Role of the Private Sector and Inclusive Growth in an Emerging Economy: The Indian Scenario

Manoj Agarwal

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Abstract

The present paper attempts to analyze pattern of privatization in the Indian economy since its political independence. It is interesting to note that this second most populous economy of the world started with mixed economy where non-agricultural organized sector was tilted initially in favor of the public sector. The economy has moved to what is now mainly market economy in a gradual manner. Before undertaking economic reforms and rapid privatization in the early 1990s, the Indian economy has provided a congenial atmosphere like self-sufficiency in food supply, increased savings and investments, improved human development, infrastructure, etc for privatization. Privatization in India has been helpful in raising economic growth but it appears it is not able to contain challenges like unemployment and regional inequalities. Fiscal discipline, governance and better human development with well functioning institutions become helpful in the expansion of privatization and economic development.

دور القطاع الخاص والنمو غير الإقصائي في اقتصاد ناشىء: السيناريو الهندي

مانوج كومار أجاروال

ملخص

تحاول هذه الورقة تحليل نمط الخصخصة في الاقتصاد الهندي منذ إستقلالها السياسي. من الجدير بالملاحظة أن الاقتصاد الهندي هو ثاني أشهر اقتصاد في العالم بدأ باقتصاد مختلط، حيث أن القطاع المنظم غير الزراعي كان معروفاً بانه يميل للقطاع العام. انتقل الاقتصاد بشكل تدريجي لما يعرف الآن باقتصاد السوق. وقبل دخول الإصلاحات الاقتصادية والخصخصة السريعة في أوائل تسعينات القرن الماضي، فقد أعطي الاقتصاد الهندي مناخاً مناسباً للخصخصة مثل: الاكتفاء الذاتي من الغذاء، زيادة الادخار والاستثمار ، تحسين التنمية البشرية، البنية التحتية ... الخ. ورغم أن الخصخصة قد ساعدت على زيادة وتيرة النمو الاقتصادي، ولكن يبدو أنها لم تكن قادرة على احتواء التحديات والصعوبات كالبطالة وعدم العدالة الإقليمية. تلاحظ الورقة ان فعالية القطاع الخاص وتوسيع دوره في التنمية الاقتصادية يتاتى من تفاعل أربعة مكونات هي مؤسسات الحكم، وراس المال الإجتماعي، والإصلاح الاقتصادي وراس المال العيني.

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Introduction

> "The US as the only role model is an idea that does not hold any more. We're looking at India as a successful model. It has mastered the process of change. When India decided to change in 1991, they knew they had to balance economic development with social progress." Samir Qasim Fakhro, Director of Arab Open University, Bahrain, Times of India, New Delhi, 7 November, 2008

In the last two decades, there have been remarkable changes in the world economy as many economies that were emphasizing upon the public sector in the economic domain of their respective economies found a new mantra of economic progression by emphasizing upon greatly or switching over to privatization. Sun and Tong (2002) point out that privatization has gained momentum globally when the Thatcher government in UK implemented it there during the late 1970s. Almost all countries are now found to be engaged in the privatization as a means of economic policy and growth. It is because the private firms are considered to be more efficient than the state owned enterprises.

This shift from public sector to the private sector has been slow or fast; partial or substantial; fruitful or painful. Dharwadkar et al (2000) would better like to concentrate on economic reforms and implications in India for the private sector. Thus, privatization would now be emphasized globally and privatization would spur economic growth through the dynamic small enterprises, foreign investments and restructuring of the industry (Brada, 1996).

In this regard, in a study of reconstruction of Iraq, Foote et al (2004) have observed that in the long run, even if there is scope for economic growth through privatization, it would ultimately depend upon the political climate there. However, their inference stems from the fact that Iraq is largely deriving its growth stimulus currently from the public investments and help by America in a significant manner. Based upon the experiences of the Latin American economies, Biglaiser and Brown (2003) note that successful privatization depends upon many factors. Simple privatization may not lead to a spurt in economic growth and welfare in the economy. It may depend upon factors like establishing effective and stable regulatory institutions, efficient and well managed infrastructure. Privatization should not be simply treated as another component of structural reforms taking place nowadays in many developing countries.

Even the western countries where privatization has already reached a zenith and it has been active in virtually all the sectors and has consolidated its position long ago, there is still a feeling that limited activism of the government at crucial juncture may further help the private sector to continue to discharge its responsibilities in the economy as per expectation. Based on some recent publications, Blanchard (2004) argues that Europe does not seem to do well where there had been a sign of stagnation. He cautions that even the European countries have to continue the reforms and keep on emphasizing for raising the efficiency of the public sector along with the fiscal discipline and qualitative improvements in the higher education, etc. Thus, to realize the economic gains through privatization, it is not sufficient to simply expand it but also to provide strong support through other means working for it directly or indirectly.

Taking a clue from China, Feltenstein and Nsouli (2003) argue that lessons may be learned from the experience of China that transformed itself from large public sector economy to the course of the private sector. For this, China preferred a ‘big-bang’ approach where all reforms are immediate and simultaneous over the ‘gradualism’ that gets spread over long time and in phases. This implies that the privatization is essential. The choice is only between the gradualism and the big-bang. It is further inferred that the big-bang approach is better because it takes care of the consumer welfare more effectively through reinforcements of the reform policies and adjustments.

This may be easily traced even in the Indian scenario that it has been pursuing a policy of gradualism instead of the big-bang strategy. Ahluwalia (2002) argues that the Indian experience of pursuing the gradualism in economic reforms has mixed experience. This also depends upon the nature of political conditions because in a vibrant democracy, generally any type of big-bang approach becomes untenable (Biais and Perotti, 2002).

Durant and Legge (2002) infer from a study of France and Great Britain that the citizens’ attitude towards the privatization should be given due prominence in a democratic set-up for its political sustainability and better economic results.

The point is well articulated by the prime Minister of India, Dr Manmohan Singh, in his foreword to the Eleventh Plan of India:

"Planning in a market economy which is becoming increasingly integrated with the world is bound to be different from what it used to be in earlier years. Much of what used to be done by governments, including especially the establishment of production units producing manufactured goods and commercial services, is now being done by the private sector. India is blessed in having a long tradition of private entrepreneurship and the private sector has responded magnificently to the new opportunities opened up by economic reforms. However, this does not mean that the role of the government must shrink. On the contrary, the government must play a much larger role in some areas even while shifting out of others." (Vol. I, p.iv)

However, it is simultaneously made clear that the economy has now to derive impulses mainly from the private sector but the role of the public sector would continue to be important albeit its size is shrinking. Deputy Chairman of the Planning Commission of India Ahluwalia writes about the economic strategy in the preface of the Eleventh Plan that:

"As in most market economies, the dominant impulse for growth will come from the private sector. India is fortunate in having a strong private sector capability ranging from agriculture, which is entirely dependent on private farmers, most of whom have modest land holdings, through small and medium entrepreneurs in industry and services to larger domestic corporate entities, many of which benefit from FDI to varying degrees. The Eleventh Plan must ensure a policy environment that is supportive of this vibrant and globalized private sector which has an important contribution to make in India's future development." (Vol. I, p. viii)

The ensuing discussion focuses on the positive impacts of the privatization in the Indian economy while elaborating upon the contours of the privatization in this emerging Asian economy where the impact of the current global crisis has not been as serious as in the major economies around the world as there is still hope that it would be growing by not less than 7%.

Economic Growth and Privatization in India

The Indian economy is a big and rapidly growing economy – both in terms of its share in global population as well as in terms of its production structure and size. India registers more than one billion population presently comprising one-sixth of the world population. As far as economic progress is concerned, India ranks among the few fastest growing economies in world.

In fact, India's development strategy was chalked out mainly through a well formulated planning process. After attaining political independence in 1947, India moved ahead with its own economic strategy through five-year plans in 1951 and emphasizing 'growth with social justice'. At the time of launching of the First Five Year Plan (1951-56), India suffered from a lack of several resources needed for growth and development particularly through the private sector. These were low rate of literacy, lack of skilled manpower, an almost non-existent well functioning banking sector, low rate of savings and capital formation in the economy, food shortage, lack of infrastructure, very narrow production base and traditional production structure, poor state of entrepreneurship, lack of proper institutions needed for promotion and regulation of the private sector, poor state of governance, poor state of monetization and subsistence level of the economy, etc. Such a situation does not augur well for privatization as the private sector lacks initiative and drive to take upon the responsibilities effectively and with efficiency.

The Second Five Year Plan (1956-61) of India is notable for highlighting its strategic initiative that has given direction to develop the stagnant Indian economy. It effectively laid emphasis on the mixed economy model. While emphasizing upon the role of the public sector as well as the private sector in industrialization and development of the service sector, the Second Plan argues that:

> "The increase in the output of goods and services to be secured over the plan period is the result of developments in both these sectors. The two sectors have to function in unison and are to be viewed as parts of a single mechanism. The plan as a whole can go through only on the basis of simultaneous and balanced development in the two

> sectors. The plan incorporates the investment decisions taken by the public authorities, and the corresponding outputs or benefits can easily be estimated. As to the private sector, Government policy can influence private decisions through fiscal measures, through licensing and, to the extent necessary, through direct physical allocations so as to promote and to facilitate the realisation of the targets proposed." (Chapter 2)

From this, it becomes clear that the state was grossly engaged in the growth and development of the economy directly through promoting the public sector actively or indirectly by regulating grossly the private sector. This was probably prompted by the perception that the private sector was considered incapable of taking the economy forward in a balanced way given a host of constraints listed earlier.

