Political Economy of India's Economic Reforms

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Introduction:

The Indian National Congress regained political power after elections to Parliament in June 1991. Within a few days of its getting in power a package of new economic policies was announced. The proposed policy frame was radically different, in approach and content, from the one India had pursued ever since its gaining political independence. The new policy package was delivered swiftly in order to complete the process of changeover so as not to permit consolidation of any likely opposition to implementation of the new policies.[1] The strategy was to administer 'shock therapy' to the economy. The new policies did not come from the Party's election manifesto of 1991 for which the Party sought support of the Indian voters. The policy package also did not get discussed at any major organisational or Parliamentary forum.[2] It was a surprise move for many in the Cabinet too, what to speak of State Chief Ministers or other State level functionaries. There was no debate among officials or economists prior to the official adoption. A number of distinguished personalities in business and industry, however, expressed approval and support to the new policies. The press and the government-controlled mass media were pressed into service to assert that the country needed to opt for 'market oriented policies' as most misfortunes of the country were linked to extensive state controls and interventions. TINA: 'There is No Alternative' to the New Economic Policy (NEP) was the assertion.

The reforms package was projected as an indigenous product. The package had been in use for many years in a number of Latin American and African countries and had been known by differing connotations such as 'Washington Consensus', `Structural

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1. This strategy was suggested by the World Bank. The Bank said: "... there is an interaction between the slowness of the reform and the final outcome, since a slow reform allows vested interests adversely affected by continued policy reforms to mobilize increasing support and halt the process". World Bank, *India: An Industrialising Economy in Transition*, A World Bank Country Study, The World Bank, Washington, 1989, p. 38.

2. In sharp contrast, India's planners realised the importance of policy makers carrying public opinion with them. We quote from the First Plan document:
The task of organising a democracy for rapid and coordinated advance along several lines is one of special difficulty. The party in power has not only to carry public opinion with it; it has to get the active cooperation of all sections. In a democratic country, every citizen is free to think and vote as he likes, and political parties have the right freely to canvass public support for their programmes and in the event of securing a majority in the legislature to form government. Under these conditions, the greater the responsiveness of the party in power to trends of opinion outside, the greater will be its effectiveness for action.
See: India, Planning Commission, *The First Five Year Plan*, 1953, p. 10.

Adjustment Programme' and liberalisation.[3] The World Bank and the IMF never denied their contribution in this regard. The Indian media, however, projected it as 'Manmohanomics', after the name of the then Finance Minister. All criticism of the new economic policy was snubbed.[4] The entire state machinery was put on the public relations job[5]. Ministers were advised to exploit all opportunities to 'educate public' on the merits of the policy reforms.[6] Advisory committees and expert groups supposed to deliberate on policies and programmes were packed with sycophants and favourites. It was asked: why should public resources be wasted in hearing criticism?[7] Most critics were left out of the consultation and decision-making processes. They were either dubbed as irrelevant or were described as living in the stone age! A few distinguished Non-Resident Indian economists were invited for short visits to India to lecture on the merits of `free market'. The swift and speedy adoption of new policies paid dividends. It took time for many to grasp the true nature and full implications of the new policy changes and therefore opposition did not surface immediately.

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3. See: J. Williamson (ed.), *The Political Economy of Policy Reform*, Washington D.C., Institute for International Economics, 1994 and D. Rodrik, "Understanding Economic Policy Reform", *Journal of Economic Literature*, Vol. XXXIV, March 1996, pp. 9-41.

4. The Finance Minister was quoted as saying (in an interview to New York Times) that the nation's elite must forget their "ideological hangovers" because India had no viable option except to open its doors to the West as well as Asia. ("No time for ideological hangovers: Manmohan", *Hindustan Times*, July 10, 1991).

