whole.

Office of the Commission

The Commission is assisted in its tasks by an office comprising various technical and subject divisions. Each of the divisions is headed by a senior officer or expert often designated as the 'advisor'. However, officers with other designations like Chief Consultant, Joint Secretary, and Joint Advisor may also be put in-charge of divisions. The advisor normally has the rank of an Additional Secretary of the Government of India. The heads of divisions function under the guidance of the member in charge of the subject. The tasks of co-ordination and overall supervision and guidance of the work of the division, specifically relating to non-technical matters, is the responsibility of the Secretary, Planning Commission who is a senior civil servant. The divisions concerned with plan formulation, monitoring and evaluation are classified as (a) subject divisions and (b) general divisions. The subject divisions look after some specific subject areas like the agriculture division, education division, rural development division, transport division, etc. The number of subject divisions have gradually increased and at the end of March 1990 stood at eighteen. The creation of divisions seems to be based on short-term considerations. The general divisions are concerned with broad matters which have either to do with overall planning or with coordination or with technical matters which are relevant to all divisions. One example is the project appraisal division which is required to technically appraise large projects being undertaken by different departments other examples are perspective planning division concerned with long-term overall planning and the plan-coordination division responsible for coordination. In March 1990 there were eight general divisions. The functions of these divisions are (a) the setting up of steering groups and working groups to help in plan formulation, (b) the sponsoring of studies and seminars, (c) liaison with ministries for formulation of projects and schemes, (d) analyses of proposals received from ministries and (e) formulation of plans for ministries and states in specified subjects.

Chart I
The chart below will give you a clear picture of the structure of Planning Commission.



Clearly, therefore, the task of formulation of a plan is a massive effort requiring technical inputs of various kinds and specialised knowledge of the subjects. The precise manner in which national plans are formulated and concretised by the Planning Commission needs to be discussed in detail. This will also help in understanding the relation between the Commission and other agencies of the government. This discussion on the process of plan formulation will be taken up in section 10.5. But before that we need to look at the National Development Council, the other important body associated with national planning.

10.4 NATIONAL DEVELOPMENT COUNCIL

The National Development Council is the product of the Planning Commission's recommendations. In the draft outline of the First Five-Year Plan, the Commission recommended the need for a body comprising the central and state governments to enable the plans to have a national character. It laid down that "In a country of the size of India where the states have under the Constitution full autonomy within their own sphere of duties, it is necessary to have a forum such as National Development Council at which, from time to time, the Prime Minister of India and the Chief Ministers of States can review the working of the plan and its various aspects". The National Development Council was set up in August 1952 on the basis of a resolution of the Government of India. The Council is composed of the Prime Minister, the Chief Ministers of States and the members of the Planning Commission.

However, other central ministers who are not members of the Planning Commission also have attended the Council's meetings. Sometimes outside experts have also been invited to the Council's meetings whenever considered necessary. The functions of the National Development Council (NDC) as laid down in the Government of India resolution are as follows: 1) to review the working of the national plan from time to time; 2) to consider important questions of social and economic policy affecting national development; and 3) to recommend measures for the achievement of the aims and targets set out in the national plan, including measures to secure the active participation and cooperation of the people, improve the efficiency of the administrative services, ensure the fullest development of the less advanced regions and sections of the community and, through sacrifice borne equally by all citizens, build up resources for national development. As you can see for yourself the functions assigned to the NDC are fairly general. The NDC can take up almost any issue related to national development. In the past, the NDC has deliberated and decided on a number of diverse issues like inter-regional - disparities, panchayati raj, prohibition, agrarian cooperation and even irrigation levies. However, given the large size of the NDC and the fact that it comprises of very important and busy personalities it has not been possible for it to meet frequently and go into great details on specific matters. The NDC is required to meet at least twice a year though it has sometimes met more often. The agenda for these meetings generally include the approach paper to the Five Year Plan, the draft Five Year Plan and the final Five Year Plan. (These terms are explained in section 10.5). Other matters form a part of the agenda if raised by the Central or State governments. The Secretary of the Planning Commission is also the Secretary of the NDC. The decisions of the NDC have been in the nature of policy formulation. It would not be an exaggeration to call it the highest policy making body in the country. Though the NDC is a non-statutory advisory body which makes recommendations to the Central and State governments, the very stature of the Council has ensured that these 'recommendations' have the prestige of directives which are usually followed and obeyed.

Check Your Progress 1

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Note : i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

1) Discuss the functions of the Planning Commission.

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2) What is the structure of the Planning Commission?

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3) Highlight the role of the National Development Council.

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10.5 PLANNING PROCEDURE

A brief discussion has already been made on the planning process in Unit 9 of Block 2. In this section we shall try to familiarise ourselves with the planning process in the country in a little detail. But before that we must know the meaning of the term national plan. A national plan comprises the plans of the Central government, the State governments, the Central and State public-sector undertakings and the entire private sector of the economy especially the private corporate sector. If you take a look at any Five Year Plan document you will find the size of the plan-i.e. the amount of money that is proposed to be spent 'under different plan heads during the five years is broken up into public sector outlay and private sector plan outlay. The total is the proposed national plan outlay. The public sector plan is the more important part as the government has only indirect and limited control over what the private sector would spend during a five-year plan period. The private sector plan, in practice, is only slightly more than an estimate or a projection. The public sector plan, with which we shall be concerned here, is further divided into the Central plan and state plans indicating projects and schemes to be

launched by the different levels of governments. There is also an indication of the amounts to be spent and the projects and schemes to be undertaken by various departments and public sector undertakings. The preparation of the national plan therefore is a mammoth effort involving many parties and encompassing almost the entire economy. The, national plan, if it is to be a meaningful document, must therefore have the willing involvement and broad amend of the concerned parties. Thus every plan involves a large amount of discussions and meetinprs in addition to a considerable amount of technical work. Through discussions, by an interactive process, a consensus is built up by the Planning Commission. The need for building a consensus arises principally from the facts that India has a federal and democratic polity. The federal system lays down demarcation of powers between the central, the state and the concurrent lists. Planning as a subject falls under the concurrent list and is therefore the responsibility of both the Central and State governments. However, many areas like agriculture are the primary responsibility of the states while some others like communication are Central subjects. The national plan must therefore be able to carry along the Central ministries and state governments on a generally accepted course of action. Moreover, the democratic structure requires that the national plan is formulated through consensus and not by a Central 'Directive'. The people are to be persuaded and not coerced into accepting the plan. This involves widespread discussions and participation of non-departmental agencies. Besides involving a large number of specialised institutions like the Reserve Bank of India, the Central Statistical Organisation etc., the discussions are aimed at involving non-governmental institutions also like universities, research institutions and the press. Representatives of the people are also involved at various stages and the general public opinion is also sought to be gauged on the more important aspects of the plan.

10.5.1 Five Year Plans

This elaborate consensus-building process-the process of plan formulation-has three clearly distinguishable stages. The first and the preliminary stage involves the preparation of an 'approach' to the plan.

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The approach paper is a brief document broadly outlining the goals to be achieved during the proposed Five Year Plan period. The approach paper reflects the basic economic and social objectives of the political leadership (the government in power) and also has a background of a longterm (15 to 20 years) perspective. The approach paper is discussed by the full Planning Commission and then by the Union Cabinet and the NDC. The broad five year targets of the approach paper finally accepted are then given as guidelines to a number of Working Groups. These Working Groups are set up by and work with the assistance of the divisions of the Planning Commission. They are generally subject or area-specific and function under the concerned divisions. For example, the education division of the Planning Commission set up in August 1988 thirteen Working Groups on various aspects of educational development for the eight plan (1990-95). The Working Groups usually consist of economists, concerned technical experts and administrators in the concerned Central ministries and in the Planning Commission. The primary task of the Working Groups is to work out the detailed plans for each sector and sub-sector on the basis of the preliminary guidelines. They are expected to spell out the details of policies and programs needed for achieving the targets. Since there are a large number of research studies on many of the areas, the Working Groups are expected to benefit from them. In cases of gaps in knowledge, the concerned division often promotes specific research studies or holds seminars, etc. Thus a large amount of technical and detailed subject-specific work goes into this second stage of plan formulation. The state governments are encouraged to have their own Working Groups and the Central Working Groups are also expected to interact informally with their state counterparts. On the basis of the exercises done in the second stage, the Planning Commission prepares a 'draft' Five Year Plan. As in the case of the approach paper, the draft that gives tentative details of the plan is first discussed by the full Planning Commission and then by the Union Cabinet and is then placed before the National Development Council. The draft plan is subjected to public scrutiny in the third and final stage of plan formulation. It is discussed with and commented upon by various central ministries and state governments. Also the draft plan is published

(like the approach paper) for wide public discussions. The draft plan is discussed by the Parliament first in a general way and then in greater detail through a series of parliamentary committees which individual members join according to their preferences. In this stage the Planning Commission also holds detailed discussions of the plans of individual states. With each state the discussions are held at the experts' level as well as the political level culminating in a meeting with the Chief Minister. These meetings with Planning Commission and National Development Council state governments lead to an understanding between the Commission and the states regarding the details of the plan including central financial assistance, etc. On the basis of these various discussions at different levels with diverse parties and on the basis of reactions from elected representatives, experts and the general public the Planning Commission prepares the final plan document. This document is again scrutinized by the full-Commission, the Union Cabinet and the NDC. Thereafter, it is presented to the Parliament which after discussions gives its assent. In India the general approval of the Parliament is considered to be sufficient and no law is required for taking up the plan for implementation.

10.5.2 Annual Plans

The discussion above broadly highlights the formulation of Five Year Plans. In the course of actual implementation however the effective instrument is the annual plan. Due to delays in the formulation of Five Year Plans or due to political or significant economic changes during a Five Year Plan, a great deal of importance has come to be assigned to annual plans. Since a considerable part of the Central and State governments, expenditures are for plan-projects, the annual plan has become an integral part of the budgeting exercise at both the Central and state levels. It has also become an important feature of our federal financial structure. You are aware that the financial year in the government starts on 1st of April and the budget is prepared by February end. The task on the annual plan therefore has to start a few months earlier, usually around September, of the preceding year. The Planning Commission indicates to the state governments the important objectives of the annual plan and the likely quantum of central assistance they may

expect. The states then propose draft annual plans detailing, among other things, mobilisation of resources. These drafts are discussed in meetings, held in November-December every year, between the Planning Commission and state governments. The state annual plan outlays are decided in these meetings which also decide the important item of Central plan assistance. This channel of transfer of resources from the Centre to the States is outside the purview of the transfers recommended by the Constitutional body-namely, the Finance Commission. Fiscal transfers through the Planning Commission, a non-statutory and supposedly advisory body, has therefore been a subject of controversy. But this is the practice that is being followed. The state budgets are crucially dependent on annual plans, but so are the budgets of Central ministries. The Central ministries' budget allocations are also to a great extent dependent on the annual plans which are worked out in consultation with the Planning Commission. The Planning Commission therefore is in practice not merely an advisory body as it is supposed to be. It wields considerable power in the allocation of substantial volume of financial resources between Centre and States and between different departments. By going into details of developmental schemes and projects it fields considerable influence regarding their acceptance or substantial modification.

10.6 ROLE OF PLANNING COMMISSION

We have by now got a fair idea about how national plans are formulated. The functions of the Planning Commission and the NDC in this process must have also become clear. We have also seen how important these two bodies are despite the fact that they are non-statutory advisory bodies. This expectedly has been one of the subjects of controversy. The Planning Commission has been criticised for trying to assume the role of a super-cabinet and being yet another bureaucratic hurdle in the initiation of development schemes. However, diametrically opposite views have also been expressed. It is sometimes argued that the Commission is practically ineffective as it has little power in the process of implementation of the plans. And even during plan formulation, the Commission is guided more by political pressures or expediency than by

its expert judgement. The truth perhaps lies somewhere in between. As we have seen, the Planning Commission makes the plan but cannot do so without the active involvement of Central ministries, State governments, public sector undertakings and other agencies. Its non-statutory character perhaps helps the process as it is seen as an agency independent of the Central and State governments and ministries. It also has some control over plan implementation through the mechanisms of annual plans, project appraisal, plan allotments, etc. It is therefore neither an ineffective ornamental body nor a super-cabinet but merely a co-ordinator in the process of evolving a framework for governmental schemes and projects for development. In this process it also has to make compromises and give weightage to political considerations in addition to its own technical inputs. This brings us to the actual process of plan formulation which some believe has lost its meaning and has become merely a ritualistic and cumbersome exercise. We have seen that the process of plan formulation is a lengthy one and crucially dependent on the political leadership's development perspective. Therefore either due to political changes or due to the elaborateness of the process or other reasons, Five Year Plans are seldom prepared on time. The Eighth Plan's approach paper alone is ready after almost a year of the plan-period has passed. Annual plans however have been, continuing to be met as budget time tables have to be met. But annual planning in the sense of an overall, co-ordinated and directed multi-instrument governmental initiative is often absent. Significant changes need to be brought about in the planning procedure if its relevance is to remain. The final, and a related question, is that why should we have a Planning Commission? With planning going out of fashion in even the centrally planned economies and with the reemergence of the free-market economy ideology, this question is being increasingly asked. It is obviously related to the question 'why plan?'. The Department of Economic Affairs in the Ministry of Finance, it is argued, is adequate to decide upon macro-economic priorities and policies. The other ministries can decide similarly on sectoral matters'. But in India the economic role of the State involves not only macroeconomic policy formulation, as in fully capitalist countries, but also substantial public sector involvement in

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production and distribution. The public sector is a very substantial part of the Indian economy and has been developed keeping in view the Directive Principles of State Policy. The need for a Planning Commission arises from this fact. The role of the government in our mixed economy involves market regulation and public sector initiatives. The Planning Commission similarly is a product of the mixed economy logic. Its functions lie somewhere in-between those of the Department of economic Affairs and the planning agencies of centrally planned economies. As long as our commitment to a mixed economy continues the Planning Commission will remain relevant.

Check Your Progress 2

Note : 1) Use the space given below for your answers.

2) Check your answers, with those given at the end of the unit.

1) Discuss the procedure of formulation of Five Year Plan in India.

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2) In the course of actual implementation of plan the effective instrument is the annual plan. Discuss

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10.7 NITI AAYOG

The NITI Aayog (Hindi for Policy Commission) (abbreviation for National Institution for Transforming India) is a policy think tank of the Government of India, established with the aim to achieve sustainable development goals with cooperative federalism by fostering the involvement of State Governments of India in the economic policy-making process using a bottom-up approach. Its initiatives include "15 year road map", "7-year vision, strategy and action plan", AMRUT, Digital India, Atal Innovation Mission, Medical Education Reform, agriculture reforms (Model Land Leasing Law, Reforms of the Agricultural Produce Marketing Committee Act, Agricultural Marketing

and Farmer Friendly Reforms Index for ranking states), Indices Measuring States' Performance in Health, Education and Water Management, Sub-Group of Chief Ministers on Rationalization of Centrally Sponsored Schemes, Sub-Group of Chief Ministers on Swachh Bharat Abhiyan, Sub-Group of Chief Ministers on Skill Development, Task Forces on Agriculture and up of Poverty, and Transforming India Lecture Series.

It was established in 2015, by the NDA government, to replace the Planning Commission (योजना आयोग) which followed a top-down model. The NITI Aayog council comprises all the state Chief Ministers, along with the Chief Ministers of Delhi and Puducherry, the Lieutenant Governor of Andaman and Nicobar, and a vice chairman nominated by the Prime Minister. In addition, temporary members are selected from leading universities and research institutions. These members include a chief executive officer, four ex-official members and two part-time members. it doubled the current growth - developing self-sufficient cluster target growth of 8%.

On 29 May 2014, the Independent Evaluation Office submitted an assessment report to Prime Minister Narendra Modi with the recommendation to replace the Planning Commission with a "control commission." On 13 August 2014, the Union Cabinet scrapped the Planning Commission, to be replaced with a diluted version of the National Advisory Council (NAC) of India. On 1 January 2015 a Cabinet resolution was passed to replace the Planning Commission with the newly formed NITI Aayog (National Institution for Transforming India). The Union Government of India announced the formation of NITI Aayog on 1 January 2015. The first meeting of NITI Aayog was chaired by Narendra Modi on 8 February 2015.

Finance Minister Arun Jaitley made the following observation on the necessity of creating NITI Aayog, "The 65 year-old Planning Commission had become a redundant organisation. It was relevant in a command economy structure, but not any longer. India is a diversified country and its states are in various phases of economic development along with their own strengths and weaknesses. In this context, a 'one

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size fits all' approach to economic planning is obsolete. It cannot make India competitive in today's global economy." It is a reformation schemes of day-to-day lifestyles of the people of India.

1. To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States in the light of national objectives.
2. To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
3. To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
4. To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
5. To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
6. To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
7. To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
8. To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
9. To offer a platform for resolution of inter-sectoral and inter departmental issues in order to accelerate the implementation of the development agenda.
10. To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and

equitable development as well as help their dissemination to stakeholders.

11. To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
12. To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
13. To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned in above.

NITI Aayog has started a new initiative on the advice of Prime Minister Narendra Modi called NITI Lectures: Transforming India. The aim of this initiative is to invite globally reputed policy makers, experts, administrators to India to share their knowledge, expertise, experience in policy making and good governance with Indian counterparts. This initiative will be a series of lectures started with first lecture delivered by Deputy Prime Minister of Singapore Mr. Tharman Shanmugaratnam. He delivered lecture on subject called "India and the Global Economy" at Vigyan Bhavan, New Delhi. The Prime Minister spoke about the idea behind this lecture series and stated that his vision for India is rapid transformation, not gradual evolution.

On 31 August 2017, NITI Aayog developed a State Statistics Handbook that consolidates key statistics across sectors for every Indian State/UT. While the State data on crucial indicators is currently fragmented across different sources, this handbook provides a one-stop database of important State statistics.

10.8 LET US SUM UP

In this unit we have studied the functions of the Planning Commission which has also helped us in understanding the meaning of planning. We have examined the structure of the Commission and its office. The role and composition of the National Development Council have also been examined. We gained some insight into the plan formulation process and

the manner in which different agencies interact in this process. Finally, we discussed a few current controversies regarding the role of the Planning Commission.

10.9 KEY WORDS

Directive Principles of State Policy : Chapter IV of our Constitution contains the Directive Principles of State Policy (Article 35-51). These are in the nature of general directions or institutions to the State. They embody the objectives and ideals which the Union and state governments must bear in mind, while formulating policy and making laws. The Directive principles are not legally enforceable by any court and the State cannot be compelled through the courts to implement them. Nevertheless, the Constitution declares that they are fundamental in the governance of the country and that it shall be the duty of the State to apply these principles in making laws.

Laipsez Faire Policy : It is the policy that is based on the idea that the government and the law should not interfere with business and other economic activities.

Macro Economic Policy : Policy relating to the national economic system as a whole. For example, policy relating to total employment, the level of prices and production in the entire economy.

Monitoring : It means keeping a check on the progress of a plan, project or scheme during the course of its implementation.

Perspective Planning : Long term overall planning taking into view all aspects of socio-economic problems.

Poverty Line : It is defined as the income necessary to purchase foodgrains to fulfil a minimum standard of calories food intake.

Project raised : Evaluation of a project in order to estimate its achievements as against the established goals, estimated cost, time and resources.

10.10 QUESTIONS FOR REVIEW

- 1) Discuss the procedure of formulation of Five Year Plan in India.

- 2) In the course of actual implementation of plan the effective instrument is the annual plan. Discuss

10.11 SUGGESTED READINGS AND REFERENCES

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10.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) Your answer should include the following points : Planning Commission plays a major role in socioeconomic transformation of the country it makes an assessment of the available resources investigates the possibilities of augmenting these resources formulates a plan for the most effective and balanced utilisation of country's resources defines the stages in which the plan should be implemented indicates the factors that retard economic development and determines the machinery required for successful implementation of the plan / monitors the progress achieved in the execution of each stage of the plan.

2) Your answer should include the following points : 1) Planning Commission consists of a Chairman, who is always the Prime Minister, a Deputy Chairman, part-time members (ministers), full-time members, Minister of State for Planning as an ex-officio member, advisers, v secretaries and offices of subject, and general divisions.

3) Your answer should include the following points : National Development Council came into being to enable the Five Year Plans to have a national character as it is a body comprising representatives of states' and central governments as it reviews the working of the national plan from time to time as it considers important questions of social and economic policy affecting national development', as it recommends measures for the achievement of the aims and targets set out in the national plan as it suggests measures to Secure active participation and cooperation of the people, improve administrative efficiency, ensure balanced regional development and the development of the less advanced sections of the country it aims at building up resources for national development.

Check Your Progress 2

1) Your answer should include the following points : a) preparation of an 'approach' to the plan as a discussion on approach paper by Planning Commission and setting up of five year targets as the Working Groups of Planning Commission work out the detailed plans for each sector and

sub-sector they spell out the details of policies needed for achieving the plan targets a the Central and state governments have their own 'Working Groups a Planning Commission prepares a 'draft' Five Year Plan which is first placed before the Union Cabinet and then the National Development Council the draft plan is subjected to public scrutiny a the draft plan is discussed by the Parliament and by the Parliamentary Committees a Planning Commission also holds discussion on plans of individual states final document is prepared after the meetings of the Planning Commission with states, diverse parties, experts and general' public a the final document is then approved by the Union Cabinet and the NDC a finally it is presented to the Parliament and approved by it.

2) Your answer should include the following points: a since a considerable part of the central and state governments' expenditures are for plan-projects the annual plan has become an integral part of the budgeting exercise a the work on the annual plan starts usually around September Planning Commission indicates to the state governments the important objectives of the Annual Plan it also indicates the likely quantum of central assistance they may expect states propose draft annual plans the drafts are discussed thoroughly and state annual plan outlays are decided state budgets are dependent on annual plans Central ministries' budget allocations are dependent on their annual plans.

UNIT 11: LIBERALIZATION

STRUCTURE

11.0 Objectives

11.1 Introduction

11.2 Liberalisation

11.3 Globalisation

11.4 Privatisation

11.5 Liberalisation, Globalisation and Privatisation: To work for a Common Goal

11.6 Review of Economic Reforms related to Liberalisation, Globalisation and Privatisation

11.7 Let us sum up

11.8 Key Words

11.9 Questions for Review

11.10 Suggested readings and references

11.11 Answers to Check Your Progress

11.0 OBJECTIVES

After reading this unit you should be able to:

- develop a clear understanding about the concepts of liberalisation, globalisation and privatisation
- understand and appreciate the interrelationship between liberalisation, globalisation and privatisation
- understand the merits and demerits of the economic reforms undertaken in relation to liberalisation, globalisation and privatization.