The Third Five Year Plan (1961-66), Fourth Five Year Plan (1969-74) and the Fifth Five Year Plan (1974-79), in fact, were guided by the Second Plan in a broad sense as far as the approach towards the private sector is concerned. The Sixth Plan (1980-85) seems to endorse the vitality of the industrial policy initiated during the Second Plan and it also highlights the role played by various agencies and institutions in regulating and promoting the growth of the private sector in the economy in different directions and at different levels. Although this plan does not seemingly wish to deviate from the earlier plans as far as private sector is concerned, still it appears that there was a stronger effort to assign a greater role with some freedom development of the private sector as may be gleaned from below:

> "The institutional framework for supporting and regulating private industry is by no means perfect. The essential point, however, is that a variety of institutions and agencies have been established and have succeeded in stimulating the development of new industrial activities, new centres of industry and new entrepreneurs. But their success in these matters is less than what we sought and hence there is a need for adapting and elaborating both the support system and the regulatory framework to suit the fast changing needs of a diversified industrial economy." (Chapter 1)

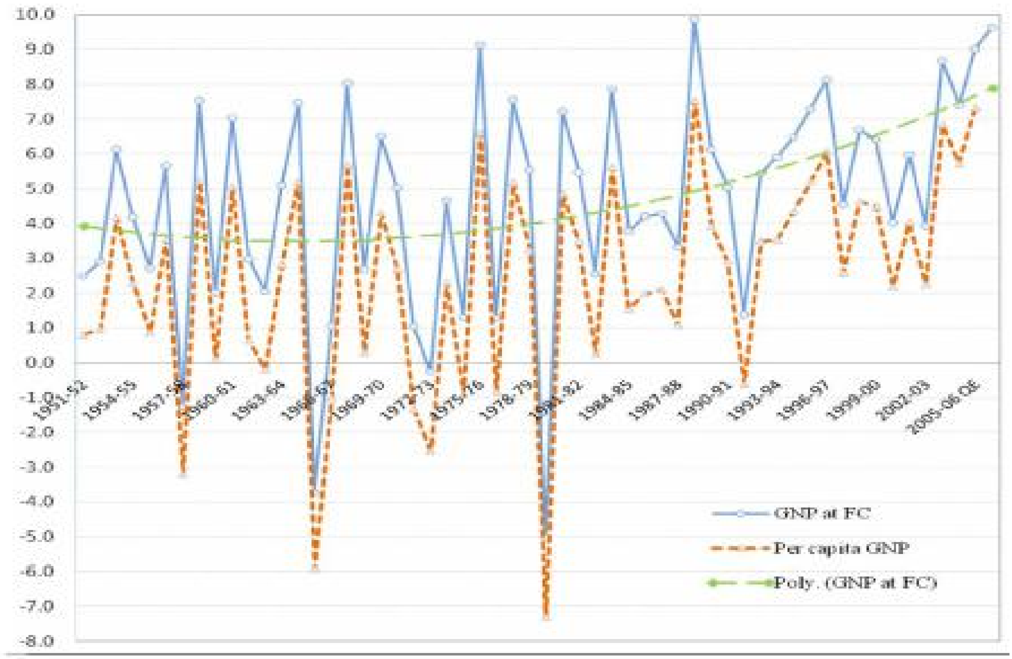
This might be considered a signal for change in the Indian economy when the private sector started demanding for greater role in the economy. The Seventh Plan (1985-90) also moved in this direction, albeit moderately. However, the Eighth Plan (1992-97) was formulated after economic reforms were initiated in a big way since 1991. These reforms and thereby the changed strategy and expectations, are abundantly made known through this Eighth Plan as it acknowledged the role of the public sector in the earlier times but wanted that most of that space to be given to the private sector for greater efficiency and accountability. This is made obvious in the following lines:

> "The public sector was assigned a place of commanding height in the Indian economic scene. It was expected to create the basic infrastructure for development, be a pace setter in taking risk and nurturing entrepreneurship, take care of the social needs, help the poor and the weak and create an environment of equal opportunities and social justice. The public sector has expanded considerably. Its expanse and its influence may not be measured just by the size of its contribution to GDP or its share in investment, but by the fact that it touches every aspect of life. In the process, it has made the people take the public sector for granted, oblivious of certain crucial factors like efficiency, productivity and competitive ability. This has eroded the public sector>s own sense of responsibility and initiative. Many of the public sector enterprises have turned into slow moving, inefficient giants. A certain amount of complacency has set in which is not conducive to growth. While there are several social and infrastructural sectors where only the public sector can deliver the goods, it has to be made efficient and surplus generating. It must also give up activities which are not essential to its role. The Eighth Plan has to undertake this task of reorientation." (Vol. I, Chapter 1, para 1.1.4)

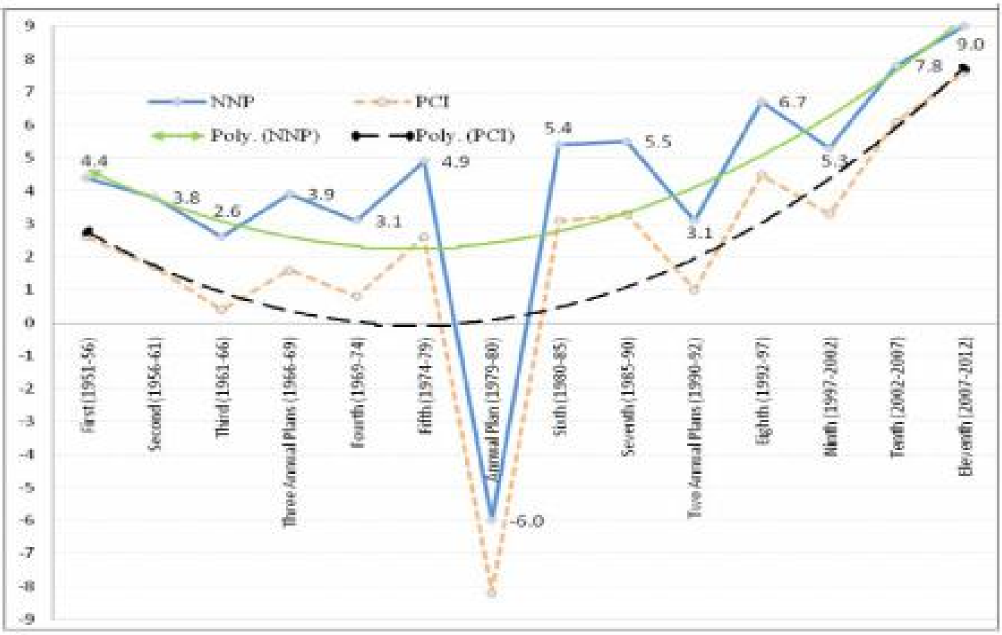
Thus, the Eighth Plan has reoriented the development strategy and the private sector has been assigned a bigger and more responsible role to take the economy forward through market economy with global competitiveness to raise the level of efficiency and productivity. The following five-year plans also are guided by such considerations where government interventions and size is being reduced with rapid pace. However, the public sector and state has to work for other socio-economic objectives which are vital even for the expansion of the private sector.

India's Economic Growth

Economic growth since 1951. The pattern of economic growth in India has been quite interesting and its understanding will help in taking the story forward. The acceleration of the growth of the Indian economy has been since 1950s when India started taking its own independent economic decisions after earning its independence from the British rule in 1947. The growth of the Indian economy has not been very smooth. It has been highly uneven as may be seen in Figure 1. There is clearly a divide between the long period of the economic growth in India showing the years 1980-81 appearing to be a true turning point. Before then, economic performance was slow and uneven. From that turning point however, there has been an upward trend towards better performance quantitatively as well as qualitatively. Figure 1 demonstrates this for India's national income as well as for its per capita income.



N.B. FC: Factor Cost
Source: Based on data from the Economic Survey 2007-08.
Figure 1. Annual changes in GNP and per capita GNP in India (at 1999-2000 prices, in percent).



Source: Based on data from the Economic Survey 2007-08.

Figure 2. Growth rates during five-year plans of India (at 1991-2000 prices, in percent).

It may also to be noted that the per capita income in India initially doubled in 43 years that is, during 1950-51 to 1993-94 from Rs 6122 to Rs 12160 at 1999-2000 prices. It doubled in 16 years from Rs 11357 in 1991-92 to Rs 22483 in 2006-07 when economic reforms were initiated in a big way. The pattern is more obvious when looking at the perspective of India's Five-year planning of economic growth (Figure 2). It may be seen that India was not mature in terms of economic performance till it entered the 1980s as the growth rates remained subdued and highly unstable.

However, since the Sixth Plan (1980-85), there has been remarkable improvement as the growth rates showed accelerated performance and India has been able to maintain consistently higher growth rates. In the ongoing Eleventh Plan (2007-2012), a target of 9.0% has been put forth. Before the Sixth Plan, growth targets could not be achieved but thereafter, targets have been either largely attained or surpassed giving a sense of optimism in the Indian economy. The annual growth rate during the initial three decades (1950-81) was low at 3.3%. It rose to 5.1% in the 1980s and during the period 1991-2007, it rose further to 6.6%. Growth rate in the period since the 1980s has been exactly double of what it was in the initial three decades.

It is in this backdrop that understanding of the major factors becomes important, particularly the role of the private sector. A number of macroeconomic features like production, sectoral behaviour, savings, unemployment, fiscal trend, etc also needs to be understood. There has been normal pattern of sectoral shifts in the Indian economy as well. This shift among the sectors or the structural transformation of the GDP in the Indian economy has been as experienced by the developed countries where the sectoral shift took place from the agriculture to industry and then to services.

Looking at the sectoral composition of its GDP, Figure 3 shows that the Indian economy is no longer an agrarian economy. Agriculture and allied activities was the largest sector in the early 1950s followed by the services sector while industry registered the smallest contribution of below 15% in the 1950s. However, due to economic growth, there was a significant structural change. Since the mid-1970s, the services sector has moved ahead of what was originally the predominantly agricultural sector. Thereafter, the gap has been widening and the process of change considerably speeded up since the 1990s.

Source: Based on data from the Handbook of Statistics 2008.