5. The Ministry of Finance gave Rs. 3 crores (Rs. 30 million) for the establishment of a Centre for Development Economics (DSE) in the Delhi School of Economics. Significantly, the economist who was to be the Co-Director of the proposed Centre, was full of praise on the national television network for the Budget which gave his Centre the money. The role of economists from Delhi School was seen by a commentator in an independent newsmagazine as follows:
DSE economists have of late been closely associated with the reform process initiated by Manmohan Singh -- not as advisers and experts, but more or less as propagandists. Advice and expertise are anyway superfluous, when the pace of economic change is being dictated from distant financial capitals. Propaganda, in contrast, serves the useful purpose of representing the capitulation to the dictates of international finance as necessary and inevitable.
See: Sukumar Murlidharan, "Winning economists, influencing people", *Frontline*, April 9, 1993. Similar reactions to the Finance Ministry's largesse, at a time when other educational and research institutions were denied funds, appeared at that time. See for example "Backroom boys", *Economic Times*, March 8, 1993; "Manmohan's munificence mortifies many", *Indian Express*, April 4, 1993; and "Dole for DSE", *Business World*, 7-20 April, 1993, p. 43.

6. Jagdish Bhagwati and T.N. Srinivasan, said in a report that government need to educate the public continually and "every important Minister of the Cabinet and every available occasion must be exploited to do this". See: Jagdish Bhagwati and T.N. Srinivasan, *India's Economic Reforms*, Ministry of Finance, Government of India, New Delhi, 1993, p. 10.

7. Such cryptic remarks were often credited to the Finance Minister and reported widely in the press.

Lack of critical debate on the issue and yielding of no space for honest opposition led to the emergence of a conformist culture in administration, politics, media and worst of all in academics. There were close similarities to the emergency days of the mid-'seventies. The result: isolation of the ruling party and adoption of a variety of policies which did not relate to the problems of the Indian economy. Concentration of political power resulted into excessive misuse of the state machinery. And, thus came the era of scams, favouritism and corruption. The five-year rule of the Congress was full of scandals.[8] The party's performance at the 1996 Parliamentary elections was miserable. The party has to answer a lot of the corruption charges, involving directly those who occupied top political positions.

Many of the happenings of the post-1991 phase would probably remain riddles. For instance: why were the normal democratic and political processes set aside and not permitted to operate freely? Why was the liberalisation package projected as a 'home grown' product?[9] Was it an intellectual bankruptcy or a newly acquired faith? The speed with which the policy package was rushed through made it abundantly clear that the form and the style of functioning was essentially undemocratic. The new economic policy did not originate out of an analysis of the data and information or a well thought-out development perspective. The policy changes did not address themselves to the real problems before the nation and the people.

External Pressure:

There are evidences to suggest that adoption of the new economic policy was done under pressure from the multilateral agencies. The communication dated November 12, 1991 by Lewis T. Preston of the World Bank brings out the close relationship between the loan sanctioned by the World Bank and IDA to the Government of India and in turn their expectations from the latter. We quote:

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8. The famous among the scams of the period are: Stock Scam, Sugar Exchange Scam, Telecom Scam, PSU Disinvestment Scam and Fertiliser Import Scam.

9. The New Economic Policy package was radically different from what was presented in the South Commission's Report barely a few months earlier in 1990. The Finance Minister who pioneered the Fund-Bank Package was Member-Secretary of the South Commission with Julius Nyerere as Chairman. Nearly at this time there was a change of Government in India. While the World Bank submitted its reports to senior bureaucrats, these were not shown by them to the political and executive leadership. Economic Adviser to the then Prime Minister later joined the Congress Government as Finance Minister. Withholding of reports was an issue raised by Chandra Shekhar in the Parliament. There has been no answer to this despite promises.

The proposed Structural Adjustment Loan/Credit (SAL/SAC) would support the initial phase of the Government's program of macroeconomic stabilization and structural reform. In addition to a major fiscal adjustment effort, the main areas covered by the program are:

i) deregulation of domestic industry and promotion of foreign direct investment;
ii) liberalization of the trade regime;
iii) reform of domestic interest rates coupled with measures to strengthen capital markets and institutions; and
iv) initiation of public enterprise reform.

