Indian Economic Reforms: A Study
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ABSTRACT
This research paper gives a thorough understanding about major trends and key concepts of Indian economy. The Indian economy has been through various ups and downs since independence. The paper makes one acknowledge all the key terms and concepts concerned with the Indian economy. It also explains all the reforms that have taken place in the Indian economy so far. Starting from the very first 5 years plan it acknowledges all the aspects and scenarios that have happened in Indian economy very meticulously. The paper gives understanding about the GDP growth rates during all the five years plans implemented in India and the various reforms that the Indian economy has been through. There is also a discussion on recent developments in the Indian economy. It also explains the twenty years of economic reforms in India.

Key words: QE (Quantitative Easing), GDP (Gross Domestic Product), GFCF (Gross Fixed Capital Formation)

An overview:
For any country to be well off the primary requirement is to have a sound economy. There are several countries which are termed as developed while the rest are called developing or under development. So the question here is how one can decide upon certain terms like if the country is developed or developing. India is termed as a developing country across the globe or rather it would be better to say an emerging economy. Thus for the better understanding of it we need to have a closer look at what an economy is all about and how different conceptual framework affects overall development of the country. The first and the basic thing required for a better understanding of economics is to have a closer look at the key terminologies and concepts used to describe the economic health of any country. Governments all over the world always want to make sure that there is enough growth in the economy of the country. It should neither be very high, which leads to inflation nor a stagnant one which leads to poor performance of the country's economy. It should always be balanced and to maintain this balance itself is a challenging task for all the nations.

So now, here we will be having a discussion on some most important concepts of the economy and at the same time we will have a discussion on various reforms of the Indian economy. India has seen at different times certain economic changes which are known as Indian economic reforms which are later on discussed here in the paper. So now, let us move on first with some crucial key concepts and definitions of the economy.

Key definitions:
1. Slowdown in economy:
This is one of the very important terminology to be understood when having a discussion about economics. Technically it can be stated here that "Whenever there is a general contraction in the business cycle, it leads to reduction in employment, investments, spending and capacity utilization and this is what is called an economic slowdown." This can be understood with the help of a below mentioned diagram which signifies that all of the activities are mutually enforcing and all works together as a chain. Thus it means a breakdown in any one of the factors can lead to a slowdown in the economy of a country.

2. Recession:
This is the very disturbing term for an economy of any country of the world. As we have discussed earlier that all economic activities are interconnected, it is very much important that all factors work efficiently for the betterment of economy. When this does not happen it leads to a slowdown in economy which in longer run leads to a recession. A recession leads to some drastic negativities such as Poverty, Unemployment and
a degrading GDP (i.e. Gross Domestic Product). Recession can be defined as “a serious and continued contraction in economic activity”. It can occur when there is a widespread drop in spending by consumers and companies all over the country. Thus it becomes really important to know why recession happens and what the major reasons responsible for it are. The below mentioned four reasons can lead to a recession.

3. The paradox of Thrift:
The paradox of thrift is an economic situation which occurs during a slowdown in the economy. In this situation people start holding money and they don’t want to spend on anything, which in turn gives an overall rise in the savings of a country. The question to worry here is that if too many people tend to do that then the investment starts to fall rapidly all over the country and thus the behavior which is optimal for an individual can be harmful for the system if too many people do the same. We can simply understand it in the upcoming line which states that one man’s consumption is another man’s income.

4. The Hindu rate of growth:
This is a term which dates a long back in Indian economy. It is a derogatory term used to describe the low growth rate of GDP (i.e. Gross Domestic Product) of a mere 3% to 3.5 % per annum that India had witnessed during 1960s to 1980s, which represented a very weakening of GDP in that particular era.

5. Asset classes:
One other important key definition is an Asset class. We can state here that “An asset is an economic resource, tangible or intangible, capable of producing value”. The definition given here simply dictates that an asset is something that is capable of providing the holder with a certain value. Where as an asset class is a group of securities which are mutually similar. All the securities which fall under the same category are called an asset class. While having a discussion on economy we can state here the five major asset classes which are Equities, Fixed income (bond), Cash equivalent, Real estate and commodities.

6. Quantitative easing – QE:
One of the very confronting aspect of economic definitions and concepts is Quantitative Easing and so it becomes the need of the hour to know about it. Government of any country wants an enough growth in the economy which means that it should not be too much that it leads to inflation and at the same time not a very slower one which creates a stagnation in the economy. One of the main tools the government has to control the growth is raising or lowering the interest rates. But when interest rates are at almost zero, the central bank has to go for some different tactics- such as pumping the money directly into the financial system and this process itself is Quantitative Easing. Breaking down the QE requires understanding of various aspects which are described here as under.