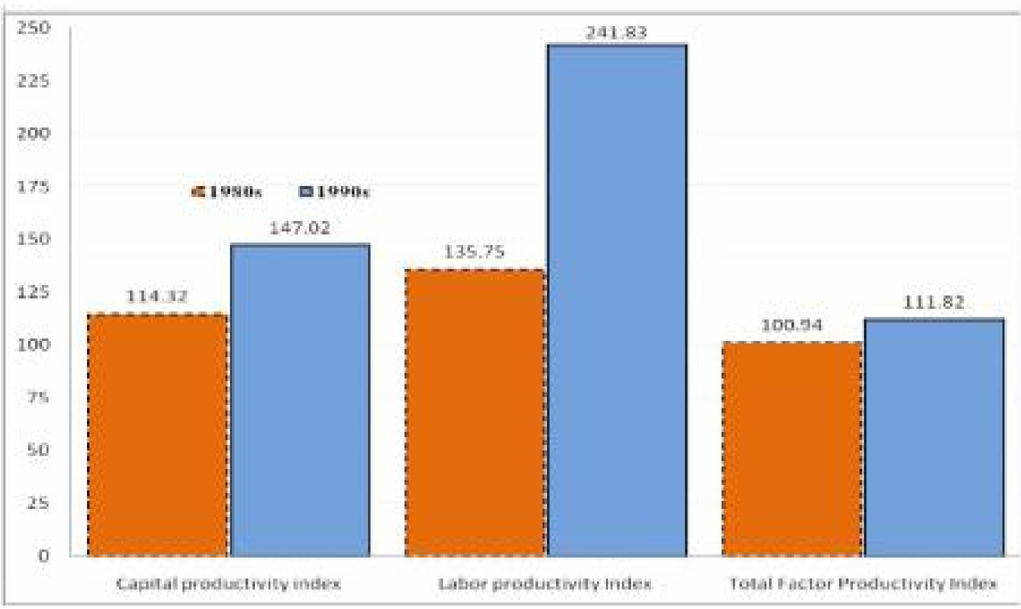
Figure 3. Structure of GDP in India (at prices of 1999-2000, in percent).

During the 1960s, there was a clear change of economic structure as the service sector was making efforts to become larger than the agriculture or the primary sector in the Indian economy. This ultimately happened around the early 1970s. Agriculture has now become the smallest sector with below 20% contribution. The industrial sector has become larger than the latter despite the almost stagnant share of the industrial sector with around 20% since the last two decades. In recent years, even the secondary sector or the industrial sector has overtaken agriculture and consequently, agriculture has become the smallest sector of all the three broad sectors in the economy. All these suggest that the service sector is growing at the highest pace followed by the industrial sector which has a tendency to grow at a pace similar to GDP while the agriculture is growing at quite slow pace(1). It is remarkable that despite such changes, the population structure between agriculture and non-agriculture remains almost unchanged as the latter has been sheltering around two-third of the total population since the last many decades. This suggests that the population shifting is not taking place despite the accelerated pace of economic development and increasing population size.

According to the Department of Economics and Statistics, Tata Services Limited (2008), there has been improvement in the total factor productivity in the Indian manufacturing sector during the 1990s over the 1980s. Figure 4 suggests that the total factor productivity index has increased from 100.94 in the 1980s to 111.84 in the 1990s. The index has increased at much higher rate for the labour productivity than for the capital productivity. This is indicative that there has been capital deepening process in the economy.

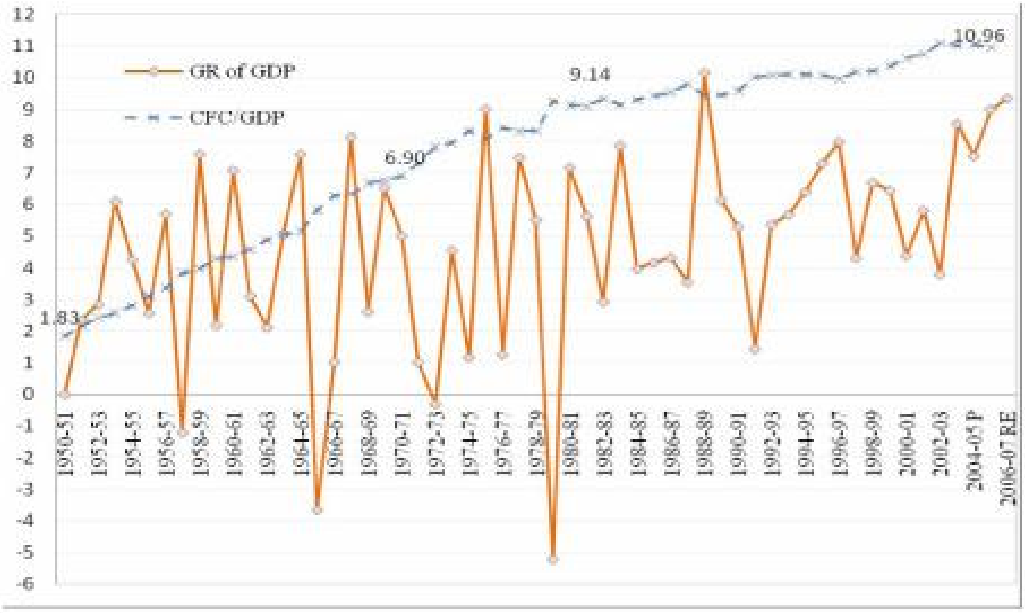
This is corroborated to some extent in Figure 5 wherein it is derived that the pace of depreciation has been increasing in the Indian economy which is a growing and developing economy and the same has reached almost 11% in the recent years. In the growing and developing economy like India, this may imply that there has been replacement of the capital stock at much higher rate to modernize the economy for maintaining high growth trend. It is well known that the Indian economy has been one of the fastest growing economies in the world. It is further established from Figure 5 that there has been positive relationship between the growth rate of GDP and the consumption of fixed capital (CFC). During the 1980s, there has been lower growth rate as compared to the period beyond that and it is also found that the CFC has also been higher in the period beyond the 1980s.

It may be observed as well that the private sector is gradually stepping up its participation in new areas like infrastructure ranging from road construction, electricity generation and distribution to the social sector like health, education and rural development. There has been encouraging response due to the increased participation of the private sector even in the infrastructure development in India. Rastogi (2004) observes that in the course of economic liberalization in India, more and more private investments in infrastructure has helped in expanding its capacity and raising the efficiency that is being reflected in the price structure. This has made the consumers to demand for more such as a favourable production structure in the economy that is helpful in bringing down the price while raising the supply and quality of infrastructure availability at varied levels.



Source: Statistical Outline of India, 2007-08.

Figure 4. Productivity indices in the Indian manufacturing sector.

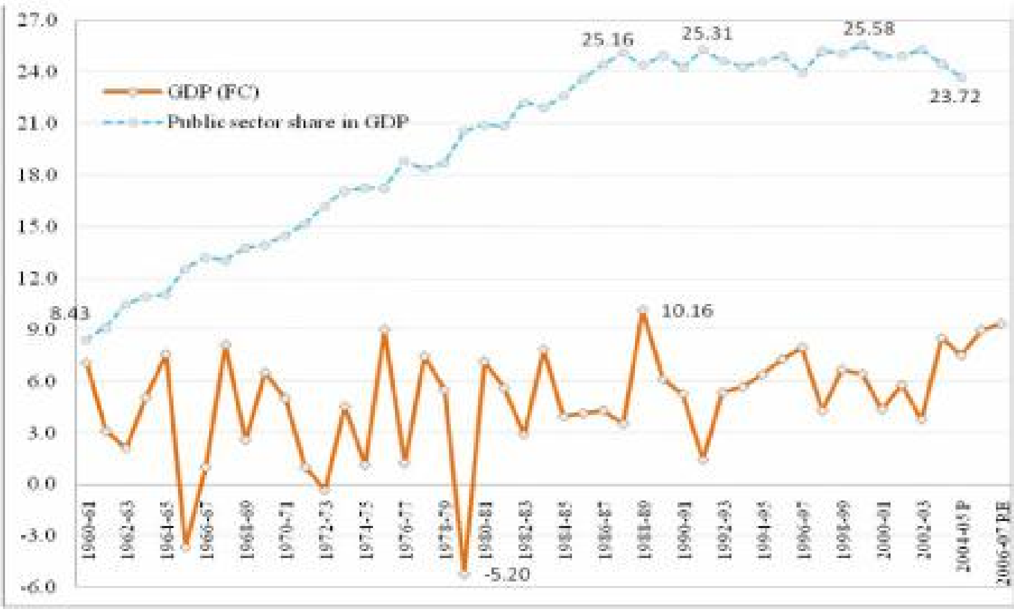


N.B. FC: Factor Cost
Source: Based on data from the Handbook of Statistics 2008.
Figure 5. Annual change in GDP (FC) and CFC-GDP ratio (in percent).

Emergence of the Private Sector in the Indian Economy

Indian economy has been mainly under colonial rule before 1947. Generally, there was not much government participation in direct business activities ─ even if it would have been profitable as the colonial rulers were more interested in their native country's welfare and progress, and thus, had little interest in investing in the Indian economy. Therefore, before 1947, there was no national government and very little investment, if any, in the economy by the government in any meaningful way. Alternatively, it might be inferred that there was mainly the private sector that played the role whatever it could do in the situation where the market was not developed.

After the independence, starting in 1950-51, there have been conscious efforts on the part of the Indian government, given its federal structure, to take the economy forward with limited resources. The government started playing an active role in the economy and started investing in the economy in a big way.



Source: Based on data from the Handbook of Statistics 2008.
Figure 6. Annual changes in GDP and share of the public sector (in percent).

It may be seen that the public sector has gained prominence in the Indian context as the economy started moving forward. The journey has been almost smooth since the 1950s. This trend continued up to the 1980s and even beyond as share of the public sector in GDP was just 8.4% in 1960-61 that rose to 21% in 1980-81. The share further went up in the 1990s and hovered around 25% towards the end. As it appears in Figure 6, the public sector finds it difficult to maintain the level. Since the 1990s, there seems to be continuous pressure on this sector to get moderated (see the downward trend). But it is also creditable to the public sector that despite such seemingly growing pressure, it is able to withstand in the era of economic reforms even if there were all round indications that the private sector is fast emerging on the economic horizon of the nation.

This issue would be dealt further later on to explain strength of the public sector when the private sector has been expanding all around and it has the strength of 75% of GDP. A look into the past is in order to better understand contours of changes with regard to the private sector in the economy. The pattern of policies and approaches towards the private sector is summarized in Table 1.