11.1 INTRODUCTION

Economic Reforms in India commenced during the year 1985 after Rajiv Gandhi took over as Prime Minister. The Prime Minister in his first national broadcast said: The public sector has entered into too many areas where it should not be. We shall open the economy to the private sector in several areas hither to restricted to it.” Consequently, a number of measures were taken to remove controls, open areas to private sector

players. This may be described as the first phase of liberalisation. Some of the measures initiated by his government were:

- Cement was decontrolled and a number of licenses were issued to private sector units to produce cement.
- The share of free sale sugar was increased to help the sugar industry.
- The ceiling on asset limit of big business houses was raised from Rs. 20 crores to Rs. 100 crores.
- 94 drugs were delicensed and brought out of the purview of the MRTP Act.
- Electronics industry was freed from the restrictions of the MRTP Act. Foreign firms were welcomed in this area.
- A Scheme of broad banding was introduced.

This implies that within the overall capacity, firms were free to produce a range of com Economic Reforms Since 1991 34 For instance, in lieu of the license to produce up to 350 c.c. engines capacity, firms were allowed to produce two- wheelers of any type – scooter; motorcycles, mopeds etc. The process of broadbanding was extended to 25 categories of industries. These industries included four- wheelers, chemicals, pharmaceuticals, petro- chemicals, and typewriter of all types- manual and electronic. The industrialists were not required to take a license of each and every item in a group, but were entitled to the production of a range of products within a group. However, Rajiv Gandhi did not take a very strong and categorical position on the issue of privatisation and globalisation, though some liberalisation of the economy did take place. It was only when P.V. Narsimha Rao took over as Prime Minister in 1991 that a new industrial policy was announced which marked a sharp departure from the earlier policy of 1956. An unprecedented balance of payments crisis emerged in early 1991. The current account deficit doubled from an annual average of \$2.3 billion or 1.3 percent of GDP during the first half of the 1990s, to an annual average of \$5.5 billion or 2.2 percent of GDP during the second half of the 1990s. For the first time in modern history, India was faced with the prospect of defaulting on external commitments since the foreign currency reserves had fallen to a mere \$1 billion by mid-1991. The balance of payments came under

severe strain from one liquidity crisis experienced in mid-January 1991 and another in late June 1991. There were three aims of Economic policy:

- Liberalisation
- Globalisation
- Privatisation

11.2 LIBERALISATION

The main aim of the liberalisation was to dismantle the excessive regulatory framework that curtailed the freedom of enterprise. Over the years, the country had developed a system of “licence–permit raj”. The aim of the new economic policy was to save the entrepreneurs from unnecessary harassment of seeking permission from Babudom (the bureaucracy of the country) to start an undertaking. Similarly, the big business houses were unable to start new enterprises because the Monopolies and Restrictive Trade Practices (MRTP) Act had prescribed a ceiling on asset ownership to the extent of Rs.100 crores. In case a business house had assets of more than Rs.100 crores, its application after scrutiny by the MRTP Commission was rejected. It was believed that on account of the rise in prices this limit had become outdated and needed a review. The second objection by the private sector lobby was that it prevented big industrial houses from investing in heavy industry and infrastructure, which required lump sum investment. In order that the big business could be enthused to enter the core sectors- heavy industry, infrastructure, petrochemicals, electronics etc., with big projects, the irrelevance of MRTP limit was recognized and hence scrapped. The major purpose of liberalisation was to free the large private corporate sector from bureaucratic controls. It, therefore, started dismantling the regime of industrial licensing and controls. In pursuance of this policy, the industrial policy of 1991 abolished industrial licensing for all projects except for a short set of 18 industries. On April 14, 1993, the Cabinet Committee on Economic Affairs decided to remove three more items from the list of 18 industries reserved for compulsory licensing. The three items were; motor cars, white goods (which include refrigerators,

washing machines, air-conditioners, microwave ovens etc) and raw hides and skins and patent leather. In the case of cars and white goods, the basic purpose of dereservation was to increase investment in industries in procuring cars and white goods so that the demand of the large middle class ranging from 250 to 300 million can be satisfied.

These commodities are no longer considered as luxury goods, but are considered domestic gadgets to reduce the drudgery of domestic work. Liberalising the automotive sector led to better designs in two wheelers, unleashing the urge to compete in global markets and widening the domestic markets through better quality and standards. It should be of interest to know that a car has 20000 components— all manufactured in the small industry sector. The automotive component manufacturing in the small-scale sector suddenly started looking up and by the turn of the decade of reforms, the component manufacturing captured global markets. The government, in response to the market demand, liberalized the industries producing these goods and freed them from industrial licensing. Therefore, liberalization led to globalization. The abolition of licensing for raw hides and skins and patent leather is motivated by the desire to push up exports. Since the potential for leather and good quality shoe exports is very large, the government decided to abolish licensing so that large-scale units could realize this potential by the use of modern technology

The List of Industries in which Industrial Licensing is Compulsory :

1. Coal and Lignite
2. Petroleum (other than crude) and its distillation products
3. Distillation and brewing of alcoholic drinks
4. Sugar
5. Animal fats and oils
6. Cigars and Cigarettes of tobacco and manufactured tobacco substitutes
7. Asbestos and asbestos-based products
8. Plywood, decorative veneers and other wood based products
9. Raw hides and skins, leather, chamois leather and patent leather
10. Tanned or dressed furskins
11. Paper and newsprint except bagasse-based units

Notes

12. Aerospace and defence equipment : all types
13. Industrial explosives
14. Hazardous chemicals
15. Drugs and pharmaceuticals

This long list also got truncated to six by 1999.

11.3 GLOBALISATION

Globalisation is primarily economic phenomenon, involving the increasing interaction, or integration, of national economic systems through the growth in international trade, investment and capital flows. A rapid increase in crossborder social, cultural and technological exchange is part of the phenomenon of globalisation.

Economic Reforms : Liberalisation, Globalisation and Privatisation
Economic Reforms Since 1991 Globalisation intends to integrate the Indian economy with the world economy. Globalisation is considered to be an important element in the reforms package. It has four parameters :

(i) Reduction of trade barriers so as to permit free flow of capital and services across national frontiers;

(ii) Creation of an environment in which free flow of capital can take place;

(iii) Creation of an environment permitting free flow of technology among nation-states; and

(iv) Creation of an environment in which free movement of labour can take place in different countries of the world. The advocates of globalisation, especially from the developed countries, limit the definition of globalisation to only three components viz., unhindered trade flows, capital flows and technology flows. They insist that the developing countries accept their definition of globalisation and conduct the debate on globalisation within the boundaries set by them. But several economists and social thinkers in developing countries believe that this definition is incomplete. If the ultimate aim of the globalization

movement is to integrate the world into one global village, then the fourth component of unrestricted movement of labour cannot be left out. But whether the debate about globalisation is carried out at the World Trade Organisation (WTO) or at any other international forum, there is a deliberate effort to black out 'labour flows' as an essential component of globalisation. To pursue the objective of globalisation, the following measures have been take:

(i) Reduction of import duties: There has been a considerable reduction in import duties. A reduction in import duties and the extension of MODVAT credit on taxes paid on inputs have been important measures for improving efficiency of the tax system. By 1990 import duties were 300 percent or more for several items and above 200 percent for many items. Peak rates were progressively reduced during the 1990s to reach 35 percent in 2001- 02. The median tariff rate was brought down to 25 percent in the 2003-04 budget. It is supposed to come down to 15 percent during 2004-05. Besides this, the government has attempted to rapidly dismantle quantitative restriction on imports and exports. It has also undertaken adjustment of exchange rate so as to remove over-valuation of currency. This has helped in stepping up exports. On the 8th February, 1997 the Commerce Ministry removed restrictions on 162 items for imports. Out of them, items were moved from Special Import License (SIL) to free imports. Among these items are escalators and moving walkways, cable cars, burglar and fire alarms, cameras of all kinds, auto-bank note dispensers, industrial vacuum cleaners and various kinds of glassware. Besides this, 93 items were moved from industrial to SIL (Special Import License) list which included photographic films rubber stoppers, aluminum beverage cans, car air-conditioning machines, cosmetic perfumes, picture tubes below 14 inches and a wide range of office machines. By April 2001, all the quantitative restrictions on imports were removed. Only a few items have been retained for exports through State Trading enterprises.

Notes

(ii) Encouragement of foreign investment: The government has taken a number of measures to encourage foreign investment. The main measures taken in this regard are:

a) Approval would be given for direct investment upto 51 per cent foreign equity in high priority industries as per Industrial Policy of 1991. There shall be no bottlenecks of any kind in this process. Such clearances will be given if foreign equity covers the foreign exchange requirements for imported capital goods. On the 31st of December, 1996 the Cabinet gave its assent to a new list of industries whereby joint ventures with upto 74 per cent foreign equity would be cleared automatically. Among the industries listed for the purpose are: Mining services such as oil and gas fields services., basic metals and alloy industries, other manufacturing industries related to the items based on solar energy like solar cells, cookers, air and water heating systems, small hydro-equipment, construction and maintenance of roads, bridges, tunnels, pipelines, ropeways, ports, harbours and runways, electric generation and transmission and other infrastructure. The basic purpose of this move is to facilitate direct foreign investment in India.

b) To provide access to international markets, majority foreign equity holding up to 51% equity would be allowed for trading companies primarily engaged in export activities.

iii) Encouragement to foreign technology agreement: The Industrial Policy of 1991 undertook the following measures:

a) Automatic permission will be given for foreign technology agreements in high priority industries up to a lump sum payment of Rs.1crore, 5% royalty for domestic sales and 8% for exports, subject to total payments of 8% sales over a 10 year period from the date of the agreement or 7 years from commencement of production.

b) In respect of other industries, automatic permission would be given if no free foreign exchange were required for any payments.

c) No permission will be necessary for hiring of foreign technicians and foreign testing of indigenously developed technologies.

11.4 PRIVATISATION

Privatisation deals with the transfer of businesses from the state to the private sector. This commonly involves complex contractual structures to be put in place, and the industries concerned are usually closely regulated. Privatisation in narrow sense indicates transfer of ownership of a public sector undertaking to private sector, either wholly or partially. But in another sense, it implies the opening up of the private sector to areas, which were hitherto reserved for public sector. Such deliberate encouragement of investment to the private sector in the economy, will over a period of time increase the overall share of the private sector in the economy. This is the broader view in which privatisation of the economy can be effected. The basic purpose is to limit the areas of the public sector and to extend the areas of private sector operation including heavy industries and infrastructure. Privatisation is, therefore, a process of involving the private sector in the ownership or operation of a state owned or public sector undertaking. It can take three forms:

- (i) Ownership measures;
- (ii) Organisational measures; and
- (iii) Operational measures.

Economic Reforms : Liberalisation, Globalisation and Privatisation
Economic Reforms Since 1991

(i) Ownership measures: The degree of privatisation is judged by the extent of ownership transferred from the public enterprises to the private sector. Ownership may be transferred to an individual, co-operative or corporate sector. This can have three forms:

a) Total decentralization implies 100 per cent transfer of ownership of a public enterprise to private sector.

Notes

b) Joint Venture implies partial transfer of a public enterprise to the private sector. It can have several variants – 25% transfer to private sector in a joint venture implies that majority ownership and control remains with the public sector. 51% transfer of ownership to the private sector shifts the balance in favour of the private sector, though the public sector retains a substantial stake in the undertaking. 74% transfer of ownership to the private sector implies a dominant share being transferred to private sector. In such a situation, the private sector is in a better position to change the character of an enterprise.

c) Liquidation implies the sale of assets to a person who may use them for the same purpose or some other purpose. This solely depends on the preference of the buyer.

d) Workers' co-operative is a special form of decentralization. In this form, ownership of the enterprise is transferred to workers who may form a cooperative to run the enterprise. In such a situation, appropriate provision of bank loans is made to enable workers to buy the shares of the enterprise. The burden of running the enterprise rests on the workers in a workers' Co-operative. The workers become entitled to ownership dividend besides getting wages for their services.

(ii) Organizational measures include a variety of measures to a limited state control. They include :

a) A holding company may be designed to taking top-level major decisions with sufficient degree of autonomy for the operating companies in its hold in their day-to- day operations. A big company like the Oil & Natural Gas Commission (ONGC), Steel Authority of India (SAIL) or Bharat Heavy Electricals Limited (BHEL) may acquire a holding status, thereby transferring a number of functions to its smaller units. In this way, a decentralized pattern of management emerges.

b) Leasing: In this arrangement, the government agrees to transfer the use of assets of a public enterprise to a private bidder for a specified period, say of 5 years. While entering into a lease, the bidder is required to give an assurance of the quantum of profits that would be made available to the state. This is a kind of tenure ownership. The government reserves the right to review the lease to the same person or to grant the lease to another bidder depending upon the circumstances of the case.

c) Restructuring is of two types: financial restructuring and basic restructuring.

(1) Financial restructuring implies the writing off of accumulated losses and rationalization of capital composition in respect of debt-equity ratio. The main purpose of this restructuring is to improve the financial health of the enterprise.

(2) Basic restructuring is said to occur when the public enterprise decides to shed some of its activities to be taken up by ancillaries or small-scale units.

(iii) Operational measures: The efficiency of public sector enterprises depends upon the organisational structure. Unless this structure grants a sufficient degree of autonomy to the operators of the enterprise or develop a system of incentives, it cannot raise its efficiency and productivity. These measures include:

(a) grant of autonomy to public enterprises in decision making,

(b) provision of incentives for workers and executives consistent with increase in efficiency and productivity,

(c) freedom to acquire certain inputs from the markets with a view to reducing costs,

(d) development of proper criteria for the investment planning, and

(e) permission to public enterprise to raise resources from the capital market to execute plan of diversification/expansion. The basic purpose of operational measures is to infuse the spirit of private enterprise.

Check Your Progress 1

Note: i) Space is given below each question for your answer.

ii) Check your answer(s) with those given at the end of the unit.

1. What is meant by Liberalisation?

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.....
.....

2. What is Globalisation?

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.....
.....

3. What is Privatisation?

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.....
.....

**11.5 LIBERALISATION,
GLOBALISATION AND PRIVATISATION:
TO WORK FOR A COMMON GOAL**

Liberalisation, globalisation and privatisation are all means to achieve certain ends of the society, just as nationalization and regulatory framework were intended to achieve certain goals. These are: 1. To achieve high rate of growth of national and per capita income; 2. To achieve full employment; 3. To achieve self-reliance; 4. To reduce the inequality of income and wealth; 5. To reduce the number of people living below the poverty line; 6. To develop a pattern of society based on equality and absence of exploitation. It is true that the operation of the public sector and the regulatory framework resulted in certain problems as we notice in detail in the next unit. Let us summarise these problems: The

excessive development of bureaucratic controls began to act as shackles on growth; Overstaffing in public sector enterprises leads to an increase in cost of operation; Low rate of return on investment in public sector; Poor work ethic in public sector enterprises due to excessive job security and absence of incentives for better work; Entry of public sector in areas of consumer goods for which it was never meant. Thus, this unnecessary expansion resulted in absence of focus and dilution in the quality of management; Some public sector enterprises were incurring losses year-after year and as such had become a burden on the ex-chequer, instead of being an asset to the nation. The measures undertaken, whether under liberalisation, globalisation or, privatisation are all designed to rectify these problems so that working of the economy becomes more efficient and the rate of growth of the economy improves. Higher rate of growth, it is felt, is the remedy to improve the level of employment, to reduce poverty and to assure a better living standard to the people. It would, therefore be necessary to review economic reforms and study their impact during the last 5 years o

11.6 REVIEW OF ECONOMIC REFORMS RELATED TO LIBERALISATION, GLOBALISATION AND PRIVATISATION

The advocates of the reforms process claim a number of achievements. Critics of reforms have drawn attention to various aspects of reform. However, there seems to be a general agreement among all political parties that the reforms are a historical necessity and it would not be possible to reverse the reform process. Even the left parties, after the collapse of Soviet Union, have veered round the view that reforms in the form of liberalisation, privatisation and globalisation will have to be undertaken. The focus of the debate is to ensure that whereas the reform process has helped to accelerate the growth, the benefits of the growth have not percolated to poor and weaker section of the society. It would, therefore, be desirable to consider the various arguments so as to understand the manner in which the measures taken need to be modified so as to achieve the objective of growth with the social justice.

Notes

The Common Minimum Programme of the Congress-led united front in 2004-05 resolved to restrict privatization only to the loss making enterprises. There would be no further shedding of public sector enterprises that are being run profitably as was done by the National Democratic Alliance led by the Bharatiya Janata Party. Accordingly, the erstwhile independent Ministry of Disinvestment was converted to one department in the Ministry of Finance with the Union Government.

Table 11.1: Growth Rate of Gross Domestic Product

Year	Growth Rate (at 1993-94 prices)
1997-98	4.8%
1998-99	6.5%
1999-00	6.1%
2000-01	4.0%
2001-02	5.4%
2002-03	6.2%

Higher Growth Rate achieved: The average growth rate of over 6 per cent during the last 10 years (1992-93 to 2002-03) is an achievement of the reform process. This would result in an average 4 per cent growth rate of per capita GDP. This is an achievement, which has not been witnessed earlier during the last 50 years of planning.

Control of Inflation: The first four years of the 1990s registered double-digit inflation based on the wholesale price index, (WPI) with a 13.6 percent peak reached in 1992-93 (Table 19.2). High fiscal deficits, devaluation of the rupee, periodical increases in administered prices (especially in official procurement and issue prices of food grains), weather conditions, shortages of some commodities of common consumption, and large money creation due to acquisition of foreign currency reserves contributed, in varying degrees, and at different points of time, to the relatively higher inflation in the first half of the 1990s. However, from 1995-96 onwards, there has been a continuous deceleration and the average inflation for the period 1996-97 to 2000-01 is by far the lowest since the mid-1950s in terms of the 52-week average. The point-to-point average inflation rate for this period is the lowest since the early 1960s. The developments in the economy since 1996 have

been conducive to a decline in the inflation rate. Importantly, on the demand side, there has been a 41 noteworthy change in the source of reserve money creation. Over the decades, monetization of the budgetary deficits by the Reserve Bank of India (RBI) had accounted for a predominant part of reserve money creation and the resultant growth, often excessive, in money supply. Since 1996-97, monetization of the budget deficit has declined sharply. During 1993 and 1994, primary liquidity was created mainly in the process of the RBI accumulating foreign currency reserves due to large inflows of foreign investment. With interest rates rising in most industrial economies, the impact of the Mexican crisis and the steps taken by the government of India to regulate the recourse of Indian industry to foreign financial markets, these inflows moderated. As government's borrowing is still very high and demand for commercial credit expected to pick-up pace, satisfying both the government and enterprise sectors will pose a difficult challenge to the monetary authorities who would like to restrain money growth to keep inflation under check. However, as pressures for reserve money creation come down, the RBI should be in a better position to balance the objectives of economic growth and moderation in prices. Satisfactory production of both food and non-food crops should keep the inflationary expectations subdued. Supply side management would be facilitated by large food stocks of 58 million tonnes as of January 2002 and high foreign exchange reserves of US\$119bn as at the beginning of June 2004. Releases of food stocks into the open market and through the public distribution system should keep cereal prices under check. The public stocks can also be used for food-for-work programs. Commodities such as sugar, edible oils and cotton, which were in short supply in the mid-1990s, have already been placed on the open general license and are thus freely importable. The record of the measures to control inflation has been mixed. During 1992-93, wholesale price index (WPI 1981-82 =100) rose by merely 7 per cent as against the price increase by 13.7 per cent during 1991-92. but the situation again took a turn for the worse during 1993-94 and 1994-95, and the WPI rose by 10.8 per cent and 10.4 per cent respectively. Thereafter, due to strong measures taken during 1995-96, the rate of inflation slowed down to 5 per cent.

Notes

Table 11.2 Wholesale and Consumer Price Index in India Variation (per cent) : Point to point

Year	Wholesale price index (1993-94 = 100)	Consumer price index of industrial workers (1982=100)	Consumer price index for agricultural labour (1986-87=100)
1998-99	5.3	8.9	8.8
1999-00	6.5	4.8	3.4
2000-01	5.5	2.5	-2.0
2001-02	1.6	5.2	3.0
2002-03	6.5	4.1	4.9
2003-04	4.5	3.5	2.5

Source: Economic and Political Weekly 13-19 March 2004.

However, the impact of inflation on the common man is measured by the consumer price index (CPI). Comparable figures of rise of CPI for industrial workers during the last 5 years reveal that CPI for industrial workers has been rising more or less in the range of about 10 per cent per annum. Similarly the Consumer Price Index for Agricultural Labourers (CPIAL), which is a more comprehensive index to measure the welfare of rural workers, which has shown an average rise of over 10 per cent during the four years 1991-95, started down-town on a sustainable basis. This has proved the strength of Economic Reforms : Liberalisation, Globalisation and Privatisation Economic Reforms Since 1991 42 reform process in at least one area. Consequently, the real incomes in the hands of the poor in 2003-04 were higher than in the initial years. This has serious welfare implications.