The adjustment policies being supported by the SAL/SAC in conjunction with an IMF stand-by arrangement, will restore macroeconomic balance and strengthen external credit worthiness. The Government's reform measures would initiate the opening up of the economy and would also alter fundamentally the parameters of public-private interaction in a manner that would promote domestic competition, improve the incentive system, and would foster sustained growth with raising productivity.[10] However, to ensure that the Indian Government must pursue the proposed policies, a mechanism for monitoring the Adjustment Programme was visualised in the following manner.

> The adjustment program is being coordinated by the Department of Economic Affairs, Ministry of Finance. The proposed operation requires monitoring of the consistency of macroeconomic framework, as outlined in the Letter of Development Policy, and the implementation of specific actions detailed in paragraph 98. The monitoring of macroeconomic performance in particular will be closely coordinated with the IMF. The Bank/Association will also monitor the implementation and progress of reform actions through a mid-term consultation to be held prior to end-January 1992. In addition to serving as a catalyst to promote greater coordination among the various line ministries to which the SAL/SAC program relates, the review would provide a forum to discuss with the authorities the recommendations of several high level committees established by the Government and their incorporation, to the extent appropriate, in the 1992/93 Budget'[11].

Provision for an institutional mechanism to permit participation by the multilateral bodies in India's national budget-making exercises is reasonably suggestive.

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10. See Report and Recommendation of the President of the International Bank for Reconstruction and Development and International Development Association to the Executive Directors on a proposed Structural Adjustment Loan/Credit to India, November, 1991, p. i.

11. *Ibid*. para 97.

Contrary to the perceptions held by most well-meaning Indians a different view was advocated suggesting that the IMF and World Bank are agencies which are not that of aliens. It was asserted that the IMF and the World Bank were as much Indian institutions as that of any other nation. These are like cooperatives established to help developing nations, it was argued. This line of argument was also accompanied by a question: Why should not India accept advice if it helped its economy to grow faster? Unfortunately, the advice of the World Bank or IMF were accepted without testing its objectivity against the past experiences and other contemporary empirical evidences.

It may be recalled how the IBRD and IMF do not function in terms of the practice of `one nation one vote'. The developed nations exercise 59.76 per cent voting rights in the Bank. The same is true of the IMF.[12] Under the IMF rules additional funding for the IMF requires an 85 per cent vote in the governing body. Therefore, "the U.S. with a 19 per cent vote can block any change"[13]. The U.S. plays an important role in the multilateral bodies. In this regard a report of the U.S. Department of the Treasury outlines the expected role of multilateral institutions like the World Bank and the IMF. The report seeks to provide an official evaluation of the policies and operations of the multilateral development banks (MDBs). The four institutions studied are: the World Bank Group, the Inter-American Development Bank (IDB), the Asian Development Bank (ADB) and the African Development Bank (AFDB). The report observes:

> The United State has pursued three broad policy objectives through its participation in the MDBs. The first of these, political/strategic is based on the U.S. foreign policy role as leader of the non-Communist world. Fulfilment of this role has several specific dimensions as it relates to our participation in the MDBs. The long term dimension calls for the development of a more secure and stable world through the promotion of steady economic growth. The medium term dimension calls for effective development assistance programs in those countries which are of ongoing political/strategic importance. The short term dimension calls for rapid economic support for key countries which are in need of immediate assistance.

The report further notes:

On the whole, the policies and programs of the World Bank Group have been

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12. See the World Bank Annual Report, 1988 and the IMF Directory, 1989.

13. 'Changing IMF", editorial in *The Economic Times* dated March 12, 1992. Similarly, "the United States does have sufficient voting strength now to veto any amendment change in the World Bank's Articles of Agreement which requires more than 80 per cent of the vote for adoption". (see: United States, Department of the Treasury, *United States Participation in the Multilateral Development Banks in the 1980s, 1982*.