Table 1. A Historical Account of Privatization in the Indian Economy since the 1950s

Year	Steps Bearing on Privatization or the Private Sector	Impact on Privatization
1947	India attained Independence on 15 August from the British rule that lasted for around two centuries.	It had mixed impacts on the perceptions of the private sector with greater hope for the latter to get more scope.
1948	Industrial Policy Resolution of August 1948 advocated for the mixed economy pattern of economic functioning by categorizing the entire range of economic activities into four major groups that left small room for the private sector.	Private sector had to be content with small range of economic activities.
1951	India embarked upon the planned course of economic development to catch up with the development of the developed nations in an abridged time period. In 1951, the First Five Year Plan (1951-56) was launched.	It set into motion the coexistence of the mixed economy wherein the leadership in decisive role rested on the state.
1951	Industrial Development (and Regulation) Act 1951 and it set the tone for licensing system for the industries.	Industrial sector in the private sector could not take independent business decisions and they were to be regulated by the state.
1954	India adopted a socialistic pattern of development that necessitated curbing the concentration of economic power in a few hands.	This went against the interests of the market economy where the private sector would have performed better.
1956	The Industrial Policy Resolution of 1956 has set the tone, not only the pattern of industrialization but also the overall economic strategy in India. Herein, the industries were classified into three categories: Category A — 18 major and significant industries were reserved for the public sector; Category B — provision for the joint venture between the public and the private sector; and Category C — activities for the private sector.	This left the private sector with limited space in the overall industrial programmes of the country that needed to develop itself almost from scratch.

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Year	Steps Bearing on Privatization or the Private Sector	Impact on Privatization
1950s and 1960s	Throughout these two decades, the government was busy in making the licensing system more foolproof and stringent. Two major reports are of importance: the Hazari Committee Report and the Dutta Committee Report (Datt and Sundharam, 2001)	The private sector was kept busy in handling the government in its own way to procure the license as a gateway to success instead of developing its enterprising skill in a truly business sense to conform to established market practices.
1969	14 major private banks were nationalized to mainstream the banking network and spread to rural areas.	It showed that government would be more interested in its own capacity-building even if it required bringing the privates units in the domain of the public sector.
1969	A landmark law, popularly known as the MRTP (Monopoly and Restrictive Trade Practices) Act 1969 came into effect restricting the expansion of private firms in terms of investments and geographical spread. The act required a firm requirement to get prior permission if it wants to invest more than Rs 200 millions.	It definitely constrained the expansion of the private sector.
1973	The Government of India enacted FERA (Foreign Exchange Regulation Act) 1973 to regulate the flow of foreign exchange from the country.	Many private sector firms took it as a constraint, yet another restriction imposed on them.
1977	First ever change of government with different political combination in India after defeating the Congress that ruled the country since independence. It was a bit more liberal and encouraging to small industries but failed to do much as it was a short-lived government.	This disappointed the private sector in the country.
Early 1980s	With the return of Congress in power in 1980, it started making slow but gradual change in the economic regime by moving towards reforms and privatization. The private sector was also getting more vocal and demanding as it has acquired strength, confidence and experience. However, the government again nationalized some of the private banks.	The private sector wanted a better deal in the economic space of the growing India. It was getting more united for less control and gaining more freedom.

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Year	Steps Bearing on Privatization or the Private Sector	Impact on Privatization
1984	A new leadership in Congress emerged in Rajiv Gandhi who was the young and energetic Prime Minister wanting to change the face of India. He initiated many economic reforms in different directions that helped in instilling a sense of hope in the private sector.	The private sector grew more optimistic about a better deal at the hands of the government.
1985	An isolated but a very strong message went to the private sector when the government raised the investment limit from Rs 200 million to Rs 1000 million under the MRTP Act 1969 even though the most optimistic did not expect to raise the limit beyond Rs 600 million.	This was good reason for the private sector to get more optimistic. Accordingly, they started making more demands and worked to occupy a major share in the economy in the coming years.
Late 1980s	Many important economic reforms were initiated: fiscal, trade policy, monetary and other reforms in regulations and licensing, etc.	This gave a sense of further confidence and served as a challenge to perform better. This buoyant feeling got reflected in the capital market exhibiting a vibrant trend.
1989-1991	The economy suffered a serious setback, due to severe economic crisis. This was particularly due to an external crisis when the country did not have foreign exchange reserves to meet imports of even two weeks duration.	This was not a good time to expect any substantial economic reform nor a good period for the private sector.
1991	It proved to be the historic turning point in the Indian economy as the new government assumed power in New Delhi in the end of June 1991. Immediately and promptly, it rolled out major strategy of economic reforms that encompassed liberalization, privatization and globalization which took the country by surprise as there was no hint towards a massive policy shift in the country.	There was mixed reaction in the country from extreme elation in a situation of happiness due to high expectations to a situation marred by apprehensions. But a vast majority believed that gradually, the days of the public sector would be over and the space would be fast occupied by the jubilant private sector. This somehow gave way to some misgivings as it happens in any type of transition from one environment to another.

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Year	Steps Bearing on Privatization or the Private Sector	Impact on Privatization
1991-1996	The Congress party that launched the economic reforms in India was in the saddle of power and started unfolding strategies of liberalization, privatization and globalization in a phased manner giving stronger autonomy to the private sector. Regulations were being eased. Besides disinvestments of the public sector units were started gradually that still continues with some political resistance. The economy was gradually opened to foreign players.	This had a desired impact on the private sector as it faced the challenge to grab the opportunities. Challenge or threat was perceived due to opening up of the economy to external players before they were given enough time to equip themselves for the competition. This led to a divide in the private sector about the timing and the sequencing of economic reforms.
1995	The government started selling out select public sector undertakings to the private sector to minimize the burden of managing production units that might be better managed by the private sector.(2) The process is still continuing and the proceeds from disinvestments are accounted in the capital account of the government budgets.	The private sector has now better access over the already created capacities and further assured of its entrepreneurial dividends.
1996-1998	A group of smaller political parties opposed to the two major political parties formed the coalition government that was supported by the Congress. This government continued to further strengthen the reforms process.	The private sector was assured of its role despite the change in the political climate.
1998-2004	Another coalition government came to power where the major political party, the Bhartiya Janata Party, played the pivotal role. Major reforms took place like the abolition of the licensing system; enactment of the Competition Act (so that the competition taking place due to privatization does not become unhealthy) making the MRTP Act redundant; replacement of FERA Act 1973 by the Foreign Exchange Management Act (FEMA) and opening up of most activities hitherto reserved for the public sector.	The private sector was more emboldened by the major reforms that raised the status and size of the sector horizontally and vertically.

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Year	Steps Bearing on Privatization or the Private Sector	Impact on Privatization
2004-2008	The Congress gets back to power albeit after forming a coalition of many small parties. However, the agenda of reforms continues despite opposition. This has been called by Ahluwalia (2002) "…as creating a strong consensus for weak reforms".	The private sector has been contributing a lot while sparing the government to concentrate on the governance and the social sector. This process helps in speedy development of the country.
2008	Significant level of financial crisis has gripped the global economy. Many capitalistic countries led by the USA and the United Kingdom have given huge amounts in the form of bail-out packages and also there have been isolated events of nationalizing some of the financial institutions in their economies, albeit modestly. Still, there has not been any apparent financial dole-out by the Indian government, unlike neighbouring China, nor is there any effort to prune the private sector in any form. Rather, it continues economic reforms where the private sector finds a pivotal role and the government still trusts it and hopes that it would further expand and contribute more in the Indian economy.	Such a gesture has only emboldened the private sector and making it more confident and responsible so that they can brace up more efficiently for future challenges where prospects seem to be bright.
2009	The general election in the country has given a clear mandate to the ruling coalition led by the Congress party and it is poised to take the economic reforms further and make the growth more inclusive while formulating effective strategy to tackle the recessionary tendency in the economy due to the global economic crisis.	Private sector is now further assured of its role while it has to improve its performance with efficiency.

Based on Table 1, it is abundantly made clear how the Indian economy has evolved itself and how it has made the atmosphere for the market economy more encouraging with assurances by developing the economy in a variety of ways. To name but a few: social capital and infrastructure; economic infrastructure; development of basic and heavy industries; making India self reliant in terms of food supply to feed its growing population that has been a major constraint in the Indian economy up to the mid-1970s.

While explaining the essence of the demographic dividend in the Indian economy, the Eleventh Five Year Plan argues that:

> "The decline in the rate of growth of population in the past few decades implies that in the coming years, fewer people will join the labour force than in preceding years and a working person would have fewer dependents, children or parents. Modernization and new social processes have also led to more women entering the work force further lowering the dependency ratio. This decline in the dependency ratio (ratio of dependent to working age population) from 0.8 in 1991 to 0.73 in 2001 is expected to further decline sharply to 0.59 by 2011 as per the Technical Group on Population Projections. This decline sharply contrasts with the demographic trend in the industrialized countries and also in China, where the dependency ratio is rising. Low dependency ratio gives India a comparative cost advantage and a progressively lowering dependency ratio will result in improving our competitiveness." (Vol I: p. 90)

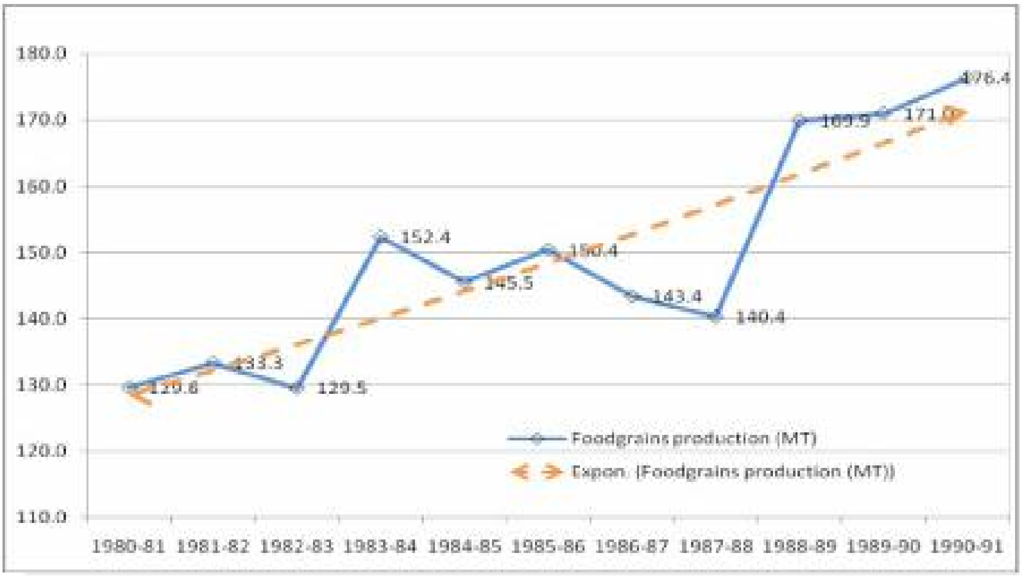
Furthermore,

> "India has the youngest population in the world; its median age in 2000 was less than 24 compared to 38 for Europe and 41 for Japan. Even China has a median age of 30. It means that India has a unique opportunity to complement what an ageing rest of the world needs most. The demographic structure of India, in comparison with that of the competing nations, would work to the advantage to the extent our youth can acquire skills and seize the global employment opportunities in the future." (Vol I: p. 91)