Reform of the Public Sector: The major aim of economic reforms is to improve the public sector so that the rate of return improves. To remedy the situation, it was necessary that over-staffing of the public sector undertakings (PSUs) be reduced. The government has already taken steps in this direction by its voluntary retirement scheme (VRS). For this purpose, the government set up the National Renewal Fund (NRF) to provide compensation for voluntary retirement and also arrange for retraining and redeployment of workers. In 1990-91, there were 22.19 lakhs employees in PSUs of the Central Government, but in 1994-95

their number has been reduced to 20.41 lakhs. This implies that, as a result of the VRS, overstaffing has been reduced by 1.78 lakhs. In other words, employees strength has been reduced by 8 per cent. Under the NRF, an amount of Rs.542 crores was provided in 1993-94 and Rs. 261 crores in 1994-95. But a major complaint about the working of the NRF is that the entire amount has been used for providing compensation for voluntary retirement scheme (VRS) and the function of retraining and redeployment of workers has been neglected. Whenever the government tried to privatize any public sector undertaking, the opposition to the movement was so strong that the government did not succeed. The government under the provisions of Sick Industrial Companies Act (SICA) referred the cases of sick PSUs to the Bureau for Industrial and Financial Reconstruction (BIFR). Upto 31st March 1995, 53 Central sick public sector undertakings were registered with BIFR. The BIFR has taken a decision for the revival of Indian Drugs and Pharmaceuticals Ltd., Orissa Drugs and Chemicals Ltd., Smith Stanistreet and Pharmaceuticals Ltd. Bharat Brakes and Valves Ltd., Bienco Lawrie Ltd, and Bengal Immunity Ltd. It has also decided to wind up some PSUs. They are: National Bicycles Corporation of India Ltd., Elgin Mill Co. Ltd., British Indian Corporation Ltd., Cawnpore Textile Ltd and Tannery and Footwear Corporation Ltd. The cases of other registered Public Sector Enterprises are under enquiry. But BIFR did not by and large result in any significant rehabilitation. The government has also decided to sign Memoranda of Understanding (MOU's) with various public sector enterprises. The main goal of the MOU policy is to reduce the 'quality of control' and increase the 'quality of accountability.' The MOU's grant greater operational autonomy of PSU's to pursue their objectives. Out of the 99 PSE's which signed the MOU with their administrative ministries, 46 were rated as "Excellent" and 28 as "very good". The net result of the efforts of the government was that the overall net profit earned by Central PSE's increased from Rs. 4,545 crores to Rs. 7, 217 crores which signifies as increase of 58.8 per cent over the previous year. This is a welcome development. Another step taken by the government was disinvestment of PSUs. The government has been offering equity of 31selected public sector enterprises varying

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from 5 to 20% to mutual funds and financial institutions. This is only a token of privatisation and the government was able to raise Rs.9,793 crores during the four year period (1991-92 to 1994-95). However, the disinvestment programme did not pick up during 1995-96 and 1996-97, despite the fact that the government has been making a provision of Rs. 5,000 crores every year in the budget. Between 1991-92 and 2001-02, the disinvestment proceeds have totalled Rupees 253 billion out of a targeted Rupees 660 billion. During 2002-03, 43 the government has listed strategic sales of oil refiners BPCL and HPCL, petrochemical firm IPCL, Shipping Corporation of India, carmaker Maruti and National Aluminum Company as a few of its big ticket sell-offs. Critics describe the disinvestments as deficit privatization, because the proceeds of the disinvestments are being used to reduce the budget deficit. The Common Minimum Programme of the United Progressive Alliance Government stipulated that the proceeds of the disinvestments would be used in the two vital areas – health, and education. A part of the proceeds of the disinvestment will be earmarked to create an investment fund, which will be used to strengthen other public sector enterprises. On the whole the reforms of PSUs, including privatisation and phasing out of the unviable units have not gathered as much momentum as had been hoped for. Disinvestment has been piecemeal and the funds so raised are being used to reduce the budget deficit, rather than strengthening the PSUs. Along with this, labour problem, political and bureaucratic interference have not been effectively reduced. Since it is not possible to privatize a large component of the public sector, it would be advisable to reform it.

Large dose of foreign capital to help Indian economy The reforms process especially its emphasis on globalisation, was intended to help the acceleration of the growth process by attracting a larger dose of the foreign Capital. As a result of these and other measures, real private fixed investment rose to 16.8 per cent of GDP in 1997-98 from 10.7 percent in 1980-81 and 12.71 percent in 1990-91. India, for the first time, was one of the top ten emerging market destinations for FDI (excluding developed countries). The point that needs to be emphasized, however, is that direct foreign investment is less than one-third Non-Residence total foreign investment. If adjustment is made for the contribution of Non-

resident Indians in FDI to the tune of 10.4 per cent; the net contribution of foreigners in FDI flows becomes 21.1 per cent (nearly one-fifth of the total). It need not be mentioned that portfolio investment is of a speculative nature and can take flight in a period of political uncertainty. Moreover, critics point out that nearly 39 per cent of the foreign investment is in the non-priority sector, viz. food-processing, service sector, hotels, and tourism,. The entry of multinationals in consumer goods like, colas, jams, potato chips, wafers, ice creams, etc. only displaces Indian labour and capital employed in the production of these commodities. The multinationals are keen to enter these areas of short gestation period and very high profitability. The critics, therefore, point out that while foreign investment and technology are needed, the government should be more selective by obtaining these for the capital goods and infrastructure sectors so that they enhance both the capacity and capability of the Indian economy.

Table 11.3 : Data on Trade balance during the post-reform period. (in US \$ million)

	97-98	98-99	99-00	00-01	01-02	02-03	03-04
Exports	35006	33219	36822	44560	43827	52719	47503
Imports	41484	42389	49671	50536	51413	61412	61933
Trade balance	-6478	-9170	-12848	-5976	-7587	-8693	-14431

Source : *Economic and Political Weekly* 13-19 March 2004.

Reform process and the foreign trade scenario: The reform process has led to growth of exports; but simultaneously it has also led to a larger growth of imports. As a consequence, the trade gap has not been reduced. Globalisation has failed to reduce the trade gap, more so if we take into account total imports, including defence imports, as indicated by the RBI. This would seem to indicate the need to re-examine the open door policy of imports as also to boost exports.

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Reform process and fiscal deficit: A major objective of the structural adjustment programme was to reduce the fiscal deficit. No doubt the government was able to reduce fiscal deficit as a proportion of GDP from 8.3 per cent in 1990-91 to 5.7 percent in 1993-94. It was brought down to 6.1 per cent in 1994-95 and 5.8 per cent in 1995-96. Fiscal deficit seemed to have only worsened subsequently due to the burden of wage revisions in the government and public sectors. Although the need of the hour is to reduce subsidies, both explicit and implicit, so that a more sustainable effect on fiscal deficit can be made, the Common Minimum Programme would seem to indicate the unlikelihood of improvement in this area.

Table 11.4 : Exchange rate of rupee Vis-à-vis US Dollar

Year	Rs. Per US \$
1990-91	17.94
1991-92	24.47
1992-93	30.65
1993-94	31.37
1994-95	31.40
1995-96	33.45
1996-97	35.50
1997-98	37.16
1998-99	42.07
1999-00	43.33
2000-01	45.68
2001-02	47.69
2002-03	48.46
2003-04	46.02

Source : Reserve Bank of India Bulletin

Reform process and the exchange value of the Rupee: The Exchange Rate of the Rupee vis-à-vis US \$ was Rs. 17.96 in 1990-91, but gradually the exchange rate has been appreciating and it became 1 US \$ = Rs. 31.37 in 1994-95 and Rs. 35.6 per US \$ in 1996-97. In other words, the international value of the Rupee has become nearly half its level of 1990-91. The fall in the value of the Rupee results in an increase in the burden of international debt. Secondly, it adversely effects the foreign investor's confidence in India. RBI has substantially reduced its intervention stabilization of the Rupee vs US\$ and fully liberalized the current account operations. This led to strengthening of the Rupee against the US\$ significantly during the years 2002-04. The reform process that led

to strengthening of the Rupee is now threatening exporters with eroded cash margins. Economic Reform and India's Foreign Exchange Reserves: The advocates of globalisation claim that as a result of the reform process, foreign exchange reserves which had fallen to the level of US \$ 2.2 billion started picking up and were around US \$ 20.8 billion in 1994-95, but due to sharp deficit in balance of payments on current account in 1995-96, the reserves came down to US \$ 17 billion. As at the beginning of June 2004, the reserves moved to a new high of US\$119bn due to liberalization of FDI and FIIs and free flow of NRI funds reflecting the investors' confidence in India.

Table 11.5 : Balance of Payments of Current Account and Foreign Exchange Reserves (excluding Gold) (in US \$ million)

Year	Balance of Payments on Current Account	Foreign Exchange Reserves
1990-91	-9,438	2,236
1993-94	-4,056	15,068
1994-95	-9,049	20,809
1995-96	-11,359	17,044
1996-97	-14,815	22,367
1997-98	-15,507	25,975
1998-99	-13,246	29,522
1999-00	-17,098	31,992

Source : Reserve Bank of India Bulletin

To conclude it may be said that policies of liberalisation, globalisation and privatisation which symbolize economic reforms have concentrated on shortterm objectives such as controlling the deteriorating situation in balance of payments, building up foreign exchange reserves, reducing fiscal deficit, controlling inflation etc., However, the long-term goals of reducing poverty, achievement of full-employment, self-reliance and growth with social justice have remained unattended. The reform process has not yet succeeded in reducing the fiscal deficit. Naturally, there is a need to re-orient economic reforms so as to achieve long-term goals of the society, more especially full employment, self-reliance and growth with social justice.

Check Your Progress 2

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Note: i) Space is given below each question for your answer.

ii) Check your answer(s) with those given at the end of the unit.

4. Discuss about the Liberalisation, Globalisation and Privatisation: To work for a Common Goal.

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5. Review of Economic Reforms related to Liberalisation, Globalisation and Privatisation.

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11.7 LET US SUM UP

Economic Reforms were introduced by Shri Rajiv Gandhi soon after taking over as Prime Minister in 1985. He underlined the need for opening several areas hitherto reserved for the public sector to the private sector. Some measures of delicensing, raising the MRTP limit from Rs. 20 crores to Rs. 100 crores, broad-banding scheme etc., were taken, but the government did not take a categorical position on issues relating to privatisation and globalisation. A sharp departure from the Industrial Policy of 1956 took place with the announcement of Industrial Policy 1991. Three major strategies of new economic policy are: (i) liberalisation, (ii) globalisation and (iii) privatisation. The main aim of liberalisation was to dismantle excessive regulatory framework and bureaucratic controls that acted as shackles on freedom of enterprise. The ceiling on assets fixed under MRTP Act has been abolished in order to permit large houses to undertake investment in the core sectors – heavy industry, infrastructure, petro-chemicals, electronics etc., with a view to introduce competition. The number of items requiring licensing was reduced to a short list of bare 4 industries. This freed the private sector to set up industrial units quickly. Economic Reforms : Liberalisation, Globalisation and Privatisation Economic Reforms Since 1991 46 Commission in the place of MRTP, Competition Policy was framed. But the Competition Bill has not been introduced. This is likely to hit a road

block with the influence of the Leftist forces in the government. Globalisation intends to integrate the Indian Economy with the world economy. Four parameters to globalisation are: (i) trade flows, (ii) capital flows, (iii) technology flows and (iv) labour flows. If the developed countries were to restrict the definition to only three and omit labour flows, globalisation will remain incomplete. Measures promoting globalisation in India include: (i) Reduction of import duties (ii) Encouragement of foreign investment through a) Grant of automatic approval for direct foreign investment upto 51 per cent equity participation. (In December 1996, the government announced a new list of industries whereby joint ventures upto 74 per cent foreign equity would be cleared automatically). b) Majority foreign equity holding upto 51 per cent allowed in trading companies. (iii) Encouragement of foreign technology agreements within prescribed limit of payments in foreign exchange. Privatisation is the process involving the private sector in the ownership or operation of a state-owned undertaking. It has three forms: (i) Ownership measures include: (a) Total denationalization, (b) Joint Ventures, (c) Liquidation and (d) Worker's co-operatives (ii) Organisational measures include: (a) A holding company structure, (b) Leasing, (c) Restructuring – either financial restructuring or basic restructuring, or both (iii) Operational measures are aimed at improving the efficiency and productivity of an organisation. They include: a) Grant of autonomy in decision-making b) Provision of incentives for workers and executives c) Freedom to acquire certain inputs from the market d) Development of proper criteria for investment planning e) Permitting public enterprises to raise resources from the capital market. The basic purpose is to infuse the spirit of private enterprise in PSUs. Privatisation in a broader sense implies encouragement of investment by private sector in areas hitherto reserved for the public sector so that the overall share of private investment sector improves in the economy in the long run. Liberalisation, globalisation and privatisation are intended to achieve certain long-term goals of society. These goals are: (i) higher growth of national and per capita income, (ii) full – employment, (iii) self-reliance, (iv) reduction of inequalities of income and wealth, (v) reduction of population, below the poverty line. In nutshell these measures aim at

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creating a society based on growth with social justice. 47 Some of the problems associated with the public sector are: (i) Excessive bureaucratic controls, (ii) Overstaffing, (iii) Low rate of return, (iv) some enterprises incurring losses year–after–year. Review of Economic Reforms related to liberalisation, globalisation and privatization A near unanimity among political circles – from the left to the right – has been achieved on the need for economic reforms. The need is to identify measures to modify reforms so as to achieve the objective of growth with social justice.

11.8 KEY WORDS

Basic Restructuring implies the shedding by a public enterprise of some of its activities which are taken up by ancillaries or small scale units.

Director General of Commercial Intelligence and Statistics is the organisation which keeps a complete record of the volume and value of imports made in India, either on government or private account.

Financial Restructuring implies the writing off of accumulated losses and rationalization of capital composition of an enterprise in respect of debt equity ratio. Fiscal Deficit indicates the excess of total expenditure of the government over its total receipts (net of borrowing).

Globalisation is the process of integrating an economy with the world economy. Globalisation involves unhindered trade flows, capital flows, technology flows and, in an ultimate sense, unhindered labour flows among nation states. Leasing implies the transfer of the right to use an asset to a person or company for a specified period.

Liberalisation is the process of freeing the economy from the stranglehold of unnecessary bureaucratic and other restrictions imposed by the state.

Liquidation implies the sale of assets to a person who may use them for the same purpose or some other purpose (s) depending upon the preference of the buyer.

Memorandum of Understanding (MoU) is the agreement made between the government and the public enterprise management, which grants greater autonomy for decision-making but simultaneously seeks a higher quality of accountability in return. MoU is signed for a specified period. National Renewal Fund (NRF) is the fund created by the government to provide compensatory benefits to employees seeking voluntary retirement or rendered unemployed due to rationalization of labour. The fund is also expected to arrange for retraining and redeployment of retrenched labour.

Economic Reforms : Liberalisation, Globalisation and Privatisation
Economic Reforms Since 1991 48 Privatisation is the process of transfer of ownership or operation of a state-owned unit (public sector enterprise) either wholly or partially.

Voluntary Retirement Scheme (VRS) gives the option to an employee to seek retirement voluntarily and avail of the compensatory benefits provided by the government.

Workers' Co-Operative is the form of ownership of an enterprise in which the entire equity is transferred to the workers. The ownership and operation of the enterprise is the responsibility of workers.

11.9 QUESTIONS FOR REVIEW

1. What is liberalisation? Discuss the principal measures initiated by the government to liberalise the Indian economy.
2. What are the four aspects of globalisation? In what aspects have steps been taken to globalise the Indian economy and what is the particular aspect which has remained neglected?
3. List three major measures taken for integrating Indian economy with the world economy.
4. What are the different forms of ownership privatisation? Explain each of them to bring out their essential characteristics.
5. Discuss the various organisational measures which promote privatisation.

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6. Distinguish between financial restructuring and basic restructuring.
7. Liberalisation, globalisation and privatisation are the means to achieve certain ends by the society. In the light of this statement, list five major goals/ends which these instruments are intended to achieve.
8. Review the impact of economic reforms in India bringing out their achievement and failures.
9. Is the reforms process reversible? If not, what measures would you suggest to modify reforms so that the country achieves the goal of growth with social justice.

11.10 SUGGESTED READINGS AND REFERENCES

- Datt, Ruddar (1997), *Economic Reforms in India—A Critique*, S.Chand & Co., New Delhi.
- Government of India. *Economic Survey*, various issues.
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- Jha, L.K., *Thrusts in the Indian Economy*, Zakir Hussain Memorial Lecture, February 13, 1986.

11.11 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1. See Section 11.2
2. See Section 11.3
3. See Section 11.4

Check Your Progress 2

1. See Section 11.4
2. See Section 11.5

UNIT 12: POLITICAL CONTEXT OF LIBERALIZATION

STRUCTURE

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Background of Liberalization
- 12.3 Liberalisation
 - 12.3.1 Meaning
 - 12.3.2 Shift from State to Market
 - 12.3.3 Facets of Liberalisation
- 12.4 Globalisation, Nation-State and Sovereignty
 - 12.4.1 Shifting Conception of the Nation-State and Sovereignty
- 12.5 Impact of Globalisation
 - 12.5.1 Economic
 - 12.5.2 Political
 - 12.5.3 Cultural
- 12.6 Response of the Indian State
 - 12.6.1 Measures towards Globalisation
- 12.7 Debate on Liberalisation and Globalisation in India
 - 12.7.1 Growth of the Economy
 - 12.7.2 External Control
 - 12.7.3 Impact on Unemployment and Poverty
 - 12.7.4 Inequality between Rich and Poor States
 - 12.7.5 Basic Industries and Infrastructure
 - 12.7.6 Investment in Social Sectors
- 12.8 Let us sum up
- 12.9 Key Words
- 12.10 Questions for Review
- 12.11 Suggested readings and references
- 12.12 Answers to Check Your Progress

12.0 OBJECTIVES

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This unit is intended to acquaint you with a major development of our times called globalisation and how the policy of liberalisation is integrally bound with it. After going through this unit you will be able to:

- To know about the Background of Liberalization
- To discuss about the Liberalisation
- To know about the Globalisation, Nation-State and Sovereignty
- To find out the Impact of Globalisation
- To understand the Response of the Indian State
- To discuss about the Debate on Liberalisation and Globalisation in India

12.1 INTRODUCTION

Modern civilisation has brought profound changes in the productive capacities of men and women, in their social relations and institutions in the way they have thought of themselves and the world around them. However, these transformations were primarily bounded by what came to be called as the nation-state. There were some processes that went beyond the confines of the nation-state such as trade; expansion of capital; growth of knowledge; spread of ideologies; affiliation to religion and beliefs; spread of culture, arts, sports and even the rise of certain international institutions but the nation-state remained the final court of appeal. However, the last three decades have witnessed certain profound changes in this configuration resulting in new and larger networks of exchange; great movement of peoples, goods and information; transnational social and economic interaction and increasing flows of trade, investment and culture. New economic, political and cultural institutions have arisen. These changes have circumscribed the place and role of the nation-state in a profound way. Increasingly our lives today are intimately shaped by developments beyond the confines of the nation-state. Changes in technology and information have radically altered the hitherto familiar notions of space and time. The relationship between culture, economics and politics is being redefined through rapid exchange of information, ideas and knowledge. These widespread changes are attempted to be captured by the term globalisation.

12.2 BACKGROUND OF LIBERLIZATION

As was noted, the philosophy of liberation belongs to the “maturity” stage of the “contemporary” period of the history of Latin American philosophy (Gracia and Vargas 2013; Gracia 1988–89). As a philosophical movement that engages in the critical task of recovering what is distinctly “Latin American” thought, it has sought explicitly to unearth and rescue Amerindian thought, in its pre-Colombian and post-Conquest forms, as well as all the different philosophical tendencies and movements that emerged during the long history of colonialism, independence and projects of national formation. It is for this reason that the philosophy of liberation has as one of its goals a critical historiography of Latin American thought, in general, and philosophy, more specifically. Figures such as Enrique Dussel, Rodolfo Kusch, Arturo Roig, and Leopoldo Zea have articulated their versions of the philosophy of liberation in terms of a recovery of earlier stages in the formulation of a project of Latin American liberation. Yet, the philosophy of liberation as a self-conscious movement and current, emerged out of a very distinct convergence of geo-historical, cultural, intellectual and philosophical tendencies, conflicts and processes.

In the context of globalisation, liberalisation primarily means removal of controls and relations at various levels of the economy facilitating market forces to determine its course and direction. It favours a competitive market solution to economic issues and a reduced role for the state in economic management. In a wider sense the term is also used to mean creating the better nation state.

With the accountability of power, periodic elections, multi-party system and an impartial judiciary. These conditions are seen as holding public authority transparent and under scrutiny. In its primary and stricter meaning liberalisation proclaims freedom of trade and investment; creation of free trade areas; elimination of government controls on allocation of resources in the domestic economy; progressive removal of restrictions on external trade and payments; expansion of foreign investment, loans and aid and rapid technological progress. Liberalisation also advocates a balanced budget; reduction in progressive taxation, social security and welfare and a diminished role for the state in

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economic management. It does not favour subsidies and state protection and resource allocations through administrative means. It suggests that inefficiency, corruption and mismanagement are built into regimes with excessive state control.

Like all philosophical movements and traditions, the philosophy of liberation emerged out of both world historical and regional socio-historical contexts. In terms of the world historical background, World War II, and in particular the disclosures about the genocide of the Jews, the Cold War, and the South East Asian wars, created a world historical stage in which Europe and its intellectual and moral traditions stood discredited. Whereas before, all things European were regarded as the standard against which everything would have to be measured, Europe had become suspect. Latin Americans had to look elsewhere for inspiration and intellectual guidance.

The regional socio-historical was framed on the one side by the Cuban revolution and the numerous military dictatorships that took place as a consequence of the Cold War and the failures of development in Latin America. The Cuban revolution, however, had a profound impact in the socio-political-cultural imagination throughout Latin America. In the iconic image of Che Guevara (1928–1967), the revolution promise a transformation of the Latin American human being—*el nuevo hombre*—as it also raised the possibility of political sovereignty for Latin American nations. The decade of the sixties in Latin American was a time of political turmoil, but above all of cultural renewal and utopian yearning.

The philosophy of liberation, however, was above all an intellectual and philosophical response and unquestionably synthesis of a series of intellectual and cultural movements that had been gestating for a decade throughout Latin America. The cultural context was so ripe with proclamations and thinking about “liberation” that if the philosophy of liberation had not been so named in the late sixties and early seventies, today we would have wondered whether philosophers had been abducted from this world and sequestered in some time capsule. The philosophy of liberation was both necessary and inevitable.

Drawing on the work of Carlos Beorlegui, a historian of Latin American philosophy, we can say that there are some identifiable “matrixes”, or intellectual sources, from which liberation philosophy emerged (Beorlegui 2004: 677–690).[2] Here, they will be characterized as follows.

The Economic Matrix: The Theory of Dependence. After the end of World War II, the United States undertook to finance the “development” of Latin America on the model of industrialized and capitalist nations. This is what the Alliance for Progress (1961–1973) aimed to do this by granting loans that would help economically underdeveloped nations to ascend the ladder of economic development. This program was guided by the economic theory called “desarrollismo” or developmentalism. Yet, Latin American nations continue to lag behind both socially and economically.