> consistent with U.S. interests. This is particularly true in terms of general country allocation questions and sensitive policy issues. The international character of the World Bank, its corporate structure, the strength of the management team, and the Bank's weighted voting structure have ensured broad consistency between its policies and practices and the long term economic and political objectives of the United States. Major donor coordination on World Bank issues has proved effective and has been used frequently by the United States. The major donor countries (Canada, France, Germany, Japan, the United Kingdom and the United States) consult regularly on MDB issues and achieve common views on upcoming issues.

It is also probably true that the World Bank has more often been the focus of U.S. initiatives in the past because:

- It is the largest and most important of the MDBs;
- the amount of U.S. financial participation in the World Bank Group far exceeds its share in the regionals;
- its location in Washington enables the U.S. policy makers to closely interact with the Bank management and other member countries;
- cross cutting policy issues, such as maintenance of value obligations and salaries, which are settled in the Bank generally determine the outcome in the other banks; and
- innovations initiated in the Bank, such as the "new style" projects and emphasis on energy development, tend to be picked up in some form or the other by the regionals.[14]

The character of the MDBs is self-evident. From the view point of the U.S.A., it is also logical to seek promotion and protection of the U.S. interests. We, in India, however, have to have our own view point. We need to examine the economic and political implications and assumptions underlying the proposed package of the new economic policy. The important questions to be raised in this context would be:

> *One*, is there `free trade' in the world of today to ensure international competition, specialisation and fast technological change?
>
> *Two*, is there adequate data to support, or a sound theoretical basis to suggest that multinational corporations can be motivated to help develop the Third World?
>
> *Three*, can a reduction in import tariffs and raising of excise rates on home manufacturing promote sustained process of Indian industrialisation? This question is independent of an assessment of the loss to the state exchequer. If one does not raise internal resources and opts for international loans, how long can the country enjoy self-reliant and welfare policies based democracy?

14. United States Department of the Treasury, *ibid*, pp. 3 and 59.

One should also ask some other questions: Were all the policies followed hitherto (sometimes known as Nehruvian model) so flawed that they should be summarily dumped? If so, how could countries like Japan and Korea which adopted similar policies towards protection, foreign capital and technology succeed? If, on the other hand, the policies were well-conceived and the failure could be traced to their faulty implementation who should take the blame? It is in this vein that we need to have an objective assessment of the causes for India becoming a large debtor nation, being brought to a near insolvency situation on the BOP account.

NEP and the Third World:

There is a definite question with regard to the nature and role of the state in developing economies. Can the state mechanism be replaced with the market economy? Who shall have the responsibility to take care of what was known as "lobby of the future"? Who shall protect the vulnerable sections—the poor, the child, the old, the women; and who shall protect social property and work for social issues? If the new economic policy is to be taken to its logical end what relevance remains of the Indian Planning Commission? Also, should we rewrite the chapter on Directive Principles of State Policy in the Indian Constitution?

The need for government action and corrective measures including the unpopular ones has been a subject matter of many reports and research studies. There were more than one reason for taking such a drastic step in 1991. However, due to the misinformation propagated by certain interest groups and the misplaced faith of the new government in the policy frame proposed by the Fund-Bank sources, the options were closed very soon. There was a mismatch between what happened and what ought to have happened. The problems addressed by the new policies did not have a global, national or a long term perspective. The liberalisation package did not project itself into the future. The package did not make an attempt to outline the type of society likely to emerge in future, and its relative position in the global frame. It also failed to portray as to what would be the relative position of the developing countries *vis-a-vis* the developed ones in the new international economic order? The question as to what would be the system to deal with problems of the vulnerable remained unresolved? The same package was geared to reduce budgetary deficit, encourage capital movements, abolish regulatory administrative mechanisms, and privatise public sector in many developing countries.