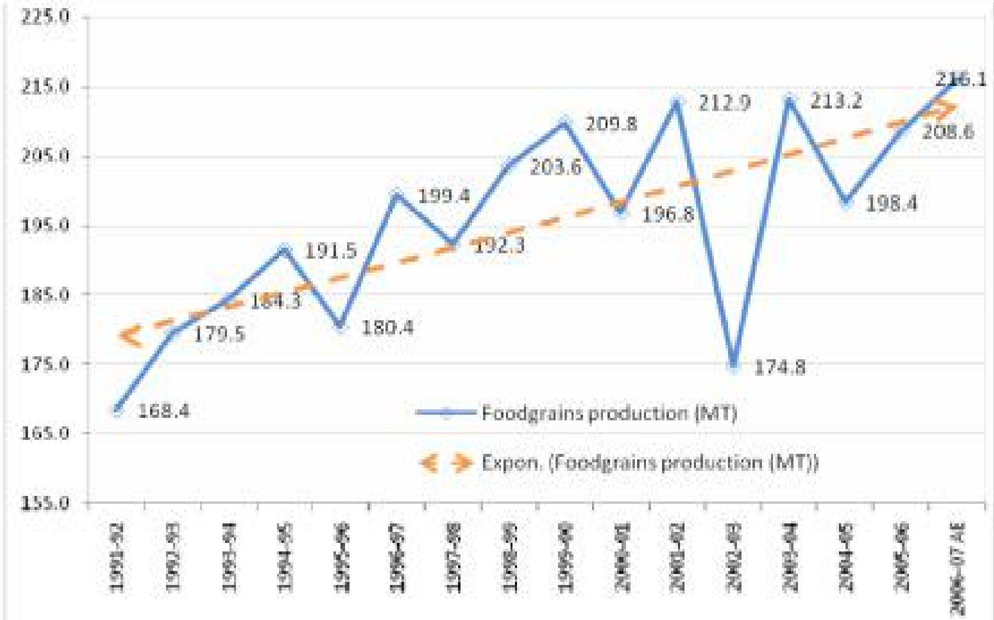
This demonstrates that the Indian economy is now enjoying the benefit of the demographic dividend that would help it in being more competitive in the coming years where the private sector would be bestowed with the supply of cheap and continuous flow of skilled labour force.

The Farm Sector

Seemingly, India has overcome the problem of food shortages that has constrained its growth trend in the 1950s and 1960s in a very disturbing way. The compounding and persisting food shortage since the 1950s has derailed the plan targets and growth trend in a very serious way as the small size of the resources and foreign exchange reserves had to be used for food imports. This further reduced the prospects for the private sector in the economy along with the public sector as well as the overall economic prospects. However, historically, various measures undertaken by the government through public investments have been instrumental in raising the level of food production making India self sufficient in food requirements after the 1970s and economy also turned surplus producer towards the late 1980s and beyond(3).



Source: Based on data from the Ministry of Agriculture, Government of India.
Figure 7. Food grains production in India in the 1980s (MT).



Source: Based on data from the Ministry of Agriculture, Government of India.
Figure 8. Food grains production in India in the 1990s (MT).

Figure 8 reveals that that during the 1980s, there has been sharp increase in food grains production in India and this trend got moderated since the 1980s. Already the food grains production targets of the Eighth (1992-97), Ninth (1997-2002) and Tenth (2002-07) Plans could not be realized. The moderation in the growth rate of food grains production has given rise to speculation of food shortage in the Indian economy in the near future. If it happens, it would be a great obstacle in overall economic growth.

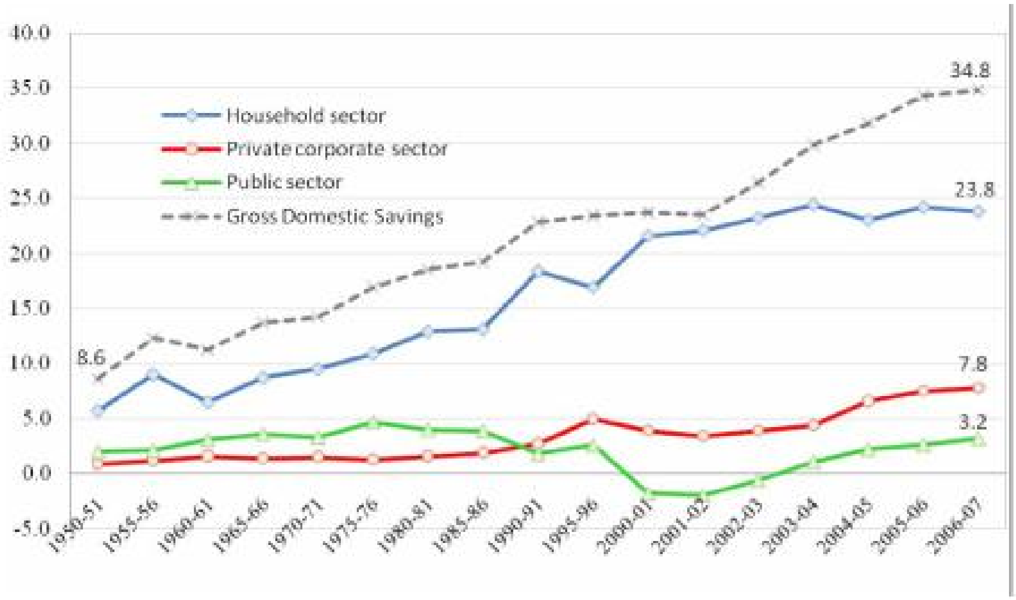
During the years of the Tenth Plan (2002-07), there has always been gap between the food grains production target and the actual output. On the average, the gap has been hovering around 10%. This can be better understood from the facts that the growth rate of the agriculture was 4.72% during the Eighth Plan (1992-97). Thereafter, there has been declining tendency and its growth rate went down to 2.44 and 2.30% during the Ninth (1997-2002) and the Tenth Plan (2002-07). For the Eleventh Plan (2007-12), a target of 4.0% has been suggested.

The sagging performance of the farm sector might be attributed to factors like technological stagnation; over dependence of the increasing population on this sector as two-thirds of the population continues to derive livelihood from agriculture even if its share in GDP has gone below 20%; and declining investments in this sector where the public investment has been greatly shrinking for the last two decades. All these factors may not augur well for the growth and its sustainability and thereby having implications for the private sector in the economy. Some of its reflections are found in traces like emergence of the inflationary trend in the economy, shrinking demand due to stagnating or low harvests in agriculture; and inter-state tensions, etc.

Private Sector and Savings

Generally, in developing economies, there is a problem of savings and capital formation where the private sector may contribute in a big way, i.e., if this sector is growing and vibrant. As shown above, the Indian economy has been exhibiting a high growth trend since the 1980s. One factor responsible for this has been the upward movement in the savings rate. The savings rate in India increased from just 8.6% in 1950-51 to 18.5% in 1980-81. Thereafter, the improvement has been at a faster pace as it went up to 22.8% in 1990-91 and in 2006-07, it stands at 34.8%. The Eleventh Plan aims it to be even higher.

Looking at Figure 9, it may be observed that the contribution of the public sector in the savings has remained subdued. It had dipped to the negative side since the late 1990s for many years together. However, it appears to be looking positive. It is clear that the country’s major contribution in savings has come from the private sector.

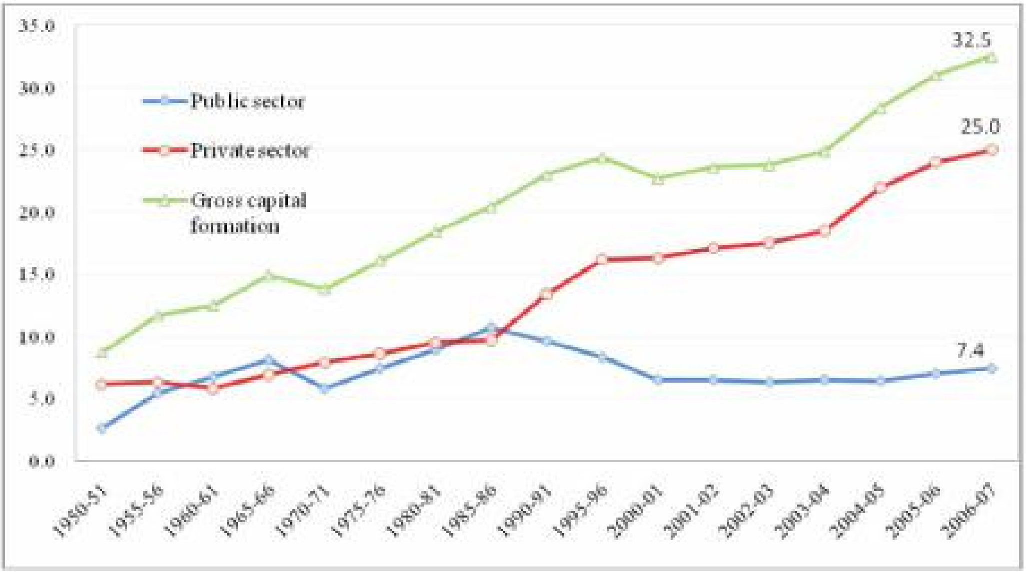


Source: Based on data from the Handbook of Statistics 2008.

Figure 9. Saving structure in the Indian economy (% of GDP).

The private sector may be split into the household and private corporate sectors. It is known that in India, much of the activities are in the hands of the private sector, particularly the household sector. Its contribution in savings has been the most and there have been regular increases in its savings rate. However, in recent years there has been stagnation in its contribution as is shown in Figure 9. Still, the overall savings rate has been increasing wherein the contribution of the private corporate sector has been mainly responsible, it being on the increase since the mid-1980s.