It is in the face of this failure that a series of economists began to develop “dependency theory”, or the “theory of the development of underdevelopment”, among who were: Theothonio dos Santos, Fernando Henrique Cardoso, Enzo Falleto, Celso Furtado, and Anibal Quijano. The core of this theory was that the underdevelopment of the Latin American nation was not due to endogenous factors, but rather was a direct consequence of economic dependence on Europe and the United States. The model of development that reigned during the fifties and sixties, according to these theorists, had a double perverse effect: greater capital accumulation in the metropolises and lending nations, and greater indebtedness and impoverishment in the so-called underdeveloped nations. The economic underdevelopment of Latin America was now to be understood in terms of an economic theory that showed that underdevelopment is not a prior stage in the natural economic development of nations, but rather an integral dimension of the international economic order created by colonialism, imperialism, and neo-imperialism.

The Religious Matrix: The Theology of Liberation. The emergence of Liberation Theology has been amply documented and studied in the specialized literature. Yet, liberation theology is as much a phenomenon of global Catholicism as it is a unique Latin American development. The

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reforms began with Vatican II (1962–1965) and the Second Latin American Bishops congregation in Medellín, Colombia (1968), created the church context for the consolidation of what was in effect a social movement, namely the “comunidades de base” (base communities). The theology of liberation developed in response to a new understanding of the church’s relationship to the “people” and the role of the faith in a world of incredible poverty and social inequality.

The theology of liberation forged a whole new language: the “preferential option for the poor”, the “underside of history”, “the church of the people”, “orthopraxis is prior to orthodoxy” that influenced some philosophers of liberation. Still, two of the most important contributions of the theology of liberation to the philosophy of liberation were the imperative that critical reflection had to emerge out of committed praxis, and the problematization of the concept of “el pueblo”. The theology of liberation may be understood as theological reflection on what constituted a people, a community of faith. In short, theology of liberation asks: who is the subject of God’s soteriology. Most noteworthy is that Gustavo Gutierrez published his *Teología de la liberación. Perspectivas* (A Theology of Liberation) in 1971 in Peru, while Hugo Assmann published his *Opresión-Liberación: desafío a los cristianos* (Oppression-Liberation: Challenge to Christians) the same year in Chile. The Catholic Church also provided an institutional framework within which some of the work of philosophers of liberation could be pursued by hosting “jornadas”, sponsoring congresses, and providing teaching opportunities in its affiliated universities for philosophers of liberation, many who had been expelled from public universities.

The Educational Matrix: The Pedagogy of the Oppressed. In 1970, after nearly two decades of literacy work in the Brazilian favelas and poor sectors of Brazil, Paulo Freire published his paradigm shifting text *Pedagogia del oprimido* (Pedagogy of the Oppressed) (1970), which was followed in 1972 by his *Education for the Praxis of Liberation*. At the core of Freire’s work were three key ideas: if the people are to overcome their dependence, they can only do so through their own agency, by becoming the subject of their own liberation; to become a subject of one’s own liberation means to engage in a process of conscientização, or

consciousness raising, that takes place through a pedagogy that rejects the notion of the learner as a passive receptacle and instead departs from the fundamental realization that learning is a dynamic process. Two key notions of Freire's pedagogy of liberation were that (1) teaching requires listening to the people, and (2) schooling means life, that is, learning is both indispensable to life and it takes place in the midst of living. Freire's key phrase "conscientização" goes on to be appropriated by liberation philosophers as their own goal: philosophy is at the service of the raising of both individual and collective consciousness.

The Literary-Artistic Matrix: The Boom and the Muralists. It is often forgotten that the sixties were the time of the Latin American literary Boom. This is the decade when José M. Arguedas, Julio Cortázar, Carlos Fuentes, Gabriel García-Márquez, Mario Vargas Llosa, Octavio Paz, Juan Rulfo, Ernesto Sábato published their major works. During this decade there also emerged a genre that gave expression to the heavy consciousness of dependence and the spirit of rebellion and quest for emancipation, namely the *Novelas de Guerrilla*; among which are Julio de la Vega's *Matías, el apóstol suplente* (1971, Jesús Lara's *Ñaucahuazú*, *Sueños* (1969, Renato Prada Oropeza's, *Los fundadores del alba* (1969), Gaby Vallejo de Bolívar's *Los Vulnerables* (1973, Oscar Uzin Fernández's, *La oscuridad radiante* (1976). Just as these writers demonstrated how a distinct Latin American literary tradition could be forged, the muralists demonstrated how standards of artistic beauty that celebrated proudly the aesthetic sensibility and creativity of the continent. The *estética indigenista* (indigenous aesthetics) celebrated by muralists like Diego Orozco, Rivera, Siqueiros, and painters like Frida Kahlo, created a new iconic representation of the Latin American people that more ecumenically reflected the continent's *mestizaje*, or racial mixing and hybridity.

The Sociological Matrix: The Sociology of Liberation. The fifties and sixties, as was already noted, were decades of tremendous social-economic-political turmoil throughout Latin America. Latin American industrialization went in tandem with massive urbanization and de-ruralization. Extensive migrations from the countryside to the cities gave rise to the shantytowns that are so distinctly visible in most Latin

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American metropolises. Sociologists began to address the unique challenges of de-ruralization and urbanization. In Colombia, sociologist Orlando Fals Borda, who worked with Colombian peasants, began to develop what he called a “sociology of liberation” that meant to address the very unique situation of the urban and rural poor in contexts in which the state was nearly absent. Fals Borda studied in particular the ways in which the poor created their own institutions and norms of social interaction. Combined with the theory of dependence, the sociology of liberation, created an interdisciplinary matrix that sought to address the conditions of systemic inequity, while raising the norm that people could be the agents of their own liberation.

It is clear that both dependence and liberation were in the lips of economists, sociologists, theologians, and writers. The philosophy of liberation gave expression in concepts what was clearly a lived historical reality.

12.3 LIBERALISATION

The philosophy of liberation, arguably, began in the late sixties when Leopoldo Zea and Augusto Salazar Bondy launched a debate with the question: “Is there a Latin American philosophy?” Whether the answer was affirmative or negative did not affect the fact that the movement would have to embark on the long path of the recovery of Latin American philosophy, at the very least in order to identify those moments of originality and authentically autochthonous Latin American thinking. It is for this reason that some philosophers of liberation have argued that there are at least three antecedent historical stages that serve as the geological subsoil of liberation philosophy. Following Dussel, they could be sketched as follows (Dussel 2005: 374–5):

First Period. This is the period of the beginning of the critique of the conquest and the development of a discourse that engages Amerindian thought. An important inaugural date is 1511 when Antón de Montesinos critiques the way evangelization is taking place in the Americas. This is the period when a distinct continental awareness of the injustice that is being committed against the indigenous populations of the so-called New World emerges. The debate between Ginés de Sepúlveda and Fray

Bartolomé de las Casas at Valladolid in 1550 marks the clear emergence of a liberation discourse and consciousness. In this debate Sepúlveda articulated a moment in the emergent imperial and colonizing modern consciousness of Europe when he argued that Amerindians were naturally born slaves and that therefore they were to be subjugated. Sepúlveda questioned the humanity of Amerindians. In contrast, de las Casas affirmed the rational humanity of Amerindians, while acknowledging their distinctiveness. In fact, de las Casas affirms their rationality and treats appeals to their reason as a theological and evangelical norm. The only true way for evangelization is the path of rational deliberation and not violent religious usurpation and imposition.

Second Period. This epoch is defined by the process of what might be called the first emancipation, from 1750 until the end of the nineteenth century. Defining figures are Benito Díaz de Gamarra, who published in 1774 his *Elementa Recientioris Philosophiae*, Carlos de Singüenza y Góngora, and Francisco Xavier Clavigero, who articulated an anti-colonial and anti-absolutist political philosophy that launched a critique of the Spanish monarchy. Some of the notable figures of this epoch include Fray Servando Teresa de Mier (1763–1827), Manuel M. Moreno (in La Plata, what would become Argentina, 1778–1811), Simón Rodríguez (in Venezuela, 1751–1854), Simón Bolívar (1783–1830), Francisco de Miranda (1750–1816), Juan Germán Roscio (1763–1821). In the eighteenth century, these thinkers and many other “patriotas” articulated a political discourse of emancipation from the Spanish crown. They called for continental independence, as well as the development of a distinct “American” identity. Because of her blend of poetry, theological speculation, praise of Amerindian traditions, and nascent feminist awareness, Sor Juana Inés de la Cruz (1651–1695) can also be considered a contributor to this first discourse of emancipation and should be included among the figures that define this epoch.

Third Period. This epoch could be defined by a second moment of emancipation, beginning at the end of the nineteenth century and being bookended with the Cuban Revolution in 1959. Defining figures are José Carlos Mariátegui (1894–1930), whose book *Siete ensayos sobre la realidad peruana* (Seven Interpretative Essays on Peruvian Reality)

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(1968) gave expression to a new emancipation agenda that is explicitly elaborated in terms of a dual approach that is attentive to the historical reality of the Americas, with its indigenous and criollo backgrounds. It launched a critical appropriation of European ideas in the “Latin American” context. This epoch is defined by the crises of both development efforts and populisms that were inattentive to the severe racial, ethnic, and class divisions within the Latin American nations. It is against this context that Augusto Salazar Bondy (1925–1974) and Leopoldo Zea (1912–2004) began to debate the question whether there is a Latin American philosophy. This third period is defined by the explicit consciousness of economic, political, social, and cultural dependence, under-development, and domination (Vallega 2014). It is in this period that the need of a discourse of liberation begins to be explicitly articulated.

The Immediate History

This section discusses the broader social and intellectual context of the third period indicated above, from which an explicit and nuanced philosophy of liberation would emerge.

An important part of the origin of the philosophy of liberation as an autochthonous philosophical movement was rooted in the question of a distinct or authentic Latin American philosophy. The problem of a distinct Latin American philosophy has been in gestation at least since the late nineteenth century, when the so-called “generation of patriarchs” began to ask about a philosophy or thinking from and for the “Americas” (Beorlegui 2004). This problem took a distinct shape when Salazar Bondy (1968) re-framed it in terms of the question as to the actual existence of a Latin American philosophy. Using existentialist and Marxist categories, Salazar Bondy gave a negative answer. There is no authentic Latin American philosophy because the sub-continent has lived and developed under conditions of mental colonialism, intellectual subordination, and philosophical dependence. In order to achieve an authentic Latin American philosophy, Salazar Bondy maintained, the sub-continent had to achieve its independence and establish its autonomy and self-determination. These thoughts, and Zea’s subsequent response

(1969), set the agenda for a generation. The philosophy of liberation, so explicitly christened, it could be argued, has gone through at least the following three stages: constitution and maturation, persecution and exile, challenges and debates (Dussel 2005; Beorlegui 2004; Cerutti Guldberg 1983 [2006]).

Constitution and Maturation (1969–1975). The philosophy of liberation was explicitly labeled as such at the Second Argentine National Congress of Philosophy, which was held in Cordoba in 1971. The inaugurating group was conformed by Osvaldo Ardiles, Alberto Parisini, Juan Carlos Scannone, Julio de Zan, and Anibal Fornari. But this group took a more formal shape at the jornadas (week long working seminars) of philosophy that were organized at the Jesuit University, Universidad of San Salvador (where Pope Francis was educated), in San Miguel, in the outskirts of Buenos Aires, Argentina. The first jornada took place in 1971, and a second was held later the same year with the title “Latin American Liberation”. A third jornada was held in 1973, at which Salazar Bondy gave a paper titled “Filosofía de la dominación y filosofía de la liberación (Philosophy of Domination and Philosophy of Liberation)” (1973), and Leopoldo Zea gave a paper titled “La filosofía latinoamericana como filosofía de la liberación (Latin American Philosophy as a Philosophy of Liberation)” (1973). This stage comes to a close in 1975 with the First Mexican National Congress of Philosophy in Morelia, Mexico, with papers by Dussel, Miró Quesada, Arturo Roig, and Abelardo Villegas. This was an important meeting because it signaled the launching of the philosophy of liberation as a Latin American philosophical agenda that supersedes its initial Argentine formulations. A new group of philosophers from across Latin America entered into the debate: Hugo Assmann, Carlos Bazán, Arturo Roig,

In 1974 the journal *Revista de Filosofía Latinoamericana* begins to be edited and published in Buenos Aires, and goes on to become a major publishing venue for philosophers of liberation, along with *Stromata*, published at the University of El Salvador, in Buenos Aires, Argentina, in which many of the inaugural essays and quasi-manifestos of the movement were published.

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Persecution and Exile (1975–1983). With the Peronist dictatorship in Argentina, from 1975 to 1983, there began the persecution of the philosophers of liberation. Many went into exile, moving to Canada, Ecuador, Mexico, Peru, and Venezuela. In this way, then, the agenda of liberation philosophy was brought to other parts of Latin America. However, the Latin American dictatorships of the sixties and the Cold War in general, had directly influenced internal debates about the “who” of Latin American philosophy, and consequently had polarizing and decisive effects for how liberation was understood. The role of populism and nationalism in defining the task of philosophy became a litmus test. In 1980, the AFYL (Asociación Filosofía y Liberación [Philosophy and Liberation Association]), was established in Bogotá, Colombia, and it became a major vehicle for organizing congresses, round tables, and sessions at international philosophy congresses.

Challenges and Debates (1983 to today). With the transition to democracy and the collapse or defeat of the military dictatorships in Latin America there began a new stage in the normalization and maturation of liberation philosophy. Horacio Cerutti Guldberg’s *Filosofía de la liberación latinoamericana* (Philosophy of Latin American Liberation) (2006) offered the most comprehensive historical and critical reconstruction of the movement. In 1988–89, Jorge J.E. Gracia edited a special issue on “Latin American Philosophy”, with a long essay by Cerutti Guldberg in which a synoptic overview of the movement is presented. In 1993, Ofelia Schutte published her *Cultural Identity and Social Liberation in Latin American Thought* in which a critical confrontation with some key theses of liberation philosophy is developed. These substantive texts signaled the maturity and general coherence of the philosophy of liberation, at the very least as it was perceived by its critics. These works called for re-articulations and reformulations that made explicit the inner tensions and divisions within the group of thinkers that had first given voice to this new current and method of doing philosophy in Latin America.

These differences and divergences have become increasingly pronounced. It may now no longer be possible to speak of a “philosophy of liberation”, in the singular. Instead, it may be more appropriate to

speak of “philosophies of liberation”, in the plural, where what is shared is a set of overlapping themes among the distinct accounts of what are the situations and conditions from which liberation is to be sought, and different philosophical methods and traditions used to articulate those accounts . To be sure, there remains a substantive core that holds together the constellation of the philosophy of liberation now in the middle of its fourth decade of existence. Widely shared characteristics of the various philosophies of liberation include the following:

An indisputable point of departure for all philosophers liberation is the consciousness of the economic, social, political and cultural dependence of Latin America on Europe and the United States.

The general affirmation that “philosophy” has to be practiced from a specific context of both engagement and commitment within the distinct Latin American historical and geopolitical situation. The claim is that implicitly or explicitly all philosophizing is always a form of commitment with an existential situation. All philosophers of liberation share the conviction that a philosophy that is worthy of that name is a tool or means of enlightenment, a theoretical elaboration at the service of a praxis of liberation. The philosophy of liberation is the twin of a practice of emancipation.

All philosophizing is done out of a concrete historical situation. Yet, this “concrete historical” situation has received different formulations, which define the different currents within the philosophy of liberation (see section 3, below). For now, we can note that the “point of departure” can be a people, nation, or autochthonous culture; it can refer to a class or economic group understood along Marxist lines; it can include a cultural, historical, existential project that manifests itself in terms of a historical formation or agent.

As a critique of putatively colonized thinking and dependent philosophy, the philosophy of liberation is a metaphilosophy. For this reason, issues of method are integral to its philosophical agenda. In tandem with the different “points of departure” for philosophy that is authentically grounded, different liberation philosophers argue on behalf of the virtues of one or another philosophical method or current. Thus, we find some philosophers of liberation who are “indigenistas”, some who at one time

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or another were Ricoeurian, Heideggerian, Levinasian; others who were Diltheyan, Gadamerian, and Gaosian and/or Ortegian, and some who were Marxists. The philosophy of liberation, which is critical of European philosophy, is so from within, immanently, even when some of its representatives argue from some “analectical” standpoint, or standpoint of metaphysical “exteriority” to imperial and totalizing thought. It is thus not surprising that philosophy “companions” or handbooks to Existentialism, Phenomenology, Marxism, or to figures such as Martin Heidegger, Karl Marx, Emmanuel Levinas, include entries on “philosophy of liberation”, or some of its most representative figures.

Inasmuch as it is defined by the word “liberation”, all philosophy of liberation is entangled with the project of sketching an utopia and identifying the “subject” of the construction of such an utopia. The utopia of liberation entails either recognizing the suppressed historical subject, or forging a new one. This liberation or emancipating subject could be the “el pueblo”, or the proletarian class, or the popular sectors, made up by the “pueblo” now understood as the destitute and exploited of the nation. For others, as we will see, this subject is constituted by the nation as it is embodied in its popular sector. That sector is not understood simply in terms of class or even cultural identity, but in terms of an anti-colonial attitude aimed at national sovereignty.

These general and shared characteristics, problems and themes could be summarized in three observations about the coherence and unity of the philosophy of liberation.. First, there is a general agreement that Latin American philosophy must be a philosophy of liberation that aims at overcoming dependence, domination and subordination. Second, there is ample disagreement as to the who, what, or how, is this project of liberation to be undertaken. Third, there is also ample disagreement as to the “content” or final goal of liberation. In short, the philosophy of liberation is defined by what many would argue is integral to all philosophy as such, namely questioning the general individual existential situation of alienation, the corresponding project of liberation, and what the utopia of achieved liberation could and would look like. Philosophers of liberation argue, nevertheless, that this questioning takes on a

universal character only and precisely because it is taken up from within a specific and unique existential, historical, and geo-political situation.

12.3.1 Meaning

Philosophy of Liberation is the collective name for a philosophical movement and method of doing philosophy that emerged at first in Argentina during the late sixties, but that went on to spread throughout Latin America during the early seventies. It is for this reason that sometimes some critics and historiographers of the philosophy of liberation make reference to a “strict” and a “broad” conception of the philosophy of liberation, in order to refer to the immediate context of its earliest articulations, and to its later general dissemination and development. The philosophy of liberation belongs to the “maturity” stage within the “contemporary” period of Latin American philosophy, if we use Jorge J.E. Gracia and Manuel Vargas’s periodization of Latin American philosophy (Gracia and Vargas 2013). Without question, however, the philosophy of liberation is the distinct manifestation of Latin American philosophy that has received the most international attention, and that has had the most influence both within Latin America and the United States.

While the philosophy of liberation is deeply rooted in the history and debates of Latin American philosophy, to the extent that it may be claimed that it is the most elaborate and substantive response to the task articulating a distinct Latin American philosophy, it is nonetheless also a chapter within the broader history of European philosophy. Even as it defines itself as a critique of Eurocentrism and the hegemony of European philosophy, it has evolved out of and made use of its philosophical currents, movements, concepts and debates. Some may argue that the philosophy of liberation belongs to phenomenology, hermeneutics, and Marxism, or more generally, historical materialism. In fact, because many philosophers of liberation came out of these different traditions, the philosophy of liberation was and remains from the outset an internally heterogeneous movement.

The philosophy of liberation aims to think the distinct world historical character of Latin America, using what are argued to be autochthonous

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intellectual resources, from out of a situation of economic, cultural, political dependency. It has a practical aim: liberation. In very general terms, the philosophy of liberation defines itself as a counter-philosophical discourse, whether it be as a critique of colonialism, imperialism, globalization, racism, and sexism, which is articulated from out of the experience of exploitation, destitution, alienation and reification, in the name of the projects of liberation, autonomy and authenticity. That is, the philosophy of liberation has presented itself as an “epistemic rupture” that aims to critique and challenge not only basic assumptions and themes of Euro-American philosophy, but also to make philosophy more responsible and responsible for the socio-political situation in which it always finds itself. Thus, by “counter-philosophical discourse”, philosophers of liberation did not mean that it was “anti-philosophical”. Instead, they meant to emphasize a heightened degree of reflexivity or self-awareness in their theorizing. Positively, the philosophy of liberation affirms cultural diversity, gender and racial equality, and political sovereignty. The philosophy of liberation’s philosophical orbit is defined by the axes of critique, commitment, engagement, and liberation. As a critique of all forms of philosophical dependency and inauthenticity, it is consciously and avowedly a metaphilosophy. The philosophy of liberation is thus, among other things, a view about what counts as philosophy and how it should be pursued.

12.3.2 Shift from State to Market

In 1970's an argument gained currency that economic problems confronting societies were due to the sprawling public sector, policies of the employment, high rates of taxation, generous social welfare benefits and growing state intervention. It was further argued that these policies led to excessive wage demands, introduced rigidity in the market, encouraged parasitism and blunted the incentives to save, work, invest and take risks. Political forces not favourably disposed towards welfare state and socialism, such as the Conservative Party in Britain, rallied behind this argument. In the 1980's there was a strong shift away from the State to the market in the allocation of resources in large parts of the

world. It was accompanied by the information and communication revolution which favoured the market. This shall led to widespread deregulation of the economy and measures to reduce taxes and government expenditure. The primacy of the market upheld by liberalisation came to be supported by global capital with open arms. The transnational enterprises and multilateral agencies such as the IMF and World Bank too brought enormous pressures on States to pursue a policy of liberalisation. The collapse of socialist regimes in Eastern Europe in 1989 and the dissolution of the Soviet Union in 1991 were hailed as the triumph of the market and gave Wer impetus to market forces.

12.3.3 Facets of Liberalisation

Liberalisation is a global phenomenon, closely entwined with the process of globalisation. In fact, in its existing version, liberalisation is the enabling condition for the intensive penetration of globalisation into any society. But the contexts in which liberalisation has been carried out and the patterns it has assumed have varied across regions and states.

a) In Europe liberalisation has led to curtailment of public expenditure; cuts in social security and welfare programmes; reduction in progressive taxation; abandonment of full employment policies, curbs on trade unions, flexible labour markets and privatisation of state enterprises. However liberalisation did not affect highly protected agricultural production, the immigration policy and certain categories of international trade, particularly involving advanced technology.

b) In the developing countries, hitherto, the state regulated imports and exports, foreign investment, technology, labour markets and collective bargaining. The state owned and managed a wide range of industrial, agricultural, marketing and financial enterprises. By mid 1970's most of these countries were deeply in debt. In them, liberalisation involves the reversal of the previous policies of state directed modernisation and industrialisation. The early phase of liberalisation encompassed stabilisation of the economy through control of public expenditure and increase in tax returns; industrial policy reforms; price liberalisation;

control of state expenditure; currency devaluation; reduction and removal of subsidies and capital and financial market reforms. At a later stage these countries have resorted to privatisation of state enterprises, currency convertibility and integration of the economy in the global economy.