But it failed to bring about any hope to ensure basic requirements of nutrition, education, health, housing and entertainment to all in these countries. There was repeated emphasis on the merits of free markets at home and internationally. However, little attention was paid to indicate the limits and potential dangers of excessive reliance on free market system especially in societies with large inter-personal disparities.

The package had hardly anything to offer to the artisans based in rural and backward surroundings as it represented the concerns of the organised, vocal and the influential sections and not the overwhelming majority of the Indian population and their socio-economic problems. In a democratic set up, where each individual has one vote, a policy package evolved in response to the needs of a small section, is unlikely to not obtain majority support. Political parties supporting the introduction of the Fund-Bank liberalisation package may discover that the package was not only bad economics but also bad politics for them.

The Indian Case:

India, during the past five years, witnessed slow dismantling of the plan structure and policies, which were evolved over decades to translate constitutional obligations of the Indian state. The planning system in India was not built overnight. Despite the overwhelming public support with the then political leadership of India, the need for wide public cooperation was never under emphasised. The rationale for planning was discussed and subsequently the All India Congress Committee appointed National Planning Committee under the Chairmanship of Jawahar Lal Nehru in the late 'thirties. Two alternative frames as presented in the Bombay Plan and the Peoples' Plan were discussed nation-wide.[15] The process of adopting planning and the decision for its liquidation have followed differing routes. The system of planning was aimed to ensure fulfilment of the minimum needs for all. It also aimed at establishing a social and political order which could offer participation of all without any discrimination. Indian plans had a vision, an ideal and a projected dream which offered a hope of better days to come, however feeble it may be, even to the most vulnerable sections.[16] The Fund-Bank policy package did not have any such characteristics or claims.

15. The Bombay Plan was authored by leading industrialists of the day and the Peoples' Plan represented the interests of the labour.

16. The Third Five Year Plan clearly stated: "The basic objective of India's development must

The liberalisation package has sought to remove entry point restrictions in the Indian economic system. The regulatory set up in India evolved gradually over a long period of time with each regulation having a good element of public logic and justification. For instance, import restrictions were imposed to conserve the limited foreign exchange resources. While the role of foreign private capital was determined by an understanding of Indian economic history and the country's desire to gain its own identity in the comity of nations. Similar was the case with anti-monopoly legislation, industrial licensing, control of capital issues, foreign exchange regulations and reservations for small scale and public sector enterprises; each having its own rationale and a context. The inspiration for restrictions came from the perspective under which Five Year Plans were worked out. Removal of each restriction reduces state's obligation to protect and promote what was considered essential for the nation-building process. The removal of exit and entry point restrictions on flow of capital, trade, investments and labour amount to abolition of planning. During the past five years the full Planning Commission did not sit even once! In the initial years following its inception, the Commission used to meet quite regularly. Political parties, especially the ones in the opposition, did not demonstrate their full awareness that planning in India was being liquidated in a systematic manner. Political parties picked up specific components of the package to oppose. The Finance Ministry became the most important and key administrative set up. It hardly needs any fresh emphasis to highlight that Finance Ministries are known to be most conservative wings of the governments. Planning Commission used to ask for structural changes in the society beyond government and economics. Market-oriented systems react to crisis situations in a fire fighting manner. This is unlike a planned system that projects national issues into the years ahead.

Public Sector:

Some of the important specifics of the reforms package need to be discussed individually. Privatisation of Indian public enterprises was essentially suggested for reasons of their being in heavy losses which placed burden on the exchequer and the `poor' taxpayer. All public sector enterprises are not in loss.[17] If the intention is to sell

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necessarily be to provide the masses of the Indian people the opportunity to lead a good life". See: India, Planning Commission, *Third Five Year Plan*, p. 2.

17. Out of total 237 Central Public Sector Undertakings in operation as on March 31, 1993, as many

off the loss-making ones it may be asked: who will buy the loss making units? And why? On the other hand, if profit making public enterprises are also to be privatised, then there has to be a different reason other than the one based upon `burden on the exchequer' argument.