In recent years, increase in savings has been phenomenal due to the resurgent private corporate sector in the Indian economy. Its effect could be seen on the public sector. The latter has been now showing some improvement(4). Due to growing savings in the private sector, it has overtaken the share of the public sector in the overall savings in the Indian economy and it happened for the first time. The gap in the savings made by the private sector and the public sector of the Indian economy has been widening and now getting stagnated. However, both are showing the increasing trend in recent years in terms of contribution to overall savings.



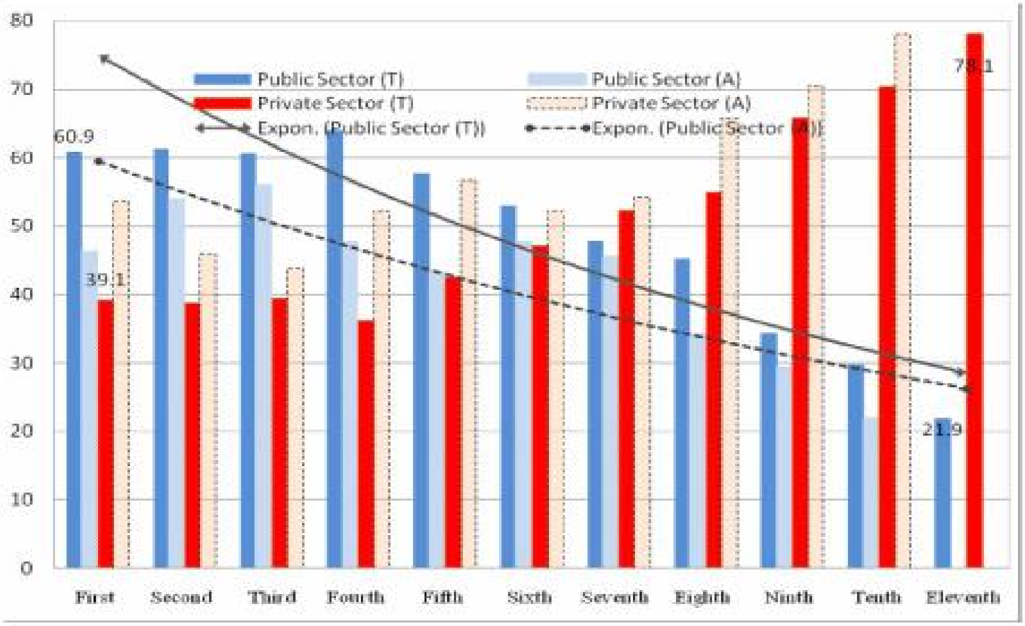
Source: Based on data from the Handbook of Statistics 2008.
Figure 10. Gross capital formation in India (% of GDP).

As far as capital formation is concerned, it has been mainly dominated by the private sector that includes the household sector. It is obvious in Figure10 that capital formation in India is almost one-third of the GDP wherein the private sector contributes more than three-fourths. Initially, there was very low level of capital formation in the economy as it was just below 10% level in the early 1950s. Beyond this, improvements came about mainly contributed by the public sector. However, its contribution was almost matched by the private sector that includes both the household and the private corporate groups. As the private sector occupied more space since the mid-1980s, it made effective and widening contributions. On the other hand, there has been stagnation in the public sector capital formation and a declining trend can be observed.

Such a growing size of the private sector may be explained by two factors. Firstly, there has been expansion in the economic activities where the private sector (household as well as the private corporate) has been occupying more and more space. Secondly, the public sector was failing in its commitment to contribute to the economy to the extent it had planned. This tendency had been for many reasons and some of these have been presented in Table 1.

Still, looking at Figure 10, some inferences become obvious. India adopted the planned course of development since 1951 to bridge the gap with the progressive countries as the country started developing relatively late. In this venture, the public sector was assigned special and dominating role in many ways discussed earlier. Such a pattern is reflected through investments under various five year plans. In the First Plan (1951-56) the public sector planned to invest more than 60% of the total investments and increased to almost 64% in the Fourth Plan (1969-74). After that, there has been sharp and consistent decline in the public sector's role due to the changing role of the private sector in the economy.

In the Eleventh Plan (2007-2012), the public sector is supposed to invest only less than 22% and the rest is to be taken care of by the private sector. More than this, what has been a matter for consideration is that the public sector could not come up to the expectation. The targeted investments could not be made by the public sector and therefore, the private sector has to bridge the gap by shouldering greater responsibilities. The stronger it came forward, the more space was relinquished by the public sector to the private sector.

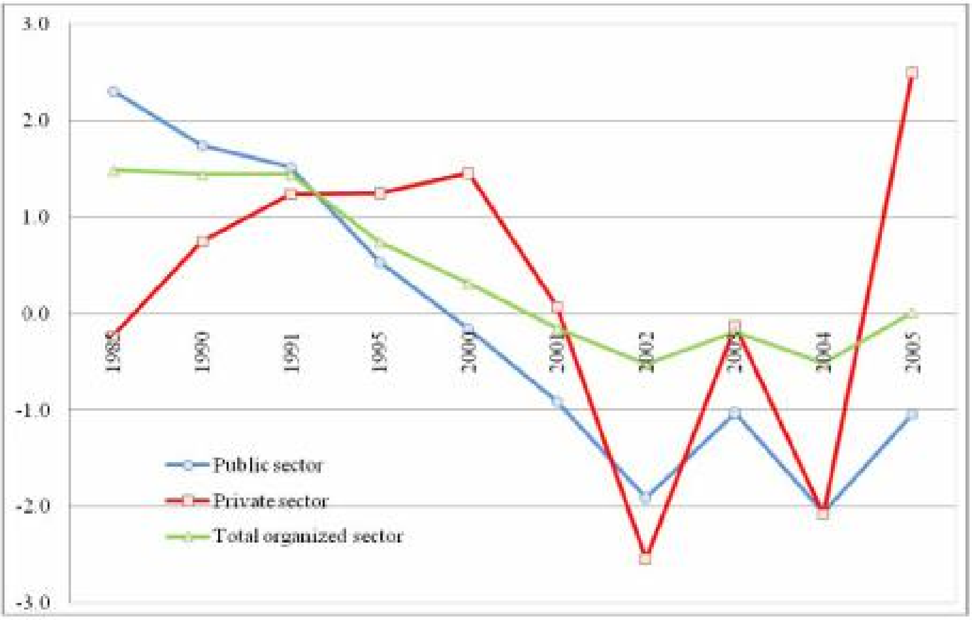


N.B. T: Targeted; A: Actual.
Source: Various Five Year Plan documents of India.
Figure 11. Public and private sector investments in five-year plans.

Employment and Industrial Disputes

The Indian economy is plagued by problems of poverty and unemployment even amidst its rapid economic growth. As per the latest estimates, 27.5% of the population still live in absolute poverty — this population is not able to get food for basic subsistence. The situation between the urban and rural India does not differ substantially as the poverty ratio is 5.7 and 28.3% respectively (Economic Survey, 2007-08). Thus, in India, 300 million people live below the poverty line. This is a higher number than the whole population of the USA.

Moreover, in 2004-05, according to the National Sample Survey Organization of India (NSSO), the estimated size of the labour force was almost 420 million in which out of this, 8.28% was unemployed. These are the chronic problems in the Indian context that have been the major challenges faced by the economy. Ironically, agriculture is still the mainstay of the majority of the labour force although they want to shift from this low-earning occupation. The next major employment is to be found in the service sector while the manufacturing sector has low employment potential in India.



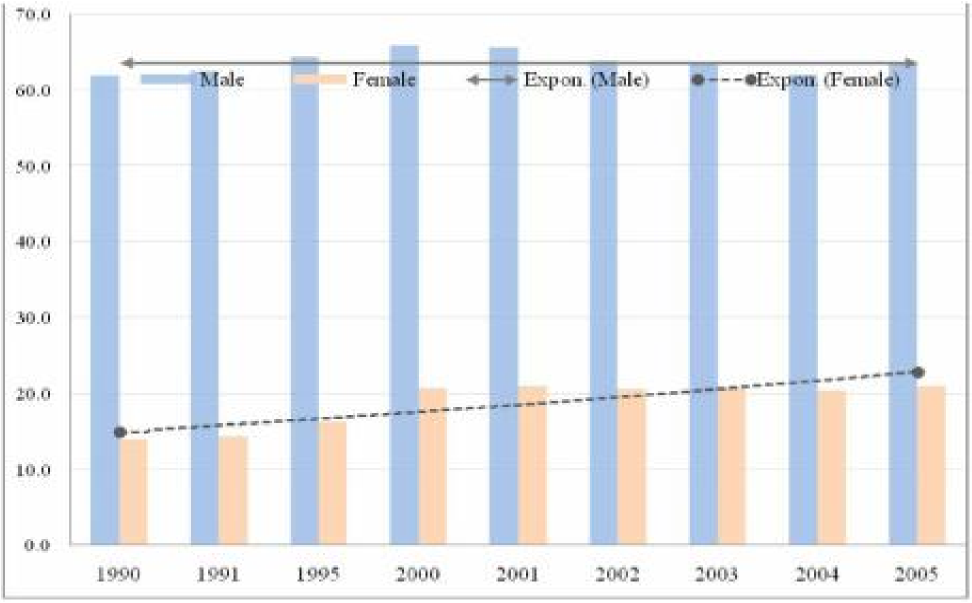
Source: Economic Survey, 2007-08.

Figure 12. Growth rate of organized sector employment in India (%).

So far, it has been established that the economic growth rate in India has fuelled a deep sense of optimism in its economic performance. This is, in spite of, and amidst the widespread apprehensions about the global slowdown leading to recession. The role of the private sector continues to improve in terms of its contribution to the GDP, saving rate and the gross capital formation. Still, it is ironical that growth rate of employment in India's organized sector has gone gradually downward with the introduction of economic reforms and as the pace of economic reforms is improving, growth rate of employment is getting reduced. This leads to a sense of some pessimism in the economy and among the stakeholders as India, is plagued by high unemployment and that is getting reflected in large scale poverty. As per estimates of the Planning Commission, in 2004-05, around 27.5% of the nation's population was living below poverty line. Thus, to make private sector growth sustainable in India, this dimension of employment cannot be ignored. There is a debate in the country suggesting the existence of 'jobless growth' meaning that there has been high growth rate in the economy but it is not really generating sufficient employment in the economy.