12.4 GLOBALISATION, NATION-STATE AND SOVEREIGNTY

12.4.1 Shifting Conception of the Nation-State and Sovereignty

The modern world was primarily organised around nation-states as its primary units. Nation-states claimed supreme jurisdiction or sovereignty over a demarcated territorial area. Sovereignty was associated with a political community associated with fixed borders and territories. Under globalisation there are profound changes in all these conceptions. There are other players in the international arena; the sovereign power of the nation-state has come to be deeply contested; the conception of the political community remains highly fluid and the notions of territories and borders have radically altered in the context of the explosion of communication and states have little capacity to police them as they did in the past. Not everyone, however, is agreed on or prepared to accept the changing role of the State. Globalists think that nation-state has become an anachronism today and there are other institutions, which have effectively taken over or poised to take over the role that it had played hitherto. Traditionalists assert the continued relevance of the nation-state and see the major changes that are underway, as either been authorised or agreed upon by the state or as issues over which nation states would be competent to exercise its authority, if they so desire. The transformationalists agree that nation-state with sovereignty as its attribute is under a cloud today but they argue in response that the nation-state itself is undergoing a profound transformation. Disagreements on the changed role of the nation state apart, there is no disagreement that they function today in highly altered conditions. Nationstates are increasingly perceived as resources to be employed in negotiations with transnational and

international agencies and to keep sub-state actors in control. In such an understanding sovereignty becomes a bargaining chip in multilateral and transnational negotiations. This reconceptualisation of the role of the state allows room for its continued salience in spite of the profound shift of power to systems of regional and global governance.

Globalisation and Liberalisation

There are a host of issues today where the ability of the state to govern be easily tied to the jurisdiction of individual nation-states. Such problems as environmental pollution, depletion of the ozone layer are simply beyond the control of individual states. No state today can monitor for long and effectively cross border communication. Further globalisation has reinforced such occupations as drug trade enormously. In 1990's the estimated annual illicit drug turnover was over 400 billion US dollars equal to the gross national product of India in 1998.

12.5 IMPACT OF GLOBALISATION

We can assess the impact of globalisation under three broad categories: Economic, Political and Cultural. Such assessments are deeply influenced by the approach one adopts towards globalisation. It allows him to highlight some features and ignore the rest. Some of the most salient features of the impact are highlighted here below:

12.5.1 Economic

a) Those who are favourably disposed to globalisation stress the following:

i) It has been beneficial to consumers. It has increased the scale and allocative efficiency of markets for goods and capital in the wake of globalisation.

ii) It is supposed to have released huge unutilised resources and led to a great economic recovery worldwide.

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iii) It has resulted in the rolling back of the state; undexamined parasitism and bureaucracy and has led to a spurt in entrepreneurship and knowledge based industry.

iv) It has introduced a great deal of flexibility relative to the kind of rigidity that prevailed under the welfare regime and state controlled order. There is, under its aegis, the rise of a flexible mode of production, work processes, labour markets, production, education, ' patterns of consumption, savings etc.

v) It has set into motion a highly intensified process of mergers and acquisitions of enterprises, promising a global economic order of both scale and quality.

vi) Globalisation has tightened the rules of the game while at the same time introducing flexibility. There prevailed a great deal of anarchy when national economies dictated the terms. Within the nation-states liberalisation has enhanced fiscal discipline.

vii) Globalisation has greatly facilitated the movement of capital and lessened the dependence of developing countries on bilateral and multilateral agencies such as the IMF and world bank. They can make their option today for FDIs or have an access to global capital markets.

viii) For several countries globalisation has been an important mechanism to upgrade their technology and get an access to the global markets.

ix) Globalisation has led to the appreciation of several technological innovations whkh closed societies may not have encouraged. In their turn these technologies have made global flows more intense and rapid.

x) Globalisation has linked communities and cultures and enhanced the chances.

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xi) One of the biggest gainers from globalisation are criminals. At present, Six major international crime syndicates are believed to gross US \$ 1.5 trillion annually from the proceeds of crime.

xii) There have been widespread protests against the creeping global order by those who are at the losing end of the globalising drive. Strong protests were voiced by thousands of protestors at the venue of the IMF-World Bank Spring meeting in April 2000.

12.5.2 Political

a) It is argued that the great expansion of liberal democracy world-wide would not have been possible without the promises of globalisation.

b) Globalisation has strengthened accountability and transparency of power and led to good governance.

c) It has greatly circumscribed the power of the nation-state. Opponents of the ruling elites and the disadvantaged groups have an access today to a wider world. In fact several dissident voices and advocacy groups have effectively made use of globalisation to advance their concerns.

d) There are new institutions of governance today at various levels. They fill an important vacuum by reorganising power at different levels and directing it towards specified ends.

e) Globalisation has affected class relations enormously. There is a shift of power to capital and to the developed world and transfer of decision-making to an alliance of international financial organisations and corporate capital. There is a decline in the power of the organised working class.

f) Globalisation has led to new linkages through patterns of migration and created a new elite with a similar life-style in every big city of the world. At the same time it has created a pool of migrant and local labour at the bottom of the labour market.

g) Globalisation has radically undermined the spatial and territorial anchoring of power. In its wake there is the explosion of ethnic and community identities and the avowal of fundamentalism.

h) It has created global electronic communities of sorts. They allow a diversity of alternative or radical voices to be accessed and heard as they facilitate the grouping of dominant interests. Globalisation has reinforced inequalities within and between nations in terms of access to information and knowledge. They have spawned new social categories of 'information rich' and 'information poor'.

j) Neo-liberal ideology has emerged as the reigning ideology under globalisation with its stress on market freedom, private property and accumulation. It has little respect for alternative and hallowed conceptions of the good. It disparages politics overtly while upholding individual enterprise. At the same time globalisation has led to the construction of a hierarchised world presided over by the US and global capital.

k) There has emerged an interesting coalition of the traditional 'left', opposed to global corporate capital and the 'right' defending national culture. Globalisation has led to the rise of new social movements that do not fall within the vortex of traditional class movements, such as of women, peasants, ethnic communities, displaced people etc.

12.5.3 Cultural

a) Globalisation has facilitated a phenomenal growth in the global circulation of cultural goods. They include printed matter, music, visual arts, cinema and photography, radio and television. Elements of ethnic cultures are woven through them. However the ownership of these goods is concentrated in a set of media corporations. Fewer voices can be heard despite the proliferation of the media. Nation-states have little control over them as they are dominated by transnational corporations such as Time Warner, Disney, Viacom, Telecommunications Inc., New Corporation, Sony, Seagram, General electronic, Dutch Philips etc. b) Under globalisation there has been a great expansion of western and " particularly American culture. There has been a great imbalance between cultural flows. Accusations of cultural imposition and domination have been widely heard. Cultures have become vulnerable. eg. vernacular languages in India.. However the extent of such domination and the ability of the local cultures to contest it has been a debated issue. c) The English language has emerged to a predominant position of being the language of communication within and between global organisations and institutions. It has become the transmission belt for western goods and services. d) It is interesting to note that in spite of globalisation certain institutions such as the press, television, national broadcasting are still anchored in h&onal and the cultural ambiances. e) Globalisation involves extensive migrations of people both within and across states. The communication networks make other cultures shape one's way of life very intimately. They strengthen the fabric of cultural pldsm which increasingly confronts tendencies for cultural domination.

Check Your Progress 1

Note: i) Use the space given below for your answers.

ii) Check your answers with the model answers given at the end of the unit.

1) Highlight any three supposed economic benefits of globalisation.

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 2) Enumerate the political impact of globalisation.

12.6 RESPONSE OF THE INDIAN STATE

12.6.1 Measures towards Globalisation

The Indian government took recourse to certain piecemeal measures of liberalisation from 1980 onwards and warmly responded to the technological basis of globalisation. In the beginning its response to the larger measures of liberalisation continued to be lukewarm and hesitant. It was in the wake of the external repayment liability crisis of 1991 that government took a qualitative turn towards liberalisation. It involved the following major changes in policy:

a) Trade policy reform: This reform sought to dismantle the earlier import licensing system. It proposed heavy scaling down or removal of tariff and reforms on quantitative restriction on imports. Except on consumer goods non-tariff barriers were phased out.

b) Industrial Policy Reform: It sought abolition of industrial licensing except for a few specified industries; items reserved for public sector came to be highly restricted and it extended favourable treatment to FDI. Restrictions on investment by large industrial houses was abolished and a phased programme of disinvestment of public ownership in public sector undertakings was initiated. The on-resident Indians (NRIs) were extended additional encouragement to invest and outward investment by Indian enterprises was liberalised. Exchange rate reform: The rupee was devalued in 1991. Partial convertibility of the rupee was done in 1992-93 and full convertibility on current account in 1994.

c) Capital market reform was undertaken by setting up the Securities and Exchange Board of India (SEBI).

d) Financial Reforms: Private sector banks including foreign joint venture banks came to be permitted to undertake and expand their operations. A policy regime for private non-banking finance companies came to be established. There is no policy agreement on the direction in which reforms, termed as second generation reforms, have to proceed further. In its absence, the government has attempted to build in competition in sectors where hitherto the public sector enjoyed a monopoly; thrown open the insurance sector for market competition; attempted to lay down a set of directives for disinvestment and removed tariffs on a large number of items in accordance with its agreement with the WTO.

12.7 DEBATE ON LIBERALISATION AND GLOBALISATION IN INDIA

Unlike in most of the other countries which set on reforms much earlier Indian liberalisation has been around for less than a decade. It makes assessment of trends and tendencies less accurate. The debate on liberalisation in India has squared around issues that have been central to the nationalist agenda in India. It is not entwined in the kind of ideological debates that marked the liberalising policies in the West, particularly Great Britain.

Given the fact that the political centre, from the right to the left, has not opposed liberalisation it enjoys widespread political consensus in India at present. Except the communist parties and the Rashtriya Swayam Sevak Sangh (R.S.S.) and some of its affiliates, all the other major political parties in India have extended their support to the liberalising measures. Anyway, they have not been actively opposed to most of these measures. This consensus, however, is highly precarious. The debate on the following issues shows that this consensus cannot be taken for granted for long

12.7.1 Growth of the Economy

Although growth of the economy, both quantitative and qualitative, alone cannot be the rationale for liberalisation, in a developing society like India it cannot but be of central importance. Besides, although growth by itself may not meet the other desirable objectives growth is absolutely central to pursue the? Further we cannot gainsay that in the absence of liberalisation, the trends in the economy prior to its adoption would have persisted:

- i) India's compound rate of growth in the second half of 1980's was 5.8 per annum. The average rate for 1992-98 comes to 6.5 per cent per annum. Industrial growth for the period has been 8.1 per cent and it is slightly higher than 7.94 per cent that prevailed in the second half of 1980's. The growth of the industry, however, has been very unsteady. The rate of industrial growth reached a high of 12.8 per cent in 1995-1996 but during 1996-1999 it has been low and unsteady.
- ii) The fiscal deficit in the reform period has remained 5.7 per cent as compared to 8.8 per cent of GDP in the second half of 1980's.
- iii) Inflation has been on the decline during the reform period. However, the growth of consumer index relative to the wholesale shows that food prices and other goods of mass consumption are increasing at a faster pace affecting the weaker sections.
- iv) India has generally lagged behind in R&D effort. "However, ever since India embraced the path of liberalisation and globalisation its spending in R&D has fallen. India spent 0.96 per cent of its GDP on R&D in 1988 which came down to 0.8% in 1999. The corresponding amount is 2- 3% of the GDP for developed countries.
- v) There has been an unprecedented rise in mergers and acquisitions in the Indian corporate sector after liberalisation.
- vi) After liberalisation there is more flexibility for firms to make their investment decisions and in choosing plant capacities. Unprecedented restructuring of the Indian industry to meet the challenges of the global market has taken place during the last one decade. Dilution of the MRTP act has removed many restrictions on corporate investments and growth.

12.7.2 External Control

The growth of the economy has definitely been favourable so far. At the same time Indian economy has clearly tended towards monopolies and towards integration with the global economy. In this context following trends :

9 Proportion of trade to GNP has gone up steadily from 14.1 per cent in 1990-91 to 18.2 per cent in 1998-1999. India's economy has become increasingly interdependent on the global economy. n The remittances of Indians abroad has been to the tune of 2.5 per cent of GDP during the liberalising decade compared to just 1 per cent in the late 1980's. In fact just prior to liberalisation these remittances were declining. Indians are one of the major contenders in the global labour flows today. iii) The FDI flow to India in 1991 was \$200 million while US\$ 14.6 billion worth of FDI was approved in 1997 although the actual inflow was just \$3.2 billion. Even this amount was a major advance compared to the situation prior to liberalisation. However, out of the estimated \$684 billion FDI flow worldwide in 1994, India's share was a pittance. Besides most of the FDI flow in India so far has been directed towards the non-manufacturing sector and for acquisition of already existing units. iv) Liberalisation has facilitated Indian companies raising resources in western stock exchanges. It was 2.5 per cent of the GDP during the period 1996-97 to 1998-1999. v) MNCs have taken advantage of the new rules to increase their stake in their existing affiliates in India. However, the thrust is still to produce for the Indian Market. Little export-oriented FDI has hitherto come to India. vi) External debt has become much more manageable after embracing the liberalising measures. A healthy foreign exchange reserve has been built up of about US\$35 billions in 2000. viii India has liberalised its trade with South Asia at a faster pace. All quantitative restrictions have been removed on imports of 2300 items from SAARC countries. However, given the volume of trade flows of South Asian countries, this regional liberalisation will not make much of a difference in the near future. viii) Changes in Foreign Exchange Regulation Act have removed shareholding and business restrictions. Restrictions on income repatriation have been removed. Similarly policies related to foreign

technology purchases and licensing have been liberalised. Following liberalisation Indian trade has registered a substantial increase and its foreign exchange position has definitely improved. The manufacturing base of India, however, has not seen any substantial expansion. Indian economy today has integrated with the global economy in terms-of transnational capital. The remittances of Indians abroad provides certain leeway but its certainty depends to a great extent on the continued pursuit of the liberalising measures.

12.7.3 Impact on Unemployment and Poverty

Scholars in India are deeply divided into two rival camps on this issue. One group argues that unemployment and poverty have worsened following liberalisation and the other group suggesting that it is not so. The latter argues that either liberalisation has turned the slide or established the framework and conditions for reduction of unemployment and poverty. Here below are a few trends in this regards:

- i) The incidence of poverty declined for all categories of workers over the first decade of liberalisation. However, the rate of decline in poverty ratios was lowest for casual workers and it was highest for regular workers. As per the NSS data, 1997, poverty in India was around 37 (rural 38 and urban 34) per cent. However, the 1980's recorded a faster decline in rural poverty and the decline slowed down considerably after the reforms. The share of self-employed workers came down from 61.4 per cent in 1972-73 to 54.8 per cent in 1993-94. There was increase in the proportion of casual labourers from 23.2 per cent to 32 per cent. There is a decline in the rural non-farm employment. Casualisation of labour got accentuated with liberalisation. Quality of employment has deteriorated on that account. Real wages for casual labourers increased in 1990's but the growth has been very slow.
- ii) Although rural poverty decreased in most of the states (except Assam, Bihar, Haryana & Punjab and U.P.) in 1993-94 as compared to 1987- 88, this decline was lower than during the

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period 1983 to 1987-88 and 1977-78 to 1983. Urban poverty showed a higher, rate of decline in nine out of 17 states during 1987-88 to 1993-1994 as compared to the earlier periods.

- iii) In India child labour is on the decline. It declined from 23 percent in 1980 to 16 per cent in 1997 iv) Educated unemployment was declining over time and there has been no sign of its increase after liberalisation. However, in the rural areas unemployment among graduates, both boys and girls, has increased during the decade of liberalisation. Although, liberalisation has not accentuated unemployment and poverty in India as much as in several other countries, the trend is clearly in that direction. Further liberalisation is exasperating the urban-rural cleavage in India.

12.7.4 Inequality between Rich and Poor States

Inequality between rich and poor states has increased during the years of liberalisation. However, it is difficult to bracket any one of the states as rich or poor with respect to all the indicators. However, certain states such as Gujarat, Maharashtra, Karnataka, Andhra Pradesh, and Tamilnadu have succeeded in orienting themselves favourably towards the liberalising and globalising measures much more than other states. Some states such as Bihar, Uttar Pradesh and Orissa have consistently remained lacking. i) In Andhra Pradesh, Gujarat, Karnataka, Maharashtra, West Bengal and Punjab, poverty started to decline under liberalisation to an appreciable extent while there is no such decline in Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh. ii) The inter-state inequalities in per capita income increased significantly in 1990's while there was no evidence of convergence and divergence during the period 1965-85. iii) Rich states showed much higher growth while poor states recorded lower growth during 1985-96.

12.7.5 Basic Industries and Infrastructure

- i) There has been a sharp decline in government capital investment from 5.5 per cent to 3.6 per cent of the GDP from 1990-91 to 1998-99. It has led to the relative neglect of the structural sectors. ii) The government

has not succeeded in ploughing FDI's towards the basic industries and infrastructural sector to any significant extent. iii) The prioritisation of disinvestment during the second generation reforms is unlikely to expand the manufacturing base either. iv) The private sector in India has not elicited much interest in making investment in the basic industries and infrastructure. India may not be able to sustain, let alone improve, the kind of advantage that it has enjoyed in basic industries for long.

12.7.6 Investment in Social Sectors

There is declining expenditure in social sectors such as education, health and poverty alleviation in the liberalising decade in India.

- i) The expenditure of central and state governments on education on the percentage of GDP is found to have declined from 3.6 per cent in 1992 to 3.4 per cent in 1996-1997, showing a declining trend during this period. The worst affected has been the sector of higher education. Even the priority sector of primary education does not seem to have received any significantly larger allocation during the reform period.
- ii) In the states too, the overall developmental expenditure has declined.
- iii) The allocation to health sector has declined from 1.7 per cent in VII plan to 1 per cent during 1997-98
- iv) While the central government has taken on a larger share of the social sector over the years, central assistance to states in these areas has declined. For instance, the share of education in centrally sponsored schemes was 12.1 per cent in 1991. It declined to 8 per cent in 1997-98.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your answers with the model answers at the end of the unit.

- 1) Enumerate the significant measures adopted by India towards liberalization.

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2) Suggest the impact of globalisation and liberalisation 'on the labouring masses in India.

12.8 LET US SUM UP

Globalisation has brought the world together as never before. The communication revolution has facilitated this process greatly. However, it has been perceived, by the dobalists, traditionalists and transformationalists very differently. The current version of Globalisation & heralds the triumph of the capitalist system, it is a significant phase in its development as well. For all the cohnectivity and interdependence that it has brought about, trade and capital flows in the world are still concentrated among three regions of the world, made of the US, Japan and European Union Countries. Globalisation has further butressed the hold of the developed world over the rest. Through liberalisation states have hooked their societies on to the globalised world. While the nation-state has been attempting to cope with this development, in its own way, there are new institutions, below, along and above the nation-state, that have come to the fore. Overall globalisation has had a profound impact on the economic, political and cultural domains. Although India was a latecomer to embrace liberalisation it is well-integrated today in the. globalised world. While India has registered appreciable economic and trade growths following the adoption of the policy of liberalisation, the existing trends suggest that the lot of the disadvantaged and the labouring masses has worsened during this period.

12.9 KEY WORDS

Liberlization: Liberalization is a process whereby a state lifts restrictions on some private individual activities. Liberalization occurs when

something which used to be banned is no longer banned, or when government regulations are relaxed. Economic liberalization is the reduction of state involvement in the economy.

Nation-State: A nation state is a state in which the great majority shares the same culture and is conscious of it. The nation state is an ideal in which cultural boundaries match up with political ones.

Sovereignty: Sovereignty is the full right and power of a governing body over itself, without any interference from outside sources or bodies. In political theory, sovereignty is a substantive term designating supreme authority over some polity.

Globalization: Globalization or globalisation is the process of interaction and integration among people, companies, and governments worldwide.

12.10 QUESTIONS FOR REVIEW

1. To know about the Background of Liberalization
2. To discuss about the Liberalisation
3. To know about the Globalisation, Nation-State and Sovereignty
4. To find out the Impact of Globalisation
5. To understand the Response of the Indian State
6. To discuss about the Debate on Liberalisation and Globalisation in India

12.11 SUGGESTED READINGS AND REFERENCES

- O'Sullivan, Arthur; Sheffrin, Steven M. (2003). Economics: Principles in Action. New Jersey: Pearson Prentice Hall. p. 175. ISBN 0-13-063085-3.
- Marcella Vigneri and Paulo Santos (2007) "Ghana and the cocoa marketing dilemma: What has liberalization without price competition achieved?", Overseas Development Institute

12.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

- 1) Increased scale and allocative efficiency of market for goods, undermined the parasitism of bureaucracy and enhanced the choices before the consumers. Globalisation and Liberalisation
- 2) Extensions of liberal democracy, good governance and the rise of new social movements.

Check Your Progress 3

- 1) Restructuring of Indian economy, liberalisation of trade, decline in the expenditure in the social sector.
- 2) It has worsened' their conditions.

UNIT 13: CRITIQUE OF DEVELOPMENTAL MODEL

STRUCTURE

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Post-Development Critique of Traditional Development Theory
- 13.3 Critique of Post-Development Theory
- 13.4 Dependency Theory
- 13.5 Let us sum up
- 13.6 Key Words
- 13.7 Questions for Review
- 13.8 Suggested readings and references
- 13.9 Answers to Check Your Progress

13.0 OBJECTIVES

After this unit, we can able know:

- To know about the Post-Development Critique of Traditional Development Theory
- To discuss the Critique of Post-Development Theory
- To describe the Dependency Theory

13.1 INTRODUCTION

Development theory is a collective term for a conglomeration of theories that seek to explain development as well as propound ways by which desirable societal change (development) can be achieved. This essay examines the post-development critique of traditional development theories. First, the main traditional development theories are identified and their main line of argument outlined. Secondly, the essay traces the antecedents of post-development thinking and the core of the post-development argument. The main criticisms of traditional development theories by post-developmentalists are then presented and the essay concludes by examining the merits of the post-development argument. The main traditional or classical development theories include Modernisation theory, Marxism and its variants, and Dependency theory.