In India many central and state public sector enterprises enjoyed a monopoly or a near monopoly status.[18] Given the monopoly status, a business enterprise can incur losses only when it is decided by the owners and the management to go in for loss rather than seek profits.[19] With inelastic demand there can be losses only by a conscious choice. Pricing policy of public enterprises is essentially a part of the fiscal policy. It has always remained in the domain of the Ministry of Finance. Instead of fixing low prices, these enterprises can also fix prices on the principle of what the traffic can bear. The case in point is the price hike of petrol, diesel and LPG for household use on this year's budget eve. Thus, given the monopoly nature of the public enterprises, the loss or profit of a public enterprise is primarily a matter of government decision and not that of viability or otherwise of public enterprises.

In India the character of an enterprise is determined by its ownership pattern. If the majority stake is that of the government, the enterprise is listed as a constituent of the public sector. Should one take it for granted that actions and policies of all `government enterprises' are aimed at promoting public interest? However, all that is government need not be in `public' interest; it depends upon the nature of the state. It is not the ownership but the role the enterprise plays is critical. For whom does an enterprise produce? Are the public goods like defence, health, education, infrastructure and other have relevance for many and not for few? Viewed from this angle it would be difficult to classify airlines, five star hotels or car manufacturing enterprises and the like as genuine `public sector'. The number of Indians who utilise the products and services of these enterprises would form only a fraction of the total Indian population.

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as 131 undertakings reported profits. See: India, Dept. of Public Enterprises, Ministry of Industry, *Public Enterprises Survey: 1992-93*, Vol-I, p. 19.

18. The major areas in which public sector dominated were: energy, basic metals, non-ferrous metals, heavy machinery and power generation equipment, newsprint, heavy industrial chemicals including fertilisers, telecommunication equipment, etc. See: India, Department of Public Enterprises, Ministry of Industry, *Public Enterprises Survey, 1992-93*, Vol. 1, p.9 and Centre for Monitoring Indian Economy, *Market and Market Shares*, February 1995.

19. The other case of falling demand due to changing consumer preferences or technological developments is not relevant here.

Whom does the management of an enterprise represent and whose interest does it protect and promote? The need for seeking clarity on basic classification arises since very often in public debates all public enterprises are assumed to be promoting public interest. An individual motivated by public spirit does not question the existence or promotion of a "public enterprise". One may adopt a different attitude if it is spelt out that beyond ownership the criteria should include the nature of management and the character of the area of operation in mind. Also, one has to consider alternatives to ensure that public enterprises are publicly owned, managed, controlled as also directed to provide public goods and services. Once the nature of public enterprises becomes clear, there could be a change in perception in the public mind.

The reforms package takes a view that India needs to promote privatisation as public sector represents the size of direct intervention by the state in the productive system, which according to one view, is only a domain of the private sector. Since there has been no debate over the new package prior to its implementation, the public policy statements have come to stay as dictums to be faithfully implemented by the governmental system.

Like the need for an appropriate criteria for and clarity about the objectives of public enterprises it is also necessary to be clear as to what constitutes the private sector. In a number of privately managed Indian corporations public sector holds majority equity. Besides these, there are many large private corporations in which the largest single block of equity shares are held by public sector institutions. In such corporations the ownership and risk involved is of the public sector but the managements are private. The private managements in such conditions cannot be expected to work for profit maximisation. Take India's largest private sector enterprise, namely, the Tata Iron and Steel Company (TISCO). The shares held by the Tatas, who have always held control over the management, do not exceed 7–8 per cent of the company's total equity.[20] The government and public sector's holdings are of nearly 44 per cent and the share of general public being 39.54 making a total of 84 per cent. Private managements cannot be

[20] Even this was acquired through complicated intercorporate investments thus reducing the actual risk capital of the managements to the minimum. Indeed, for a long time Tata's share in the company was even less. This was true of many other large private sector companies. See: S.K. Goyal, "Private Management and Take-over of Public-Owned Companies", in Ayub Syed (ed.), *The Swraj Paul Factor*, Palakmati Printers, Bombay, n.d.

expected to work for the government who would be entitled to the lion's share in the profits.