Employment in the organized sector increased up to the year 2000 with varying rates and thereafter it has been showing declining trend. Figure 11 shows that the growth rate of employment in the overall organized sector was positive up to 2000, albeit with lower and lower rates. Thereafter, it has become negative and the size has been shrinking. The difference between the private sector and the public sector is that the growth rate of employment has. in general, been declining in the latter and since 2000 it has always been negative. On the other hand, the trend has not been uniform in the private sector and it is gripped by a highly unstable pattern. Since 2000, there has been more instability and there seems to be delinking between overall performance of the private sector and employment growth in the organized private sector. It is also shown that there is no significant change in the composition of the private and public sector in the organized sector employment. In 1981, the private sector had a share of 32.3% that went down to 28.7% in 1991. Thereafter, it showed some improvement as it registered 31.9% in 2005.

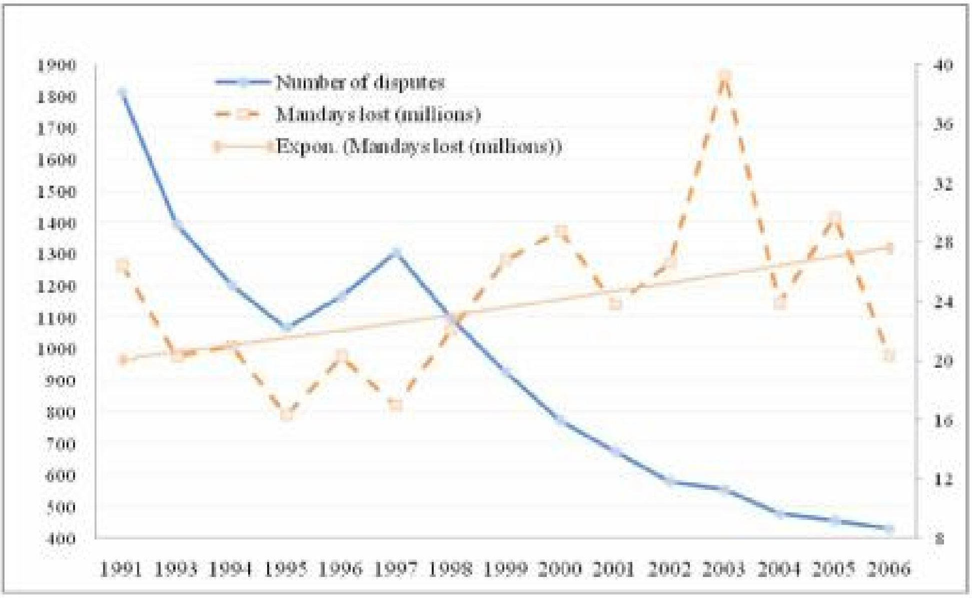
This suggests that the private sector has not been able to generate employment opportunities in the organized sector, notwithstanding its increased share in the overall output in the economy reflected through its contribution in savings and capital formation besides the contribution in the tax collection of the government of India(5). In the private sector, total employment size went up from 74 million in 1981 to the highest of 86.5 million in 2001 and thereafter declined to 84.5 million in 2005.



Source: Economic Survey 2007-08.

Figure 13. Employment by gender in the organized private sector (million).

Figure 12 provides one very interesting feature of the employment in the organized private sector of India — gender distribution. It is seen that although the size of male employment has been either stagnating in the private sector or getting down, the share of female workers is on the increase. In fact, the size of women workers increased from 13.9 million in 1990 to 21 million in 2005. On the other hand, with male workers, it changed from 61.9 to 63.6 million only, possibly explained by the fact that the share of the women has increased from just 18% to around 25% during this period. Although such change is taking place in the public sector as well, the share of women workers in the corresponding period went up from 13 to 16% indicating that women workers are being preferred in the organized sector where the private sector has been ahead of the public sector. Thus, in the era of growing privatization, the employment scenario is getting more gender-balanced.



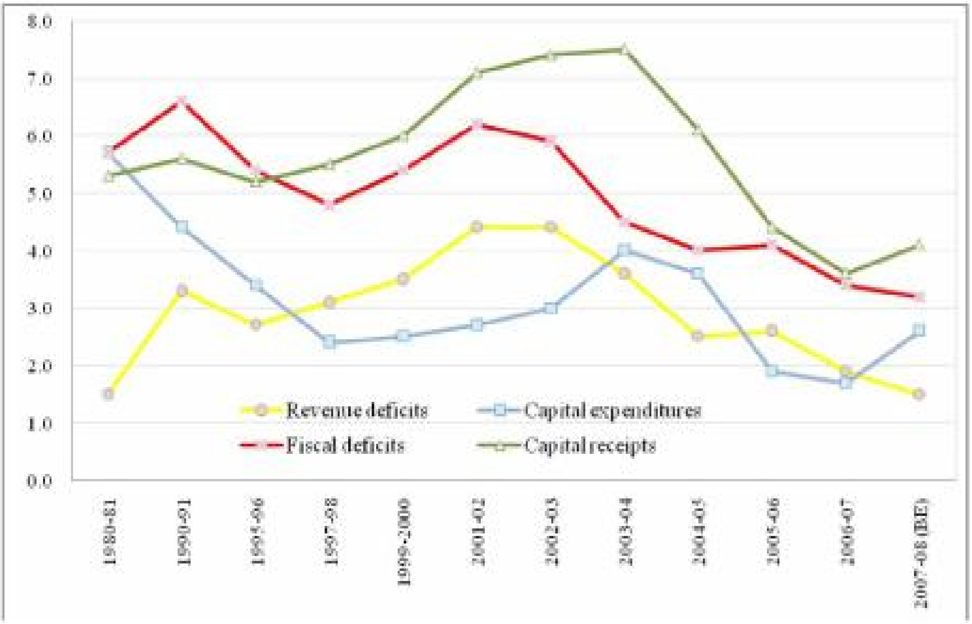
Sources: Central Statistical Organization: Statistical Abstract of India – 2002; Economic Survey 2007-08.

Figure 14. Industrial disputes in India.

Another major hallmark of growing privatization in the Indian economy is reduced labour unrest as gets known from sharp reduction in the number of industrial disputes since 1990. Figure 13 shows that the number of industrial disputes has decreased drastically and it has been less than one-fourth in the period 1991 to 2006. Total number of disputes was 1810 in 1991 that came down to 430 in 2006. The decline has been rapid and almost consistent creating a congenial atmosphere for the private sector to grow with certainty. On the whole, it may be inferred that industrial disputes are coming down and even the loss of man days also seems to reflect some trend of moderation, albeit in an unsteady manner so far. Even this much has been good enough for the private sector.

Fiscal Reforms

The structure and pattern of the government finances play a critical role in economic growth, development and also functioning of the private sector. It is known that the size of public expenditures keeps on increasing. Poor management of finances by the government may become counterproductive for the public sector. In India, it may be observed that the 1980s fiscal trend worsened as the major indicators like revenue deficit, fiscal deficit, etc became larger and unmanageable resulting in poor prospects for the private sector. This also reduced the government's ability to spend on capital account. Poor fiscal management also resulted in low borrowing capacity of the government. Consequently, the government has to leave behind a discretionary and subjective approach towards fiscal management. It shifted towards a mechanical and institutional approach that left little scope for subjectivity.



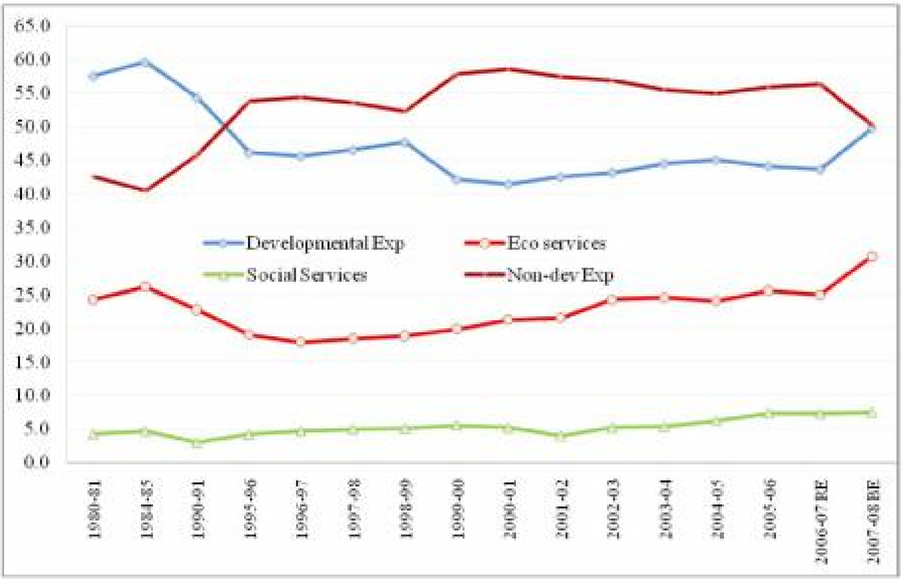
Sources: Various issues of the Economic Survey; Handbook of Statistics 2008.

Figure 15. Deficits and capital account of Indian budgets (% of GFP).

Figure 14 reveals that really it has been yielding the dividends as there have been .sufficient improvements in the fiscal management in the country and it has been highly helpful for the growth of the private sector(6).

In this regard, the Eleventh Plan observes that:

> "The Fiscal Reforms and Budget Management Act (FRBMA) enacted in 2003, is an important institutional mechanism to ensure fiscal prudence and support for macroeconomic balance. According to the Rules framed under the Act, revenue deficit is to be eliminated by 31 March 2009, and fiscal deficit is to be reduced to no more than 3% of estimated GDP by March 2009. The process of fiscal consolidation under FRBMA has been continuous. It has yielded rich dividends in terms of creating fiscal space for increased spending on infrastructure and social sectors." (Vol I: p. 37).



Sources: Various issues of the Economic Survey;
Handbook of Statistics 2008.

Figure 16. Pattern of budget expenditure (%).

It is clearly brought out in Figure 15 that the government has been able to re-prioritize its expenditures to some extent. As a result, there is some downtrend in the non-development expenditures in the current decade whereas there has been some improvement in the developmental expenditures. Improvement in the latter is reflected in the form of improved expenditures on the economic services and the social sectors. These are ultimately helping the overall economy including the expanding private sector in capacity building in many direct and indirect ways. However, it may be argued that the government is still not spending sufficiently on the social sector development considering the severity of poverty, unemployment, illiteracy, health related problems, drinking water etc. In this regard, there have been varied opinions of the scholars wherein some scholars do not find careless thrust on privatization good for the social sector development at this stage[7],[8] .