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The roots of these theories especially modernisation theory is often traced to the 'Idea of Progress', which emerged in the 18th century 'Age of Enlightenment'. This idea of progress gained prominence in the era of the French and English revolutions and after this period of rapid social and economic change in Europe, began to spread and was believed to be universally valid (Tucker, 1999). The theory equates development with modernisation which is believed to be a kind of spatio-temporal process. Development is basically understood and measured as economic growth. The theory urges that industrialisation is the tool for achieving this economic growth. Gross National Product per capita is the indicator of such growth (Potter et al., 2008). Marxism is a socio-economic and political worldview as well as a tool of inquiry grounded in a philosophy that is both materialist and dialectical. According to Bertell Ollman , Marxism has its origins in German philosophy, English political economy, and the French utopian socialism. It is an analysis of class-relations and conflict within capitalist society between the owners of the means of production on one hand and workers on the other. Workers sell their labour to owners of the means of production who exploit their surplus labour for profit. The theory stresses the struggles of the working class and the need to replace the capitalist system in order to improve the lot of ordinary people. According to this theory, contradictions within capitalism will lead to class conflict between the proletariat (workers) and the bourgeoisie, culminating in a social revolution and the establishment of socialism. Socialism would eventually also give way to communism as the productive forces and technology continued to advance. Applying the theory to the global scale, Marxists argue that during the era of colonisation, surplus was extracted and appropriated by the developed nations. The key then to development for the poor countries is "disengagement from the deforming impact of the world capitalist economy" (Porter et al, 2008: 107). Dependency theory arose in the aftermath of World War II and became a global force in the 1970s as a critique of modernisation theory. Its main proponents were Latin American and Caribbean scholars, focusing on the unseen structures that mould and shape society. Some see the theory as a convergence of Marxist ideas about underdevelopment. The main contention of this

theory is that the underdevelopment of poor countries is caused by the development of advanced nations. This is as a result of the way poor countries are integrated into a 'world system' where resources flow from a "periphery" (poor countries) to a "core" (wealthy countries), thus, enriching the latter at the expense of the former. Import substitution, state intervention and regional integration are the new tools advocated by this theory to bring development to poor nations (Potter et al., 2008). By the late 1980s, it had become obvious that the classical approaches to development had failed to address underdevelopment in poor countries. Many scholars inspired by Michel Foucault and the poststructuralist school of thought, (prominent among whom include; D. L. Shet, Rajni Kothari, Ashis Nandy, Vandana Shiva, Majid Rahnema, Orlando Fals Borda, Gustavo Esteva, and Arturo Escobar) began to discuss what they called the 'end of the development era'. The concept of post-development also referred to as 'anti-development' and 'beyond development' then arose as a critique of classical development theories in the early 1990s following this disillusion over the perceived failure of modern development theories (Potter et al., 2008). Post-development theorists hold that the concept of 'development' is a creation of the West with an underlying western political and economic ideology that extols western styled modernization as a model for other countries to emulate. Traditional development theories mirror the intentions, worldview and mind-set of the west as the standard whilst labelling the rest of the world as backward. Post-development theory therefore announces the demise of development and urges for 'alternatives to development' (Matthews, 2004).

In a wider context, the philosophical and academic origins of post-development are steeped in 'postmodernism' which is a critique of modernism and for that matter, modernity. Modernity refers to the period beginning sometime before the Second World War marked by a move away from feudalism/agrarianism towards industrialization, capitalism, rationalism, secularism and the rise of the nation state (Löper, 2011). Postmodernism rejects the modernist ideals of secularity, rationality, capitalism and individualism. The concept also rejects the notion of a single grand theory of society. Taking an anti-Enlightenment stance,

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postmodernists believe that "Modernism", is inappropriately dependent on Reason, and Rationalism, and is inherently western, elitist, and non-multicultural and therefore oppressive. In time, this led to a complete rejection of development as imposing cultural westernization and inflicting environmental destruction. To post-development theorists therefore, the development experiment has not only been irresponsible, but also seen by the rest of the world as a failure (Nederveen Pieterse, 2009). For example, Sachs (1992: 1) declared that: "The idea of development stands like a ruin in the intellectual landscape. Delusion and disappointment, failures and crime have been the steady companions of development and they tell a common story: it did not work. Moreover, the historical conditions which catapulted the idea into prominence have vanished: development has become outdated". These statements, as Mathews pointed out, 'reflect the disillusionment with development felt by several scholars'. These scholars wrote off the concept of development, declaring it to be 'obsolete or bankrupt and the practice of development to have done more harm than good' (Matthews, 2004).

What are the points of criticism leveled on post-development theory? What are they based on? How can they be put into an order? What answers can be found? What remains after a critical approach towards development theory? What are the consequences in theory and what are the practical implications? How do I deal with 'Development', 'Post-Development' and 'Post-Post Development'? These questions cannot all be answered in this single paper. Nonetheless, I will now take a look at the various points of criticism that are being formulated on post-development by different authors. Afterwards I will try to find answers as well as their relevance and usefulness.

3.1 Points of Critique

Referring mainly to Tanya Jakinow (Jakinow 2008), and Aram Ziai (2007), the following points of critique formulated on Post-Development literature can be seen as core points of 'the critique of the critique':

Post-Development literature is highly influenced by Foucault and the method of discourse analysis: consequently, hegemony and power

structures are being deconstructed. But what follows is the ignorance of how discourses can be transformed and resisted at the local level.

The celebration of local knowledge and local resistance leads to a romanticization and an unquestioned belief in tradition. ‚The Local‘ is set equally with authenticity and emancipation. But power structures are, especially in application of the work of Foucault, ever-present (Jakinow 2008: 313). Why then are grassroots movements guarantors for being inclusive, non-hierarchical and democratic? Local forms of oppression are overlooked (Engel 2001:140). Nederveen Pieterse comments: „while the shift towards cultural sensibilities that accompanies this perspective is a welcome move, the plea for ‚people’s culture‘, indigenous culture, local knowledge and culture, can lead if not to ethnochauvinism, to reification of both culture and locality or people. It also enforces a one-dimensional view of globalization which is equated with homogenization“ (Nederveen Pieterse 1998: 366).

Additionally, the exclusive validity of local knowledge precludes the view on multiple knowledge. In consequence...

...the fundamental criticism on modernity and modern science implicates a rejection of the benefits: for example, the rights of the individual as well as the techniques of modern medicine are dismissed, although they brought health security and a higher life-expectancy (Ziai 2007: 102). Nederveen Pieterse even classifies Post- Development to belong „to the neo-traditionalist reaction to modernity“ (Nederveen Pieterse 1998: 366?). In his opinion, Post- Development is struck into a paradox: not showing any regard for progressive implications and dialectics of modernity but at the same time dealing with issues like anti-authoritarianism, democratization, emancipation, that all clearly arose out of the Enlightenment and the modern age, is highly inconsistent (ibid. 1998: 365).

global structures of inequality are not taken into concern. Storey asks for example how local actors are supposed to find solutions at the global level (Storey 2000).

in emphasizing cultural diversity and in rejecting universalism, Post-Development is criticized of being cultural-relativist. Therefore Post-

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Development stands in suspicion to accept oppression and violence and to be indifferent towards the violation of human rights.

Post- Development is accused to feel an affinity for neoliberalism. According to Nederveen Pieterse, it is argued that both approaches reject state intervention and agree on state failure: Escobar is skeptical towards state planning, he questions social engineering and the faith in progress lead by the state. The neoliberal thinker Deepak Lal condemns state-centered development economies (Nederveen Pieterse 1998: 364). Further, also advocates of a neoliberal capitalism favor a strong civil society and the liberty of all citizens to choose their possibilities.

The final criticism is that Post-Development, instead of offering a solution, sticks on the classical development paradigm by being in position of permanent critique. According to Tanja Jakimow Post-Development is „in danger of having to constantly re-manoeuvre to retain its ‚alternative‘ status as elements of its critique are incorporated into the mainstream“ (Jakimow 2008: 313). There is no vision of how Post- Development can look like in practice: „Post- Development parallels postmodernism both in its acute institutions and in being directionless in the end, as a consequence of the refusal to, or lack of interest in translating critique into construction“ (Nederveen Pieterse: 361).

13.2 POST-DEVELOPMENT CRITIQUE OF TRADITIONAL DEVELOPMENT THEORY

The main criticism of traditional development theories by post-developmentalists is that ‘development’ is a construction of the west. All major strategies are Eurocentric in origin and in bias. Neither the development language nor its institutions are neutral. It is seen as a tool of imperialism and oppression designed by developed countries to ‘manage, control and even create the Third World economically, politically, sociologically and culturally’ (Tucker, 1999: 1). Development is necessarily Eurocentric because its origins and intent lay in the European efforts to deal with the essential fact of capitalism and the ‘paradoxical unity of modernity’ (Watts, 2009). Its roots are in the

French and English revolutions, which not only legitimized colonisation and imperialism, but made it imperative by providing the conceptual and moral basis. (Tucker, 1999). By this concept Europe arrogated to itself the right to determine the future of other peoples by furthering the course of imperialism in other parts of the world. As an illustration, Tucker points out how ‘The General Act of the Berlin Conference (1884 - 85) ‘pledged support for missionaries and institutions’ “‘calculated to educate the natives and to teach them to understand and appreciate the benefits of civilization”” and how in 1919, Article 22 of the Covenant of the League of Nations’ gave to ‘advanced’ nations “as a sacred trust of civilisation” responsibility for ‘those’ “peoples not yet able to stand by themselves under the strenuous conditions of the modern world” (1999: 5). This official declaration meant that Europeans not only had a right to dominate the rest of the world, but a duty to do so. Watts, also argues that the 1940 British Colonial Development and Welfare Act and the 1946 French Investment Fund for Economic and Social Development were responses to the increasing dangers of rising independence movements in Africa in the aftermath of World War II (Watts, 2009). These so called development plans were a means to placate these movements and perpetuate the colonizing mission at the same time. It is this colonisation mission that is disguised today as a development discourse portraying development as a ‘necessary and desirable process’ and in fact as ‘human destiny itself’ (Tucker, 1999: 1). Hence Escobar points out how in the post-war period, development has “functioned as a mechanism for the production and management of the Third World” (1992: 413). He therefore regards this modern development discourse as “the latest insidious chapter of the larger history of the expansion of Western reason” (Watts, 2009). Sardar calls this imposition of the concept of development on the rest of the world as the power of the West to define. As he says, “The real power of the West is not located in its economic muscle and technological might. Rather, it resides in its power to define” (1999: 44). Poor countries are stunted in their capacity to articulate their own identities and world views. This has thus enabled developed countries to dictate what is standard, progressive and desirable and the non-Western countries have to ‘accept these definitions or be

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defined out of existence' (Sardar, 1999). Development however is a Western myth which has no equivalent in many languages throughout the world. It exists only in the vocabulary of the west.

This according to post-development theorists is exactly why the transfer of goods and technologies cannot replicate the economic policies and socioeconomic accomplishments of the West in poor countries. The absence of this concept or myth represents a missing 'symbolic engine' needed to mobilise energies for social reproduction (Tucker, 1999). Post-development theorists also argue that, "development as a practical and intellectual project" is steeped in optimism (Tucker, 1999). It was taken for granted that if poor countries followed the path of the developed countries, they would also become developed. Presented this way, development is seen as a desirable natural process and accepted without question. The consequence of this has been that despite the glorious predictions of traditional development theory, decades down the line, many poor countries are still poor if not worse off than they started (ibid). For example, Porter et al noted that the ratio of the income of the world's richest 20% to the income of the poorest 20% stood at 30:1 in 1960. This rose to 45:1 by the 1980s and by 2000, the United Nations estimated the disparity to have risen dramatically to as high as 70:1! However, data shows that this ratio was only about 3:1 in the nineteenth century (2008: 35-36). The case of Africa where even in the 21st century, millions suffer from lack of basic necessities such as portable water, food and shelter despite development aid and interventions from developed countries signifies an apparent failure in traditional development thinking. This optimism is said to somehow blind the world to other alternatives and inhibit human ingenuity (Tucker, 1999). In addition, traditional development theories are criticized by post-development thinkers as 'Capitalist Driven' and tending to focus on the economic mechanisms of underdevelopment but not the social and political processes. Development was seen as economic growth, industrialisation and the establishment of social and political institutions on the model of the United States of America. The cultural dimension is missing in the discourse. The production of cultural meanings and symbols has been regarded as an epiphenomenon, the economic and political domains

being of primary importance in the final analysis. Where other cultural formations are present, they are discredited by modernisation theorists as forms of resistance to be overcome (Tucker, 1999). Traditional development theory has been constructed on the basis of a false categorisation of societies into ‘traditional’ and ‘modern’, ‘traditional’ or ‘primitive’ being ascribed to societies that deviate from the ‘European techno-economic standard’. The categorisation has tended to rule out any possibility of these societies having anything valuable to offer the world. As Tucker puts it, the cosmologies of these traditional, indigenous societies have been cast “in metaphors that the west consigns to the realm of myth, superstition and irrationality” (ibid: 19) and therefore not worthy of attention. The political economy approach of traditional development theorists is said to be inadequate for development theorizing and must therefore be complemented by a theory of culture (Tucker, 1999) Development is conceived as a linear, universal process consisting of successive stages through which traditional societies can attain a modern status. Development, industrialisation and modernisation were taken for granted as shared goals. However, by this conception as Tucker points out, ‘history is reduced to a scale of progress on to which societies are mapped’ (1999: 8). Post-development scholars therefore argue that the concept of ‘traditional society’ is a myth, ‘an invention of the European mind’, and a convenient fiction to legitimize the right, and duty of ‘modern societies to transform them in their image and likeness’ (ibid). Rather than accept this vision of the world, Escobar urges that, there is “an acute need to assert the difference of cultures, the relativity of history, and the plurality of perceptions” (Escobar, 1992). In the absence of input from indigenous peoples development has been a source of misery to many people throughout the world. Fals Borda, the Columbian Sociologist and a post-development scholar, refers to development as a “model of exploitation alien to our context and without support among our people, introduced without realizing that this model impoverished our cultural roots and sources, destroying our historical identity and impairing the creative and productive possibilities of most people” (cited from Escobar, 1992: 419). Escobar calls for the poor countries to shake off the meanings imposed on them and to open up the

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possibility for a different regime of truth (ibid). Tucker argues that modernity is not the monopoly of European or North American Societies but has affected and been affected by almost all societies in the world (Tucker, 1999). In addition to the above, traditional development theory is much criticized for being nomothetic and static rather than idiographic and dynamic. The theories are seen as meta – narratives or universal in their assumptions. That is to say, traditional development theory has tended to focus on reducing the complexity and variety of human experiences throughout the world into natural laws. The concept of development is said to have been presented as a ‘natural law’, an ‘objective reality’ and an ‘evolutionary necessity’ (Tucker, 1999: 1). However, post development theorists argue that even the very classical question of geography: ‘why is it like this just here?’ is idiographic. Development discourse should therefore be open to legitimately include ‘other types of knowledge, other kinds of experiences, other styles of doing things (and) that takes into account the views and reality of the ‘beneficiaries’ of Development, (who have been) until now for the most part its victims’ (Escobar, 1992). There is therefore no single explanation or approach to development but rather, all explanations and approaches are part of a complex whole. A further criticism of traditional development theories is that it sees development only as a top down approach. That is, development is provided by governments and international agencies to the people. Post-development scholars argue that, development must come from below. They place emphasis on grassroots participation and on new social movements as the medium of change. These social movements are described as “collective, territorially based action, operating outside the political system with the aim of defending or challenging the provision of urban services against the interests and values of the dominant groups in society” (Potter et al, 2008: 19). For example, the Zapatistas Movement in Southern Mexico, an indigenous uprising which broke out in 1994, was intended to lead to new legislation recognizing the social, economic, and cultural rights of indigenous peoples (Stavenhagen, 2011).

13.3 CRITIQUE OF POST-DEVELOPMENT THEORY

Needless to say that post-development otherwise known as anti-developmentalism has been subject to some stinging criticism as well. Post-development scholars like Escobar has been criticised for attributing to the Third World, “his own mistrust of development, a view which they may not share” (Porter et al, 2008:18). Pieterse argues that Escobar’s underestimates the desire for and appeal of development. His (Escobar) representation of grassroots movements in the Third World is biased. These grassroots movements are as diverse in their intentions as they are numerous in number. Their diversity precludes a simply label. “social movements in the South are much too diverse to be simply captured under a single heading. Many popular organisations are concerned with access to development programmes, with inclusion and participation, while others are concerned with alternative development and renegotiating development, with decentralisation, or alternative political action. 'Anti-development' is much too simple and rhetorical a description for the views of the 'victims of development'” (Pieterse, 2000: 185). Post-developmentalists’ fundamental criticism of modernity and modern science also indicates a rejection of the benefits such as formal education and the techniques of modern medical care that Western-shaped development has brought to many parts of the world (Potter et al., 2008).

Furthermore, the emphasis of post-development on cultural diversity and the rejection of universalism, is criticized as cultural relativity. The theory is suspected of being in a position to accept oppression and violence and of being indifferent towards the violation of human rights. It is also said to be ignoring the global structures of inequality. This is said to be result in a ‘Pontius Pilate politics’ where the rich wash their hands off the problems of the poor and marginalised (Jakimow, 2008). Post- Development theory is also accused of having an affinity to neoliberalism since both theories reject state intervention and agree on state failure although for different reasons. “Postdevelopment arrives at development agnosticism by a different route but shares the abdication of development with neoliberalism” (Nederveen Pieterse, 2000: 187).

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Pieterse points out that, Escobar questions social engineering and progress lead by the state and is sceptical towards state planning, the net political effects are about the same (Nederveen Pieterse, 2000). Post-Development is further accused of failing to offer a solution. Instead, it sticks on the classical development paradigm by being in the position of a permanent critique, all past and no future. “Post- Development is in danger of having to constantly re-manoeuvre to retain its ‘alternative’ status as elements of its critique are incorporated into the mainstream” (Jakimow 2008: 313). In other words, there is no vision of how Post-Development looks like in practice. “Post- Development parallels postmodernism both in its acute institutions and in being directionless in the end, as a consequence of the refusal to, or lack of interest in translating critique into construction” (Nederveen Pieterse, 2000: 187). The focus of post-development on community and the traditional as a solution to hegemonic development paradigms are criticised as romantic and nostalgic. The exclusive validity of local knowledge precludes the view on multiple knowledge (Jakimow, 2008). Finally, Pieterse puts the icing on the cake when he argues that “the rejection of development does not arise from post-development insights as a necessary conclusion” and that “there is no compelling logic to the post-development argument” (Nederveen Pieterse, 2000: 187). It is possible to share the concerns of post-development without arriving at the conclusion that, development should altogether be rejected.

13.4 DEPENDENCY THEORY

Dependency Theory emerged as a critique to modernization theory which posited that social progress and development of the state predicated on its adoption of modern practices. The proponents of dependency theory sought to rubbish this fundamental claim of the modern theorists underscoring the fact that development for particular states occurred simultaneously and with the underdevelopment of other states. The understandings of development since the 1950s reflected ethnocentric underpinnings which failed to account for the historical influences and impact of colonization, imperialism and capitalism. By challenging the modernist's formula toward states' development, dependency theorists

provide a definition of 'dependency' which asserts "that underdevelopment in Third World societies is the creation of the developed capitalist countries" (Shahidullah, 1977).

Dos Santos stated that "Dependency is an historical condition which shapes a certain structure of the world economy such that it favours some countries to the detriment of others and limits the development possibilities of the subordinate economics" (Chilcote,1974). The unit of analysis for the stance that dependency theorists have assumed surrounds the notion that there's a correlation between states' development or lack thereof and external factors. The dependency school of thought contextualize the relationships between Third World or underdeveloped states and First World or developed states in terms of exploitation or subjugation meted out to the former by the latter. This means that developmental strategies, decisions and choices made by Third World states become either controlled or constrained by the interests of foreign superpowers.

Central to the approach of dependency theorists is the denouncement of capitalism and its principles which perpetuates asymmetric and unequal relationship between states, creating the environmental conditions for underdevelopment. Additionally, dependency school of thought is a part of the "structuralist paradigm which focuses on the class structure and international capital, and the role of the state in shaping and managing the national, foreign, and class forces that propel development within countries"(Chilcote,1974). The position of states in the international system determines their level of power and the extent to which it can be utilized to achieve growth and development, especially at the domestic level. The labelling of Third World countries as such limits and sometimes inhibits their capacity and capability, because it connotes ethnocentric views that underdeveloped countries cannot progress economically, politically and socially by themselves. The case studies of Latin American countries are cited as primary examples of how structured underdevelopment was and is. The economic programs between First World countries and Third World countries are often not mutually beneficial, because the international system historically reinforces subordinate interactions favourably in the developed countries'

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interests. The cycle of dependency has pitted states against each other; centre versus the periphery, developed versus the developing and First World versus Third World.

Although the origin of dependency theory goes back some half century earlier, it still remains relevant in terms of its contribution to the discussions and writings focused on the concept of development. Whilst analyzing development theories such as dependency, it is evident that development is not linear and so approaches towards development must reflect this characteristic. Inasmuch as dependency theory emerged to critique the modernization theory, its assumptions and propositions are also questionable. Dependency theorists amongst themselves have divergent views as it concerns development and different understandings emerge attempting to explain the activities within the international system. Andre Gunder Frank espoused on the internal contradictions of the capitalist system and had scathing commentary for its structure by underscoring its expropriation principles which undermines the strategies for development in developing countries. Capitalism has generated underdevelopment in the peripheral satellites whose economic surplus was expropriated while generating economic development in the metropolitan centres which appropriate that surplus (Chilcote,1974). Presbich emphasized the fact that economic growth in developed countries did not translate to developing countries, debunking neoclassical theory's that economic gains by one was beneficial to all.