Private Sector:

Indian corporate sector is known to have very substantial inter-corporate investments to enlarge control over the extensive assets.[21] Since managements of such enterprises have claims to profits limited by their own stake in equity, the private managements have little interest in pursuing profit maximisation maxim. The managements, however, would not like to lose control over the enterprises. For, while ownership can give dividends, the opportunity to manage gives command over vast industrial empire and the power to take decisions. Management can transfer company resources to the associate or sister enterprises by manipulating prices in terms of sourcing supplies of raw materials and sale of the company output.

There is a built-in mechanism which encourages irresponsible behaviour on the part of the Indian private entrepreneurs. The number of instances where private sector managements are known to (i) lynch consumers (by excessive prices and supply of poor quality goods), (ii) take the investing public for a ride, and (iii) fearlessly continue to flout laws of the land, keep multiplying. The doings of the large private corporations do not get publicised. Given the nature of ownership of the press in India[22] it is always an interesting news story to report on the failings of a public enterprise. Even the ill-motivated and irresponsible reporting on the working of public enterprises is taken as public service!

With the adoption of new economic policies in 1991, having a definitive bias in favour of private enterprise, a background got ready in which manipulations on stock exchanges and indulgence in frauds on public became easy.[23] Scams are known to have

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21. The practice of intercorporate investments to attain control over large assets with little direct stake was a subject of discussion by many studies. One may refer in this context: R.K. Hazari, *The Structure of the Corporate Private Sector : A Study of Concentration, Ownership and Control*; S.K. Goyal, "Nature and Growth of the Indian Corporate Sector", Brij Narain Memorial Lectures delivered at Panjab University, Chandigarh, Jan. 12-14, 1987; and Vinod Kumar Singhania, *Economic Concentration through Inter-corporate Investments*, Himalaya, Bombay, 1980.

22. In the new policy regime large private industry strengthened its hold on the press with the entry of more large industrial houses in newspaper publishing.

23. The swindling of money raised through public issues of capital reached such an extent that ordinary investor is hesitant to invest in the stock market. The situation has reached such a pass

flourished in the last five years. The decision to off-load public shares has been full of mysteries. While there are public declarations announcing transparency in dealings, the hard reality has been just the opposite. Public sector assets are sought to be transferred in under the table deals.

Indian private sector has been dominated by traditional managements which have not been fully exposed to modern knowledge, technologies and practices. Most of the large corporations are even today managed as private family empires. Reform of the Indian private sector has never found a priority in national debates. The last few years have witnessed an abrupt rise in the registration of large number of investment companies. This is a practice to provide cover to certain otherwise undesirable business practices.[24] The need for strong regulatory mechanism that could protect the shareholder, the consumer as also public interest as reflected in issues related to pollution and

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that even the private industry has started pleading that there should be better scrutiny of the entrepreneurs entering the market to revive the Indian stock market. So much for free entry!