Regional Imbalances

India is a huge country and economy with federal structure. It may be briefly summarized that there has always been inter-state imbalances for so many reasons. These are reflected in terms of demographic variables, human development, per capita incomes, per capita plan investments, poverty, unemployment, growth rates, infrastructure, etc. However, what comes out clearly is the fact that since the process of economic reforms in India has been initiated in a big way and in a consistent manner since 1991, the inter-state disparities have widened. Disparities within a state are also on the increase causing much tension in the economy. The ratio of highest per capita income state to the lowest per capita income state among the major states of India increased consistently from 2.9 in 1980-81 to 3.2 in 1990-91 to 4.4 in 1999-2000 and now to 4.9 in 2005-06. Similarly, the Human Development Index (Planning Commission of India, 2002) also varied widely from 0.638 in Kerala in 2001 to 0.367 in Bihar, 0.388 in Uttar Pradesh and 0.395 in Madhya Pradesh. Incidence of poverty varied from 6.6% in Punjab in 1999-2000 to 31.2% in Uttar Pradesh and 42.6% in Bihar.

In fact, the states which had higher per capita public investments earlier were better equipped to invite private investments as compared to the states that could not benefit from that level of public investments. This has been acknowledged even by the Eleventh Plan of India as it observes:

> "As the Eleventh Plan commences, a widespread perception all over the country is that disparities among States, and regions within States, between urban and rural areas, and between various sections

> of the community, have been steadily increasing in the past few years and that the gains of the rapid growth witnessed in this period have not reached all parts of the country and all sections of the people in an equitable manner. That this perception is well founded is borne by available statistics on a number of indicators.” (Volume I, p.137)

Governance has also become an important determinant for the private sector investments as it could be traced that poorly governed states like Bihar, Uttar Pradesh have not been a good destination for private sector investments in contrast to better governed states like Karnataka, Haryana etc. This underlines the significance of an active and well meaning state that creates a sufficient launching ground for the private sector to grow.

Conclusion

The above discussion about the nature of economic changes and privatization has revealed that the Indian economy shifted from mainly private sector influence in the economy up to the 1940s and then made mixed economy as its strategy to take away the economy from low level of economic stagnation to higher and self sustaining goals. Through this process, there has now been increasing emphasis on the privatization of the economy through conscious efforts and as part of well thought-out strategy. Moreover, being a multi-party democracy with federal economic structure, there is sufficient unanimity about the privatization albeit, some differences are voiced. This has resulted in accelerated growth performance in recent period.

Before summarizing how the process of privatization in the emerging Indian economy may be speeded up further, it is useful to feature Figure 17 which shows major determinants of the private sector in an economy. This makes obvious the critical role of the governance and social capital as much as the economic capital and economic reforms.

Figure 17. Major determinants of the private sector in an economy.

In a developing economy like India, while emphasizing upon the greater participation of the private sector in the economy, care should be taken that basic gaps and challenges like poverty, unemployment, food security, illiteracy, etc along with the development of economic infrastructures are tackled properly, and with little time loss. In this context, role of the public sector assumes greater relevance(9). Such a strategy would not only further release forces of economic growth but would also make stakeholders more satisfied and competent for performing in a growing economic environment.

In the immediate context, the Eleventh Five Year Plan (2007-12) has identified some sub-sectors with greater growth potentials in the economy (Table 2). From this, it is abundantly clear that most of these sectors would be dealt mainly by the private sector and in some instances; it would be by the public sector along with the private sector. Thus, growth prospect in the economy mainly rests upon the private sector.

On the whole, it may be inferred that there are clear evidences that the government itself is now promoting privatization in various ways. India has travelled quite a long way and in the process, gaining maturity as reflected on various macroeconomic features. Highlights are the following:

- Privatization has picked up substantially in the Indian economy and the private sector has been the major contributor in the economic growth in India.
- The ground for rapid and sustainable privatization in India has been prepared by huge public investments, food security, human development, infrastructure development etc.
- The government is still taking care of a strong private sector and at the same time, being vigilant and providing support through the public sector that has also gained strength from privatization.
- However, privatization has helped only the better-off segment of the economy and thus, compounds the problem of regional disparities.
- Rapid privatization has not been helpful in reducing poverty, unemployment and social backwardness although there is no evidence that privatization is an obstacle. However, if the government deals with such challenges, the ground may be prepared further for higher economic growth where the private sector continues to play a desired role.

On the whole, the private sector is getting more and more efficient but only where there are greener pastures. Otherwise, it is left to the government to prepare the ground for the private sector to expand its operations with efficiency.

Table 2. List of Twenty High-growth Sectors in India

	Industry	Sector Where This Will Grow
1	Automobile and Auto Components	Private sector
2	Banking/Insurance and Finance Services	Public sector and private sector
3	Building and Construction Industry	Mainly private sector
4	Chemicals and Pharmaceuticals	Mainly private sector
5	Construction Materials/Building Hardware etc.	Private sector
6	Educational and Skill Development Services	Public sector and private sector
7	Electronics Hardware	Private sector
8	Food Processing/Cold Chain/Refrigeration	Private sector
9	Furniture and Furnishings	Private sector
10	Gem and Jewellery	Private sector
11	Health Care Services	Mainly private sector
12	ITES (Information Technology Enabled Services) or BPO (Business Process Outsourcing)	Private sector
13	ITS (Information Technology Software) or Software Services/Products	Private sector
14	Leather and Leather Goods	Private sector
15	Media, Entertainment, Broadcasting, Content Creation and Animation	Mainly private sector
16	Organised Retail	Private sector
17	Real Estate Services	Public sector and private sector
18	Textiles, Apparel and Garments	Private sector
19	Tourism, Hospitality and Travel Trade	Mainly private sector
20	Transportation Logistics, Warehousing and Packaging etc.	Public sector and private sector

N.B. The industries are listed in the Eleventh Plan while the inference of their development in a particular sector (s) is by the author.
Source: Eleventh Five-Year Plan, Vol 1, p. 100

Footnotes

(1) Mohan (2008) has undertaken a critical review of the growth trend in the Indian economy. He has made a curious analysis at the sectoral growth trend. Manufacturing sector has been almost keeping a stagnant growth rate of above 5.5% in the first five decades since independence (that is, the 1950s to the 1990s) with some exception in the 1970s. Agricultural growth has been subject to large scale variations in different decades. With regard to the services sector he observes that it was not given prominence until the 1990s. However, the continuing and consistent growth in the services sector over the decades 'really' accounts for the accelerated growth in the overall GDP of the Indian economy, except for the 1970s.

(2) Poland has been the first central European country to make a shift from controlled economy to a market- oriented economy. It is significant to note that in this economy, transformation to the market economy has been mainly through expansion of the private sector rather than by privatization of the state-owned enterprises. (Rondinelli and Yurkiewicz, 1996).

(3)According to the Tenth Five Year Plan (2002-07) of India:

> "After remaining a food-deficit country for about two decades after Independence, India has not only become self-sufficient in food grains but now has a surplus of food grains. The situation started improving gradually after the mid 1960s with the introduction of high yielding varieties (HYVs) of crops, and the development of agriculture infrastructure for irrigation, input supply, storage and marketing. The high production potential input responsive HYVs motivated farmers to adopt improved production technologies with the use of water, fertilisers and agrochemicals. Besides the public sector rural infrastructure, farmers developed their own 'onfarm' resources." (Vol 2: p. 513)
>
> Furthermore:

"The main factors for the all-round success of agriculture have been: increase in net sown area; expansion of irrigation facilities; land reforms, especially consolidation of holdings; development and introduction of high yielding seeds, fertilisers, improved implements and farm machines, technology for pest management; price policy based on MSP and procurement operations; infrastructure for storage/cold storage; improvements in trade system; increase in investments, etc." (Vol 2: p. 514)

(4) Its evidence is to be found in the description of the achievements of the public sector provided by the Eleventh Plan to wit:

> "The Central Public Sector Enterprises (CPSEs) on the whole, have registered a strong performance during the Tenth Plan. The number of profit-making CPSEs has gone up and the number of loss-making ones has reduced. Granting of full autonomy to CPSEs remains an unfinished agenda before the government. A great deal of progress has been made in the revival of sick CPSEs, but close monitoring would be needed to implement their restructuring plans. Another issue of importance is

> the development of a mechanism to ensure optimum investment decisions by large profit-making enterprises. (Vol I: p. 10)

It also makes obvious that the government would continue to emphasize on the public enterprises as well.

(5) Contribution of the corporation tax (tax imposed on the earnings of the corporate sector) has become the largest contribution at 30.7% of the total tax revenue of India in 2007-08 and the other has been the excise duty (23.8%). In 1995-96, the two contributed 14.8 and 36.1% respectively. Otherwise, the corporation tax mobilization has become ten times during 1995-96 to 2007-08 and no other tax could match this velocity. (Economic Survey, 2007-08).

(6) The Annual Report 2007-08 of the Reserve Bank of India reveals that the finances of the state governments and the Union government of India have improved in 2007-08. The gross fiscal deficit (GFD) got further lower while the primary deficit turned negative. There are also strong signs of buoyancy in tax collection implying that the better economic growth gives rise to more tax revenue to the governments and the same might be used to fulfil the socio-economic objectives. Therefore, the government has been able to make larger allocations for the developmental expenditures while consolidating the fiscal disciplines both by the central and state governments.

(7) Shariff et al. (2002) have found that although the government emphasis on the social sectors and poverty alleviation has been increasing in absolute terms, however, in relative terms, there are signs of some decline during the reforms of the 1990s as evident from the central budgets. This is in spite of the fact that the reforms were initiated with the philosophy of shifting the government participation from the directly productive activities towards the social sector. According to them, the shifting of responsibilities to the private sector for social sector development has led to the increase in the cost of such services and it makes the situation worse for the majority of the people in India. Therefore, the state cannot escape from its role to take care of the social sector and poverty alleviation, etc.

(8) Morris (2004) also observes in the Indian context that the government must play greater attention towards the development of the social sector that has strong externality effects.

(9) Florio (2002) mentions that in Russia (and elsewhere) market reforms backfired due to the absence of the basic institutional and social prerequisites.

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