A critical assessment of Dependency theory would be incomplete without addressing the strengths and weaknesses of the framework. It is clear that theories are attempts to explain particular behaviours, actions and attitudes of actors within the international system. Therefore it must be emphasized that all theories have addressed the issues of development and by extension, underdevelopment, to an extent based on the principles that they have touted. Critics of the Dependency school of thought argues that it is overwhelmingly concerned with the state of dependency being experienced by Third World countries that it doesn't address those periods of growth and development which occasionally occurs in these states. Dependency theorists were so generalist in their approach that a failure to account for the unpredictability of the world capitalist market,

limits the scope of their propositions in terms of being solely pessimistic about the effects of capitalism on countries' domestic market. Ironically, modernization theory takes a similar approach that is, altogether neglecting to study the internal dynamics of developing countries which may allow some to experience sharp periods of growth and development in a short space of time; irrespective of the exploitative economic relations which often exist between themselves and developed countries.

The case of Singapore is an example that critics of Dependency theory use to bolster the argument made that internal factors and conditions of so-called Third World countries have more bearing on their economic growth and development and not the external factors that dependency proponents focus on. The Singaporean model alludes to the capacity and capability of states to induce development, despite the internal challenges that will present themselves. The fact that Dependency proponents are yet to repudiate this position, critics have gone as far to state that the existence of the capitalist world economic system has given birth to many thriving emerging economies. Then, the conclusion can be made that the unequal economic relationships that characterize the world economic system is a stimulant of growth and development. Furthermore the causative element for a state's lack of development is never definitive. Although dependency theorists conclude that economic and social backwardness are as a result of the asymmetrical relationships that exist between states, critics challenge this assumption by asking if it's the inherent social and economic vulnerabilities of countries that have made them dependent on those without, that is, developed countries.

The descriptive nature of Dependency theory has been criticized as one of its fundamental flaws. The arguments posited by the main proponents have generally described in great detail the tenets from the perspective that capitalism is the main culprit for thwarting the developmental efforts of Third World countries. The critics of Dependency theory describe the framework as static failing to address the nature of underdevelopment which it is primarily concerned about. A need for prescriptive reasoning is needed to improve the value of the theory, so that Third World States are able to take strategic actions and adjust development strategies to remove state's dependency on other states. Developments in the 1980s

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such as the rise of the Asian Tigers, the fall of socialist governments for example, the Manley regime undermined dependency theory and led to the general rejection of the theory as a viable alternative for development, [which] outlived the reality it sought to depict. Other critics argue that the theory consists of methodological deficiency, since dependency theorists posit that all states are dependent on and for something (Sanchez, 2003). The final critique for Dependency theory relates to the view that it is unscientific mostly because it can't be tested. Empirical support to the framework of Dependency has so far been largely drawn from the specific historical situation, moreso to prove that relations between states are defined in exploitative terms. Perhaps the most glaring weakness of dependency was its lack of empirical grounding (Sanchez, 2003).

Although the criticisms levelled at Dependency theory challenges its credibility and applicability toward the international system the full package must not be totally rejected. The theory is useful and appropriate in terms of the positions it has taken in explaining the concept of development in tandem with underdevelopment. Although it is largely descriptive, "it presents a general framework that enables one to locate the object of study, identify the conceptual apparatus and formulate propositions for empirical investigations"(Shahidullah,1977). This directly refutes the claims of dependency theorist critics, that Dependency theory is altogether unscientific. The origins of Dependency theory has given it pioneer status in exposing ethnocentric assumptions of modernization theory. Notions of development are controlled by certain states whose ideologies are steeped in Western thinking and ideals, which the dependency theorists fully discuss in their propositions. Probably the most controversial and unorthodox (at that time) position presented by dependency theorists were those which explained the structural contradictions of capitalism as a system of economy. This opened the floodgates for varying strains or school of thought seeking to expound on or destroy the possibilities of developing theories concerned with underdevelopment or development. [Additionally] the Dependency theory has made it possible to look at development as a dynamic process and underdevelopment as a problem of transition between pre-capitalist

and capitalist societies (Shahidullah,1977). Most importantly the theory of Dependency is arguably solution oriented and emerges as a useful approach because it directly deals with the problem of underdevelopment.

In conclusion, the Dependency theory has extended the knowledge base and approaches to development which explains the structural causes but provides implicit and explicit solutions to stymie underdevelopment in states. Like all other theoretical approaches, some tenets are highly refutable; however this does not mean that the value of the entire body of propositions is not substantive or is insufficient.

Check Your Progress 1

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1. How do you know about the Post-Development Critique of Traditional Development Theory?

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2. Discuss the Critique of Post-Development Theory.

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3. Describe the Dependency Theory.

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13.5 LET US SUM UP

The postdevelopment critique holds that modern development theory is a creation of academia in tandem with an underlying political and economic ideology. The academic, political, and economic nature of development means it tends to be policy oriented, problem-driven, and

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therefore effective only in terms of and in relation to a particular, pre-existing social theory.

The actual development projects thus initiated, by both governments and NGOs, are directed in accordance with this development theory. Development theory itself, however, assumes a framework already set in place by government and political culture in order to implement it. The development process is therefore socially constructed; Western interests are guiding its direction and outcome, and so development itself fundamentally reflects the pattern of Western hegemony.

Development as an ideology and a social vision is ingrained in the ideals of modernization, which holds western economic structure and society as a universal model for others to follow and emulate. Rooted in western influence, the developmental discourse reflects the unequal power relations between the west and the rest of the world, whereby the western knowledge of development, approach toward development, and conception of what development entails, as well as perceptions of progress, directs the course for the rest of the world.

Influenced by Ivan Illich and other critics of colonialism and postcolonialism, a number of post-development theorists like Arturo Escobar and Gustavo Esteva have challenged the very meaning of development. According to them, the way we understand development is rooted in the earlier colonial discourse that depicts the North as "advanced" and "progressive", and the South as "backward", "degenerate" and "primitive".

They point out that a new way of thinking about development began in 1949 with President Harry Truman's declaration: "The old imperialism—exploitation for foreign profit—has no place in our plans. What we envisage is a program of development based on the concepts of democratic fair dealings."

While claiming that the "era of development" began at this point, post development theorists do not suggest that the concept of development was new. What was new was the definition of development in terms of an escape from underdevelopment. Since the latter referred to two-thirds of the world, this meant that most societies were made to see themselves

as having fallen into the undignified condition of "underdevelopment", and thus to look outside of their own cultures for salvation.

Development, according to these critics, was now a euphemism for post-war American hegemony; it was the ideals and development programs of the United States and its (Western) European allies that would form the basis of development everywhere else.

Post-development theory arose in the 1980s and 1990s through the works of scholars like Arturo Escobar, Gustavo Esteva, Majid Rahnema, Wolfgang Sachs, James Ferguson, Serge Latouche, and Gilbert Rist. Leading members of the post-development school argue that development was always unjust, never worked, and at this point has clearly failed. According to Wolfgang Sachs, a leading member of the post-development school, "the idea of development stands like a ruin in the intellectual landscape" and "it is time to dismantle this mental structure."

To cite an example of this "mental structure", development theorists point out how the concept of development has resulted in the hierarchy of developed and underdeveloped nations, where the developed nations are seen as more advanced and superior to the underdeveloped nations that are conceived as inferior, in need of help from the developed nations, and desiring to be like the developed nations. The post-development school of thought points out that the models of development are often ethnocentric (in this case Eurocentric), universalist, and based on western models of industrialization that are unsustainable in this world of limited resources and ineffective for their ignorance of the local, cultural and historical contexts of the peoples to which they are applied. In essence, the problem post-development theorists see in development and its practice is an imbalance of influence or domination by the west. Post development theorists promote more pluralism in ideas about development.

13.6 KEY WORDS

Development: Economic development is the process by which the economic well-being and quality of life of a nation, region or local

community are improved. The term has been used frequently in the 20th and 21st centuries, but the concept has existed in the West for centuries.

Dependency Theory: Dependency theory is the notion that resources flow from a "periphery" of poor and underdeveloped states to a "core" of wealthy states, enriching the latter at the expense of the former.

13.7 QUESTIONS FOR REVIEW

4. How do you know about the Post-Development Critique of Traditional Development Theory?
5. Discuss the Critique of Post-Development Theory.
6. Describe the Dependency Theory.

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13.9 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1. See Section 13.2
2. See Section 13.3
3. See Section 13.4

UNIT 14: PRIVATIZATION AND LIBERALIZATION

STRUCTURE

- 14.0 Objectives
- 14.1 Introduction
- 14.2 What is the Meaning of privatisation?
 - 14.2.1 Definition
 - 14.2.2 Techniques of Privatisation
- 14.3 Reasons for the Establishment of PSEs and Nationalisation
- 14.4 Why Privatize?
- 14.5 Obstacles to Privatisation
 - 14.5.1 Implementation Issues
 - 14.5.2 Political Constraints
- 14.6 Some Critical Issues
 - 14.6.1 Should Restructuring Occur Before or After Sale of the Unit?
 - 14.6.2 How to Deal with the Problem of Lying Off Workers?
 - 14.6.3 Should the Assets be Given Away or Sold?
- 14.7 Privatisation in India
 - 14.7.1 Disinvestment
 - 14.7.2 Navratnas and Mini-ratnas
- 14.8 Let us sum up
- 14.9 Key Words
- 14.10 Questions for Review
- 14.11 Suggested readings and references
- 14.12 Answers to Check Your Progress

14.0 OBJECTIVES

The 1960s and 1970s were characterised by the rapid expansion of the public sector in the developing world. In contrast, the 1980s witnessed widespread attempts by policymakers to curb the state's economic role. Privatisation first gained prominence in Great Britain under the

leadership of Margaret Thatcher and then spread quickly to the developing world. In this unit, you will be able to:

- a learn the meaning of privatisation;
- a know the reasons of nationalisation of many industries earlier;
- a understand why is there a move towards privatisation;
- a comprehend the problems faced by governments when they try to privatise;
- a discuss some of the important issues in privatisation; and
- a appreciate the Indian experience with privatisation.

14.1 INTRODUCTION

No country in the world has lately been immune from the trend of restructuring of its economy because of a compelling combination of circumstances. India at one time had a huge public enterprise sector. It consisted of nearly 1,300 enterprises, owned and managed by the central government, state and union territory governments, and local governments in the country. These had dominated many sectors of the economy by including: surface irrigation; water supply in rural and urban areas; railways; river transport; ports; postal services; telecommunications; mining (including hydrocarbons and coal); one-third of registered manufacturing (particularly steel, petrochemicals, capital goods, pharmaceuticals, fertilizers); power generation and distribution; oil and gas production and marketing; air transport; one-third of bus transport; storage; and banking and insurance. As you may be aware, some of these sectors have been transferred to private sector recently.

Why are public enterprises in India so inefficient? The answer lies in the environment that public enterprises in India operate in, and in effect this environment has on Privatisation in India 19 the public enterprise managers' incentives to develop new, better and less expensive products, develop new markets, minimise capital and current costs, and maximize profits. Descriptions which illustrate this environment include: the government's deep involvement in the actual management of public enterprises, with the concerned administrative ministries' tendency to

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function as if they were a kind of super management on top of the Board of Directors; Parliament's involvement in public enterprises' affairs in several ways, including through numerous questions and enquiries ranging from questions of overall performance and policy issues to the minutest details of day-to-day functioning; and expansion of the horizon of Article 26 of the Constitution to treat even industrial, manufacturing and commercial public enterprises as 'state' and thereby subject them to the various obligations that go with such a treatment.

'Privatisation, is a term that is employed to convey a variety of ideas. The idea that it most prominently suggests is 'denationalisation' (in the sense of transferring the ownership of a public enterprise to private hands). Another idea in vogue is 'liberalisation and deregulation'; which unleash forces of competition. In this context, the concept of privatisation becomes wider to be understood, not merely in the structural sense of who owns an enterprise, but in the substantive sense of how far the operations of an enterprise are brought within the discipline of market forces. For convenience, a distinction could be made between micro (roll back as producer state); macro (roll back of state as producer, regulator, facilitator, and welfare provider); and mega (roll back in all dimensions including non-economic regulations). Micro privatisation referring to producer state essentially deals with public enterprise.

A few factors seem to have brought the issue of privatisation on the forefront. They are as under: 1) The monopoly status of public sector enterprises (PSEs) bred inefficiency. 2) Lack of competitiveness affects PSEs performance very adversely. 3) Bureaucracy was also responsible for poor performance of PSEs. It was certainly not always upto turning such enterprises around. 4) Restructuring of the PSEs by way of privatisation became very common in developed countries like UK and U.S.A. 5) A lot of intellectual discussion and debate started on privatisation all over the world and pressure of public opinion also exerted influence. 6) Some aid giving agencies even started forcing the pace by linking aid with privatisation. 7) Suggestions from management of public sector enterprises themselves led to fresh thinking towards privatisation.

Privatisation might be worth trying in a few cases as a means of shedding some unimportant or low-priority activities which need not have been in the public sector at all in the first instance; and that it might also be appropriate to try Privatisation in India 23 privatisation, if possible — as an alternative to closure-in the case of lossmaking enterprises for which a package of remedial measures within the fold of the public sector is not feasible. As for privatisation as a solution to the public sector efficiency problem, it does not really solve but evades the problem: it would surely be much better to try a partial privatisation of style before attempting the privatisation of ownership.

Disinvestment in the state owned enterprises has been adopted by both developed and developing countries during the last two decades as part of market oriented reforms. The process of disinvestment in equity was initiated by the Government of India (GOI) during 1991-92 as part of a package of Public Sector Undertaking (PSU) reform. For framing proper strategies of disinvestment of shares of PSUs, a Committee under the chairmanship of Dr. C.Rangarajan was appointed in 1993 by the Government of India. Further, Government of India constituted a five member Public Sector Disinvestment Commission in August 1994 under the Chairmanship of Shri G.V. Ramkrishna for drawing a long-term disinvestment programme for the PSUs referred to the Commission. The Commission had wide ranging terms of reference and was asked to determine the extent of disinvestment in each PSU, the modalities of disinvestment and the order in which the process would be undertaken. The long-term strategy of the Disinvestment Commission had four objectives : (i) strengthen PSUs, where appropriate, in order to facilitate disinvestment, (ii) protect employees' interest, (iii) broad base ownership, and (iv) augment receipts for the government. As a broad approach, the Commission was in favour of prior restructuring of the PSUs before disinvestment, based on global experiences that restructuring before disinvestment enhances share value and maximizes share proceeds. The Commission was in favour of adopting a case-by-case approach in terms of unit specific disinvestment strategy after taking into account various aspects of the units, e.g., industry category, competitive position and profitability. Accordingly, the Commission

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broadly classified the PSUs into two categories for disinvestment. viz., the core group and the non-core group. The PSUs in the core group are defined as having a considerable market presence. In these PSUs, as the private sector is yet to mature fully, the public sector disinvestment would be limited to a maximum of 49 per cent for the time being. The non-core group industries are defined as the units where private sector players have already made huge investments. With the aim of enhancing the intrinsic value of PSU shares, the Disinvestment Commission recommended that the core as well as non-core PSUs should be restructured prior to disinvestment. The Commission had made recommendations for a graded delegation of autonomy for three categories of PSUs, namely, 'general autonomy to all PSUs, additional powers to 'moderate performers and additional autonomy to strong performers'. Further, it had made the following recommendations regarding the policy decisions to be delegated to the Board for greater autonomy of all the PSUs. 1) Professionalising the Board through outside recruitment. 2) Provisions of elected Directors to represent minority shareholders. 3) Selection of top management without having to go to the Appointment Committee of the Cabinet. 4) Rationalising salaries and incentives of top management for attracting talents. Economic Reforms in India 24 5) Autonomy in price fixation of products and services. 6) Accountability through performance assessment at regular intervals. 7) Setting up of pre-investigation Board for evaluating projects in terms of commercial viability. 8) Strengthening the investor interface by transparent system of information disclosure. While the above recommended areas of autonomy would apply to all the PSUs, the Boards of 'moderate performers' among the PSUs would have additional power to transfer assets to a subsidiary and also have freedom of investment decisions subject to certain conditions. The investment limits for these PSUs could be fixed on the basis of the company's turnover and requirement of funds in the medium term. Further, the 'strong performers' among PSUs have been recommended by the Commission to have power to form joint ventures without prior approval of the Government and have full freedom with regard to investments subject only to the condition that these projects are appraised and financed by

banks or institutional lenders or where the total requirements of funds are met from internal accruals. For granting autonomy, nine well-performing PSUs under the core category have been identified by the Government. These PSUs, popularly known as 'navratnas', are BHEL, BPCL, HPCL, IPCI, IOC, NTPC, ONGC, SAIL and VSNL. The Union Cabinet has approved the autonomy package for these nine high performing PSUs, accounting for nearly 75 per cent of the profits of the entire PSUs, giving them total freedom to incur capital expenditure, raise resources and enter technology contracts. The Government also announced a package of financial and operational autonomy for 97 profit making public sector enterprises (called 'mini-ratnas') other than the 'navrathnas'. However, the degree of financial freedom to these PSUs will be less than granted to the 'navratnas'. For ensuring smooth implementation, the Commission recommended the formation of a Standing Empowered Group (SMG), comprising the Department of Public Enterprises, Administrative Ministry of the PSU along with the CEO of the concerned PSU. The group is intended to provide continuity to the process of disinvestment in various PSUs. However, the Disinvestment Commission has recommended only companies to be disinvested and the mode of disinvestment rests with the Government. The Disinvestment Commission has also evolved guidelines for modality of sale including retailing PSU shares to small investors and employees and selection of intermediaries that would lead to transparent and competitive procedures for disinvestment. The Commission also made specific recommendations for disinvestment in respect of a number of PSUs in its various reports. Thus, the Disinvestment Commission set the ground rules and the basic parameters for disinvestment. We can learn from experience and modify the modalities as we go along. As part of the country's economic reforms programme, the Sick Industrial Companies Act (SICA) 1985 was amended in December 1991 to bring public enterprises under the purview of the Board for Industrial and Financial Reconstruction (BIFR). Consequently, until the end of 1998, 138 cases of sick public enterprises were registered with the BIFR. The BIFR has recommended winding up in 14 of these cases. But none of these public enterprises has been wound up so far. There have been cases of public enterprises whose control and

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management has been transferred to the private sector, but a substantial proportion of their equity, enough for managerial intervention, has continued to remain in the public sector. India's privatisation experience also includes cases of complete or true privatisation, under which the control and management of a public enterprise are transferred to the private sector (though some public sector equity holding, without managerial intervention, may continue). A major initiative for turning India towards privatisation needs to be launched. In this context certain steps required to be taken are: Privatisation in India 25

- i) The people will have to be convinced that, given the extremely high opportunity costs, India cannot afford public sector misadventures in areas like, running hotels, manufacturing polyester film, making condoms and producing fruit pulp and juice). That properly belongs to the private sector.
- ii) The Government should announce a properly structured and articulated privatisation policy for India. The policy will need to clearly address at least the following issues: why privatise?; what to privatise?; when to privatise?; which organization will serve as the nodal agency for privatisation and what will be its composition, powers and responsibilities? What are the institutional mechanisms that will be put in place to gain public enterprise employees' support for privatisation?; and what is the role that India would like foreign investors to play in its privatisation programme?
- iii) Privatisation is a difficult process, it involves reconciling the government's political objectives and the business needs of given public enterprise and tap generate efficiencies. It will therefore be absolutely necessary to come up with training programmers designed to equip selected public enterprise managers and government officials in India with the knowledge and skills required for managing the various component of the privatisation process.
- iv) The proposed initiative will address the issue of evaluating India's post-privatisation experiences. This will involve rigorous work on estimating the impact of privatisation on: (i) efficiency and investment, (ii) public finance and balance of payments, (iii) employment, (iv) management practices and strategies, and (v) managers' skills, attitudes and behaviours. Evaluations of post-privatisation experience along these lines

may generate ideas that may help India maximize the gains from privatisation.

14.2 WHAT IS THE MEANING OF PRIVATISATION?

14.2.1 Definition

What is privatization?

Privatization involves a transfer of ownership and control from the public to the private sector, with particular reference to asset sales. Privatization and issues Privatization can be accomplished in two ways. The government can sell assets it owns to private buyers. The government can stop providing a service directly and rely on the private sector to deliver the service. The public enterprises relevant here are revenue-generating entities originally owned or controlled by the state. An example of a revenue-generating entity is a municipals corporation that gets property taxes.

14.2.2 Techniques of Privatisation

Divestiture: The most well-known technique of privatization is the sale of equity to the general public. This is called divestiture (divestment or disinvestments), and may be complete or partial. That is, the government may sell its entire stake in an enterprise or sell only a certain percentage. This can be done through direct sales and equity b However, the inadequacy of national stock markets and the lack of domestic capital have sometimes led to a shortage of local buyers, while foreign investors, unable to obtain sound information on the enterprises offered, often lacked sufficient interest. Furthermore, the direct sales approach may be costly and slow, owing to the complexity of preparing each state asset for sale individually, and then ensuring that buyers observed all contract provisions.

Restitution: Restitution refers to the return of state assets to their former private owners in situations where the government's original acquisition is seen as unjust, such as uncompensated seizure. Restitution, in such cases, it is argued, is essential on moral grounds. Restitution has been an

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important issue in the transition economies of central and Eastern Europe.

Opponents of restitution counter that the process is necessarily selective, and therefore an unsatisfactory way of achieving justice retroactively. As a practical matter, private claims can often be complicated and own out, bogging down privatisation unnecessarily. In practice, the transition countries have seldom used restitution, except for Estonia and, to a lesser extent, the Czech Republic.

Management-Employee Buyouts: Under this approach, shares of an enterprise are sold or given to some combination of managers and other employees. The powerful positions of employees and of managers may give this approach the twin advantages of feasibility and political popularity. It is also rapid and easy to implement. Well-structured management-employee buyouts can sometimes lead to efficient Results, since the people-who know best about an enterprise, i.e. employees and managers, become the owners. Nevertheless, experience shows that these buyouts suffer serious disadvantages. Yielding to insider interests often entails large costs in inefficiency and poor management. The new owners may grant excessive wage increases, maintain excessively high employment, and undertake insufficient investment. Insiders may also lack many of the skills necessary to function in a market-oriented economy. Further, the process is seen to be inequitable, handing employees, rather than the population at large, over most of the benefits.