From the above mentioned picture it can be concluded that QE is the process in which central banks buy financial assets from commercial banks and other private institutions and thus increasing the monetary base. It is used by central banks when the SMP (i.e. Standard Monetary Policy) turns out to be ineffective. An SMP occurs when the central bank buys short term government bonds to lower market rates. But if in some conditions market rates are close to zero then the SMP fails and hence there is the need for QE. After the implementation of QE, it raises the prices of bonds so the yields go down.
7. GDP growth:
This is the most common thing that people come into contact with during the daily activities. All the political parties always keep talking on this particular term. Thus it becomes very essential to know the term ‘GDP’ (i.e. Gross Domestic Product), about which all countries all over the world are always concerned. An increasing GDP growth rate shows that the country is doing well and the economy is expanding while a stagnant GDP shows the contraction and slowdown of the economy. The GDP growth rate is the rate at which any country's Gross Domestic Product (GDP) is changing or rather we should say is growing from one year to another. GDP is the whole market value of all the goods and services produced in a country within a particular, specified period of time. The below mentioned bar diagram gives a detailed understanding and exact situation of GDP growth rate in India since the inception of very first five year plan in 1951. It also acknowledges us about the absence of five year plans in some years. The latest in the list is the 12th five year plan which estimates the GDP to grow at 8%. In recent times there have been some contradiction in the actual results of GDP growth rate then the estimated one.

![Planwise GDP Growth](chart)

8. GDP & GFCF:
As discussed earlier the GDP is an indicator of the performance of any nation's economy. The other term we need to take in to consideration here is the GFCF (i.e. Gross Fixed Capital Formation). So now, let us expand the term GFCF and importance of it when it comes to the relation of it with the GDP.

The Gross fixed capital formation (GFCF) is the value of acquisition of new or existing fixed assets by business sector, government and pure households, less their disposal of fixed assets. It shows how much of new value created in economy is invested rather than consumed. Gross domestic saving is around 30% of GDP. But the problem is half of this is spent in buying gold etc. bypassing the financial sector. Gross fixed investment is also around 30% of the GDP but around half of this is for households and for constructions. Most productive capital expense is private firms buying machinery and building factories.

**Economic Reforms in India:**
Indian economy is a mixed economy wherein both capitalism and communism exists. There seems the availability of both public as well as private sectors. There have been some tremendous reforms the Indian economy has been through. So let us discuss the various reforms that have taken place in the Indian economy.

**The First generation economic reforms in India from 1991 to 2000:**
The first generation economic reforms in India had started in the year 1991. Below is a brief timeline and understanding of various steps taken and policies implemented in order to strengthen the economy.

- During the year 1990, India was facing a huge BOP-balance of payment problem. We only had $1.5 billion left. Which had triggered the need for an economic reform.
- The first generation economic reforms were initiated by the team of the then Prime Minister Mr. P.V. Narasimha Rao, Finance Minister Mr. Manmohan Singh and Commerce minister Mr. Pranab Mukharji.
- During the first reform the major steps taken were...
  1. Plugging in to the global economy.
  2. FDI was recognized as a key growth driver.
  3. There were some large scale economic reforms to bring capital for growth needs.
  4. One of the most needed thing at that particular period of time the four D's were launched which were namely De-licensing, De-control, Disinvestment and the De-bureaucratization.
  5. The new economic policy (NEP) was launched to de-license the huge industrial sector.
FERA– the foreign exchange regulation act was liberalized into FERA– foreign exchange management act.

MRTPC – monopolies and restrictive trade practices commission was eased and CCI – competition commission of India

FDI – foreign direct investment and FII– foreign institutional investments were welcomed as the key growth drivers.

The FIPB was set up (foreign investment promotion board) to speed up the investment proposals.

PSU– Public sector undertakings disinvestment was started, to raise funds and eliminate the standard problems such as over staffing and underutilization, Poor material management and an outdated, obsolete technology.

SEBI was strengthened and the Currency made partially convertible.

The second and Third generation reforms of Economy of India:
Well to begin with the second and third generation reforms that took place in Indian economy let us have a look at the below mentioned image and have a better understanding of those reforms.

From the above mentioned image some key learning can be stated that over 1990 to 2010 our world market capitalization share grew from 0.41% to 2.88%. Whereas our exports as a % of GDP grew from 6.9% to 21.5%. Our GDP based on PPP ranking grew from 9 to 4 while one of the biggest hindrance 'The Hindu rate' of growth was finally at an end.

Some crucial areas of concern:
It can be seen that there has been Low GDP growth rate during this period of time. The other problem that lies there in is GDP’s skewed distribution. There was a High Inflation and low pace of job creation too.

The market for the factors of production was always an unreformed one. Some other issues like Low rate of capital expenditure, complex labour laws, and low level of foreign investments also existed. So far the Indian economy has been through some drastic changes all these years and as there is always a second side of everything these changes too, had its alter effect.

Conclusion and some recent developments in Indian economy:
The Indian economic structure is a mixed one. In India there has been various changes in the economic structure after the implementation of LPG (i.e. Liberalization, Privatization and Globalization) policy in the year 1991. Some recent developments are Implementation of GST- The Goods and Services Tax, The new company law, planning commission of India replaced by NITI (National Institute for Transforming India) Aayog and Demonetisation. The after effects of all these recent development is yet to be witnessed. It’s really a big question how all these changes will affect the Indian economy. So far the Indian economy has been through lot of thick and thins. Let us hope now for a better Indian economy and a better future for the people of India.

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