Mass Privatisation: In mass, or equal-access, voucher privatisation, the government Industry in traditional Context generally gives away, or sells for a nominal fee, vouchers that can to purchase shares in enterprises. This technique was rarely used elsewhere in the world before the massive transition started in Central and Eastern Europe, but it has proved popular there, particularly in the Czech Republic. Voucher privatisation helps to overcome the shortage of domestic capital. Voucher schemes can be politically popular because they address the perceived mess of other approaches and avoid the charges of a sellout of national assets to foreigners. The difficulties associated with valuing enterprises before privatisation are also avoided. Early proponents argued that the fast pace of voucher privatisation would add to + the credibility of reform

programs and bolster their chance of success. At times, the speed could prevent employees or other interests from mobilising opposition to privatisation. Furthermore, the widespread participation of a country's citizens fosters - a greater understanding of reform and creates a new owner class with a stake in the process. Mass privatisation has its downside, however. The main risk is that a dispersed ownership structure will lack the focus and power to direct effective corporate management. This, in turn, may scare off potential new sources of capital. In practice, these problems have been partly addressed by pooling ownership interests in investment or mutual funds. The funds, however, do not always have adequate management, control, and supervisory powers. In such cases, voucher privatisation becomes merely ineffective absentee ownership.

Contracting out or leasing out of government services can be another technique of privatisation. For example, a municipal corporation can contract out the task of garbage collection to a private party. Associated with privatisation usually are processes of liberalisation and deregulation. Liberalisation refers to the introduction/promotion of competition in a traditionally monopolised industry. Deregulation refers to the abolition of statutory barriers to the operation of market forces. For example, the Government of India controls the prices of many commodities through the administered pricing mechanism. If some commodity is taken out of the purview of this mechanism, then this is a deregulatory measure, because the price will now be determined by market forces.

Check Your Progress 1

1) How would you define privatisation?

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2) Clearly explain the differences between privatisation, liberalisation and deregulation.

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- 3) What are the different modes of privatisation? Which one would you choose for India and why?

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14.3 REASONS FOR THE ESTABLISHMENT OF PSES AND NATIONALISATION

Public sector enterprises (PSEs) were created for a number of reasons. It was believed that nationalisation and PSEs in general would provide governments access to much-needed revenues. PSEs would generate large profits¹ surpluses, which could be channelised to develop the priority sectors of the The private sector would not help in the rapid and sustained development of the economy if left to its own. There was a need to control the L'cornmandin'g heights" of the economy, that is, the strategic industries. If the government controlled these industries, it would be able to steer the economy in the right direction and overcome critical bottlenecks. Thus, for example, in India, while TISCO continued to exist as a major producer of steel, till recently new steel mills were set up only National security reasons were sometimes added as justifications to the above, particularly in the context of heavy industries. In many developing countries, lack of private entrepreneurs was also a major concern and forced the state to take an active role in the process of industrialisation. Local private entrepreneurs often were in short supply. Even if they did exist, they might not have had access to adequate capital, partly because stock markets were not well developed. In some countries, private entrepreneurs came from unpopular minorities or were linked to foreign powers. Distributional considerations also played a role. In India, PSEs were set up in backward regions to lessen regional inequalities. PSEs were also used to increase employment generation. In political terms, PSEs constituted important resources for state elites - politicians and bureaucrats. They could be used to provide jobs to potential voters and service constituencies (for example, a railway minister could order railways officials to provide better links to hisher

constituency). It is clear from this discussion that improving economic efficiency was not a major factor behind the setting up of PSEs. The overwhelming reason was to gain control over certain spheres of the economy.

In India, the PSEs have accounted for a significant part.

The importance of the public sector in India can be gauged both by looking at I capital formation and employment in the public sector. The Gross Fixed Capital Formation (GFCF) in the public sector, whether at current prices or constant (1980-81) prices accounts even today for more than a third of total GFCF. As a percentage of the GDP, this has remained at around 8%. The importance of the public sector in terms of employment generation is brought out in the following table 14.1

Table 14.1: Employment in the Organised Sector (in thousands)

Year	Total Public Sector	Private Sector
1971	11,099	6,734
1980	15,384	7,443
1986	17,913	7,401

Source: Economic Survey

14.4 WHY PRIVATIZE?

Over time, in many countries, the performance of PSEs turned out to be, by and large, unsatisfactory. They incurred losses, or did not make as much profit as they should have, given that they had privileged access to capital, various subsidies and protection from domestic and foreign competition. Governments have begun to think of privatisation of PSEs as a solution to these problems. We next examine the possible impacts of privatisation to determine whether it can transform PSEs. Fiscal Impact When a PSE is sold off to the private sector; the government gets the sales proceeds. Further, if the PSE had been making losses and was being subsidized, then these subsidies come to an end, which further helps the government. Thus the immediate generation of revenues is supplemented by reduction in recurrent expenditures. But does the government really

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gain? In the simplest case, the buyer will be willing to pay only so much as the PSE is expected to bring in the future. The PSE is expected to generate a future stream of returns. The sum of the returns (after being discounted to reflect the fact that a rupee today is more valuable than a rupee tomorrow) is what a buyer will pay. The government would have got same revenue had it not sold the PSE. Therefore, it would seem that privatisation does not any real impact on the government's finances. There are two reasons why privatisation might still make a difference. First, a privatised is expected to be more efficient than a PSE. Hence, the sum of discounted returns will be higher than that under government ownership. Secondly, the government, which it privatises, is getting funds immediately. This added liquidity might be desirable for a number of reasons, for example, because the government might want to spend on education or infrastructure. It is interesting to note that in theory, for a loss-making PSE the price might be negative. This is not very far-fetched. Governments have sometimes given so many concessions to the buyer to induce them to buy loss-making concerns that in effect the price has turned out to be negative.

Efficiency Gains Proponents privatisation have argued that it can have an important effect on economic efficiency. Two types of efficiency gains are possible : gains in allocative efficiency, and gains in productive efficiency. Allocative efficiency : Proper allocation of the resources of the economy depends on the prices reflecting correctly relative scarcities of resources. A resource that is more scarce should have a higher price and this would lead to it being used more sparingly. In PSEs, prices sometimes did not reflect scarcities properly. For example, if the government gives a subsidy for an input used by a PSE, the PSE would tend to 'over-use that resource. Or, if a PSE is a monopoly, then it can set its own price. Thus, kerosene may be sold at a very low price, which would encourage adulteration of diesel with kerosene (i.e., over-use of kerosene). It is clear that for PSEs operating in competitive markets, prices would better reflect scarcities and therefore allocative inefficiency would be less. Then the gains from privatisation would also be less. On the other hand, transforming a public sector monopoly into a private sector monopoly would also not lead to increases in allocative efficiency.

We can expect large increases in allocative efficiency to be achieved when a public sector monopoly is privatised and the market opened up to other Productive efficiency: Productive efficiency relates to the optimal use of inputs in the production process. It has been argued that PSEs are likely to exhibit greater internal inefficiencies than private firms for various reasons. Public managers are given numerous and inconsistent objectives. Instead of control by shareholders who are interested in profit-maximization, there is bureaucratic control which puts more emphasis on "playing it safe". Suppose that productive efficiency requires use of an input that is not available in a competitive market. The manager in a PSE is required to obtain competitive quotations for almost everything, and hence may have no way of using this particular input because there is only one seller.

Distributional Impact Critics of privatisation argue that it is likely to affect adversely weaker sections of the society. First, it might lead to layoffs by the new owners. Or the firm might go bankrupt after privatisation and the government will not be there to protect jobs. Secondly, the goods and services made available by the PSE to the poor may become less accessible. For example, a privatised airline may choose not to fly on unprofitable routes. . A counter argument is that the PSEs have not had a very successful record of reaching the poor and the disadvantaged sections. For example, in India, it has been repeatedly shown that the Public Distribution System does not do a good job of reaching essential commodities to the poorest sections; it is more useful to the richer sections.

Check Your Progress 2

1) What were some of the important reasons for the state expanding its role in the economic sphere?

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2) Explain how privatisation can lead to gains for society.

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3) What are likely to be the distributional impacts of privatisation?
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14.5 OBSTACLES TO PRIVATISATION

Worldwide experience shows that implementation of privatisation has lagged well behind stated intentions. Barring a few countries, privatisation has been limited to small PSEs of the manufacturing and the services sector. Two kinds of obstacles to privatisation can be identified - implementation issues and political constraints. We take these up in turn.

14.5.1 Implementation Issues

Technical constraints to privatisation are related to both managerial deficiencies and weaknesses within the economy. First, privatisation requires a high level of administrative capacity. In some developing countries, there is a lack of well-established, competent, management consulting groups, accounting firms and investment bankers. These are needed to provide technical advice and valuation of PSEs. As a result, in some instances, foreign experts have been brought in. Secondly, a valuation of the PSE has to be carried out before it can be offered for sale and the valuation exercise has faced severe problems. Valuation is a sensitive subject politically, because governments want to get high sales price and at the same time the valuation process might raise questions about past public management and investment decisions. There have been inordinate delays in valuation. The problem of privatisation and issues relating to it is aggravated when poor records are maintained by PSEs. Disinvestment Policy, Thirdly, once the valuation has taken place, administrative capacity is needed to assess buyers' bids, arrange finance and insurance and deal with a host of complex legal issues. Sometimes, a comprehensive rehabilitation plan for the PSE has to be designed, evaluated and financed before privatisation is possible. Moreover, appropriate regulatory structures may not exist and have to be set up, particularly when privatisation leads to the creation

of a monopoly. Fourthly, capital markets in many developing countries are typically weak and poorly regulated. Large investments in equity are quite unusual. PSEs are some of the . largest firms in the country and the private sector may not be in a position to find the purchase of large assets. The private sector may also be suspicious about the government's intentions, given the record of nationalisation in the past. On the other hand, the government may not be willing to sell assets to foreign investors.

14.5.2 Political Constraints

Generally, the costs of privatisation are borne by a small group of people, e.g. the workers of the enterprise who may lose their jobs or the suppliers who may lose favoured contracts. The benefits, however, are spread out over a large number of people, sometimes a very large section of the population. Public choice theory suggests that in such situations, it will be easier to organise opposition to the privatisation programme than support. Experience tells us that in many countries, privatisation programmes fail to mobilise popular support and in fact gives rise to strong opposition. Trade unions, in particular, tend to react strongly against privatisation. Trade union power is often concentrated in the public sector and the public sector provides a base for such power. Unions oppose privatisation, not only because of the direct effect on employment, but also because of a fear that trade union power will be reduced in the private sector.

14.6 SOME CRITICAL ISSUES

Governments considering privatisation of PSEs must first decide on a number of critical issues.

14.6.1 Should Restructuring Occur Before or After Sale of the Unit?

Most PSEs will not fetch a good price if they are sold in their current condition. For historical reasons, many have excess workers, are burdened with obsolete machinery and technology and are often run

bureaucratically. Such un-restructured enterprises will fetch lower prices. One option before the Government is to restructure these enterprises before placing them on the market, e.g., by laying off excess workers, by inducting new workers with appropriate skills, by selling off non-strategic parts of the business, computerisation of operations, etc. These enterprises will then become attractive to private investors who would be willing to pay high prices for them. On the other hand, proponents of speedy privatisation argue that the attempt to restructure these enterprises before sales will inevitably lead to delays and the entire momentum for privatisation will be lost. Further, it is doubtful whether the Governments are at all adept at restructuring.

14.6.2 How to Deal with the Problem of Laying Off Workers?

The overstaffing in PSEs means that the restructuring process would generally involve laying off part of the workforce. Usually, forced dismissals are politically infeasible and only generate more opposition to privatisation. Governments therefore try to adopt some kind of voluntary approach. Components of voluntary approaches that have been tried out include Monetary compensation (e.g. through voluntary retirement schemes) Retraining Redeployment Sometimes the Government agrees to accepting a lower price for the enterprise in return for an assurance from the new owner that employees will be retained even after privatisation. In the East German privatisation programme, there is an instance where an enterprise was sold for one deutschmark, because the bidder promised to retain all the workers. Retraining can refer to giving workers training in skills that would help them to become productive members of the PSE itself. Or the aim may be to enable them to find alternative jobs in the private sector. Redeployment can be from one government PSE or Department to another, or it can be to the private sector. The process of laying off workers poses a number of difficulties:

- 3 The total cost of laying off workers can be quite high and may pose a problem to cash-strapped governments. The problem has been eased to a certain extent because multilateral agencies are now prepared to lend for severance pay packages.
- iii It is not easy to estimate the right

package. Usually, some rules of thumb are employed to arrive at the compensation package, e.g, paying one year's salary for every year's service. Generally no attempt is made to find out whether the compensation offered is adequate or not. But to properly calculate the present value of change in earnings resulting from dismissal, one must take into account not only salaries, but also bonuses and other cash benefits. In many industries, salaries in the public sector are higher than in the private sector except for highly skilled employees. Moreover, it might take a long time for a laid offworker to find an alternative employment and earnings might be close to zero in the intervening period. Further, in most developing countries, the public sector provides health coverage as well as old age pension. The greater job security in the public sector also makes employment in this sector more attractive. If all these factors are to be taken into account, then the required compensation becomes sizeable. It might also be argued that in developing countries, where job opportunities are so limited, one employee in the public sector might have to support a large number of unemployed members of the family. Loss of this one person's income can affect many more individuals. iii) There is also another subtle problem involved here. Once a severance package has been formulated, only the high-productivity or the superior workers may accept the package and leave, because they are certain of getting jobs elsewhere. The PSE is left with the low-productivity workers. This is called the problem of adverse selection: since the package offered is not tailored to individual needs or characteristics, any employee gets to consider the same package. But only the high-productivity workers find the package attractive and accept it.

14.6.3 Should the Assets be Given Away or Sold?

As we have noted earlier, one way of attempting privatisation is to give vouchers to a group of people who can then use these vouchers to get stakes in enterprises of their choice. The free distribution of vouchers, perhaps to all the citizens of the country, is seen to satisfy the goal of equality and to create stakes in the privatisation process for everybody. The latter could then help to overcome opposition to the privatisation

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process. However, this method is difficult to implement in large economies. Moreover, dispersed ownership can lead to corporate governance problems. Therefore, many countries have opted for selling off the PSEs rather than giving them away. Those who have money or access to it are usually foreigners or people who have enriched themselves under the old system, and political opposition to the sales to these two groups of people can be quite strong. One easy way of giving away an enterprise is to give stakes to the "insiders", i.e. managers and workers of the enterprise. But this is considered to be inherently unfair to the populace at large, since it is their tax payments, which helped in the setting up of the enterprise in the first place. Further, since valuation of the PSEs is a tricky business, there have been allegations that insiders often manage to grab hold of PSEs at throwaway prices by deliberately presenting a sick picture of the PSEs to the outside world and undervaluing the assets. This is particularly important in transition economies with no experience in putting market values on land, buildings or other assets.

Check Your Progress 3

- 1) Discuss some of the obstacles to privatisation? In your opinion, are they insurmountable?

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- 2) Should restructuring of PSEs take place before or after privatisation? Give reasons for your answer.

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- 3) How can Governments tackle the problems arising from the unemployment resulting from restructuring of PSEs?

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4) What are the arguments for and against "giving away" PSEs?

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14.7 PRIVATISATION IN INDIA

14.7.1 Disinvestment

The Industrial Policy Statement of 24th July 1991 envisaged for the first time, disinvestment of part of Government equity holdings in selected PSEs. The following objectives were sought to be met through disinvestment of shares: provide market discipline, raise resources, encourage wider public participation, promote greater accountability and improve the performance of PSEs. It was proposed that the revenue generated from disinvestment would be utilised in the two vital areas of health and education, particularly in the poor backward districts of the country. On 20th November 1991, the GOI announced that it was offering "packets" containing shares of 31 PSEs for sale by a competitive bidding process. A reserve price was determined for each packet (i.e. the price below which the packet would not be sold) and each packet was sold to the highest bidder. After about 3-6 months, buyers would be allowed to unbundle the shares and sell them on the stock market. In 1992-93, buyers were allowed to bid for the shares of individual PSEs through 'an open auction (See table 14.2).

Table 14.2: Disinvestment in India

Year	Number of shares sold (crores)	Amount raised (Rs. Cr.)	Target (Rs. Cr.)	Permitted bidders
1991-92	87.21	3038	2500	Insurance Cos., Mutual Funds, Banks
1992-93	43.93	1912	2500	All the above and private parties
1993-94	11.37	2292	2500	All the above and Foreign Institutional Investors (FIIs)

Source : R.R. Vaidya (1995)

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In the first year, therefore, the set of bidders was restricted to insurance companies, 36 mutual funds and banks. Moreover, shares were sold in bundles. The GOI was not committed to sell all the shares intended to be sold at the reserve price as no Privatization and Insurance Regulatory Commission were appointed. Thus there was nobody to take up the unsold shares. Disinvestments Policy in the event of under subscription. Over time, the set of bidders was enlarged. Moreover, the shares were not sold in bundles. This helped the GOI to get better prices for the shares. Beginning from 1991-92, till 2000, 14 rounds of disinvestments of government share holding have taken place in 39 PSEs and a total amount of about Rs. 18,288 crore has been realised. In the Budget Speech 1999-2000, Government announced that the strategy towards public sector enterprises will continue to encompass a judicious mix of strengthening strategic units, privatising non-strategic ones through gradual disinvestment or strategic sale and devising viable rehabilitation strategies for weak units. It has also been decided that in the generality of cases, the Government shareholdings in Public Sector Enterprises would be brought down to 26%. In cases of PSEs involving strategic considerations, Government will continue to retain majority holding. In order to give greater impetus to the disinvestments programme and expedite the disinvestment of government equity the Government has constituted a Cabinet Committee on Disinvestment (CCD). The Committee is headed by the Prime Minister. Government have set up a separate Department of Disinvestment to handle the disinvestment of government equity. Government has already decided, on the recommendations of the Disinvestment Commission, to reduce its shareholding to below 51% through strategic alliance in certain PSEs like Modem Food Industries Limited (MFIL), Bharat Aluminium Company Limited (BALCO) and Madras Fertilisers Limited (MFL). The process is in progress. The Disinvestment Commission was constituted in 1996, for a limited period of three years to advise the Government on extent, mode, timing and pricing of disinvestment. The Commission has submitted 12 Reports in which recommendations have been given in respect of 58 PSEs. The tenure of the Commission was extended up to 30.1.1999. The Terms of the Commission ended on 30.1.1999 and the

Commission as constituted has ceased to exist. In practice, the revenues generated from the disinvestment process have been utilised to reduce fiscal deficits. Targets have not been met and the entire process has been plagued by huge delays. The processes as well as the selection of particular units for sale have generated sharp controversies (the attempt to divest the Government's stake in BALCO being the latest example) and the Government of India has not been able to form a national consensus in favour of privatisation.

14.7.2 Navratnas and Mini-ratnas

In addition to disinvestment, in 1997 the government had identified 11 Public Sector Companies, which have comparative advantages, as Navratnas and granted substantially enhanced autonomy to the Boards of Directors of these PSEs to enable them to become global players. These enterprises are IOC, ONGC, BPCL, NTPC, SAIL, VSNL, BHEL, GAIL and MTNL. The criteria for selecting the enterprises included factors like size, performance, nature of activity, future prospects and the potential to develop into world level players. The Boards of these PSEs have been broad based by appointment of part-time non-official Directors. These enterprises, subject to certain guidelines would now enjoy freedom to make capital expenditure, enter into joint ventures, effect organisational restructuring, create and wind up post below Board level, raise capital from the domestic and international markets, establish financial joint ventures subject to equity investments with specified limits etc. The Government have also granted enhanced financial, managerial and operational autonomy to other profit-making enterprises, called mini-ratnas. These enterprises should have earned profits continuously for the last three years, have positive net worth, do not seek budgetary support or guarantees from the Government and have not defaulted in the repayment of loans/interests to the Government. These enterprises can incur capital expenditure, enter into joint ventures, set up technological and strategic alliances, formulate schemes of human resources management, etc. subject to certain stipulations and Guidelines. This is designed to make them more efficient and competitive. As on 31.12.1999 there were 39 enterprises categorised as Miniratna.

Check Your Progress 4

1) Mention some of the important features of the disinvestment process in India in the first three years.

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2) What is the objective behind the designation of certain PSEs as Navratnas and mini-ratnas?

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14.8 LET US SUM UP

Privatisation in essence represents a reduction in the role of the Government in the economic activities of the nation. In the 1960s and 1970s, many public sector enterprises were set up and many private units nationalised, because it was felt that the private sector would only pursue the profit motive and not utilise resources to attain societal goals. But the performance of PSEs was disappointing and Governments are now trying to privatise them. There are many techniques of privatisation and Governments must decide which ones to adopt. The process of privatisation faces a number of significant hurdles and Governments must be able to devise ways of surmounting them.

14.9 KEY WORDS

- Monopoly: A single seller of a good that has no close substitutes.
- Efficiency: Efficiency is reached when nobody can be made better off without somebody being made worse off. In production it refers to a situation where more cannot be produced.
- Nationalisation: The process of bringing a private sector unit under government ownership and management.
- Liberalisation: The introduction/promotion of competition a traditionally monopolised industry.

Deregulation: The abolition of statutory barriers to the operation of market forces.

Transition Economies: Economies making the transition from socialism to capitalism, e.g. Poland, Hungary, the Czech Republic.

14.10 QUESTIONS FOR REVIEW

- 1) Discuss some of the obstacles to privatisation? In your opinion, are they insurmountable?
- 2) Should restructuring of PSEs take place before or after privatisation? Give reasons for your answer.
- 3) How can Governments tackle the problems arising from the unemployment resulting from restructuring of PSEs?
- 4) What are the arguments for and against "giving away" PSEs?
- 5) Mention some of the important features of the disinvestment process in India in the first three years.
- 6) What is the objective behind the designation of certain PSEs as Navratnas and mini-ratnas?

14.11 SUGGESTED READINGS AND REFERENCES

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14.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

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- 1) See Sub-section 14.1.1
- 2) See Sub-section 14.1.2
- 3) See Sub-section 14.1.2

Check Your Progress 2

- 1) See Section 14.2
- 2) See Section 14.3
- 3) See Section 14.3

Check Your Progress 3

- 1) See Sub-section 14.4.1 and 14.4.2
- 2) See Sub-section 14.5.1
- 3) See Sub-section 14.5.2

Check Your Progress 4

- 1) See Sub-section 14.6.1
- 2) See Sub-section 14.6.2