24. It has been noticed that coinciding with the relaxation of controls and liberalisation of the economy since the beginning of the 'eighties, the Indian private corporate sector has grown by leaps and bounds in terms of numbers. From about 56,000 at the end of 1979-80, the number of companies exceeded 400,000 by the end of 1995-96. Strangely enough, the share of manufacturing companies in new registrations declined sharply from about 50 per cent in 1988-89 to just 28 per cent in 1994-95. During 1994-95 finance and investment related companies alone accounted for as much as 35 per cent of the total new registrations. The accompanying city-wise concentration clearly suggests the make believe nature of the growth in number of companies and the distinct possibility of their being used for manipulative purposes. Available evidence suggests that many large houses and stock broking houses have hundreds of trading and investment companies under their control whose sole purpose cannot but be circumventing one or other regulatory mechanism or take undue advantage of official policies or to defraud public companies for personal benefit. In this background, the official finding that the Reliance group has more than 200 such companies does not sound as a revelation.
At another level, the regulations devised at investor protection were found to be suffering from a number of weaknesses. Even well known large house companies could claim that there were no companies under the same management taking advantage of the weak criteria under the Companies Act, 1956. This meant that the safeguards on misuse of loans and investments in group companies remained ineffective. Similarly, the scope of interpretation with regard to transactions with companies in which directors have a stake is so wide that such transactions can easily escape strict scrutiny by auditors consequently failing to check siphoning off of funds. The guidelines governing appointment of auditors and their relationship with the controlling interests was also found to be wanting. When a person sits on the Board of one company and audits a group company's accounts, or a father sits on a company's board and the son audits the same company's accounts, one cannot expect independence of audit and arms-length relationship between managements and Auditors. Small companies and racketeers are known to indulge in such practices but in the Indian case, this happened with even the largest private sector companies. These observations are based on the ongoing studies at the Institute initial results of which were brought out in: (a) K.S. Chalapati Rao and Alok Puranik, "Concept of Companies Under the Same Management under Section 370(1-B) of the Companies Act, 1956: A Study of Its Operation", Company News & Notes, March 1996, pp. 3-12 and K.S. Chalapati Rao, "Indian Corporate Sector: Some Characteristics and Trends", Working Paper, March 1996.

environmental protection is only too obvious. The reforms are silent on such responsibilities of the state or obligations of the individual private entrepreneurs. There is no code of conduct proposed for private businessmen and industrialists to inform their activities of the societal obligations.

The nature of the state in India was framed during the country's struggle for political independence. Directive Principles of State Policy laid down the broad guidelines for state intervention besides spelling out obligation of the state towards individuals and the society in general.

The Constitution of India, adopted in January 1950, states:

> The State shall, in particular, direct its policy towards securing ...
>
> ... that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
>
> ... that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

The principles were to be:

> ... fundamental in the governance of the country and it shall be the duty of the State to apply these principles in making laws.[25]

The nature and extent of plan activity, therefore, provided contours of state policy and interventions. These are well spelt out in the Five Year Plan documents.

Each major state intervention can be traced back to the plan framework.[26] For instance, the *Industries (Development & Regulation) Act, 1951* (IDRA) under which industrial licensing was introduced, was the major instrument of translating policy objectives like: reservation of strategic and basic industries for development in the public sector; protection of village and cottage industries and promotion of small scale sector by

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25. India, Ministry of Law, Justice & Company Affairs, *The Constitution of India*, Part IV, Articles 37 & 39.

26. Viewed in the broad perspective of social and developmental goals and objectives that the developing world has pursued in the past four decades, India's achievements are unique. Since Independence in 1947, the country has eradicated famine and significantly reduced malnutrition, has taken major steps in improving agricultural productivity and output, and has established a diversified industrial base with an internationally recognised scientific culture. The country has established and operated democratic systems and processes which have ensured a remarkable degree of political freedom for the common citizen. These achievements have involved forging a large, extremely poor populace, sharply divided among ethnic, linguistic and religious lines, into a modern, federated nation state. Driven by the need to build consensus in a highly diverse society, economic policy in India has been dominated by goals of interpersonal and interregional equity and national self reliance.
This assessment of India, was by none else than the World Bank. See: Report and Recommendation of the President of IBRD, *ibid.*, para 2.

prohibiting entry by large producers; and restricting new investments in non-plan and low priority industrial activity.[27] Similarly, the *Monopolies & Restrictive Trade Practices Act, 1969* (MRTPA) was to ensure that operation of the economic system does not lead to concentration of economic power in few hands. *Foreign Exchange Regulation Act, 1973* (FERA) owed its origin to the desire to achieve a self-reliant economic development. Public sector, similarly, was assigned the direct responsibility to undertake development in industries which were essential but had a long gestation period. It also included those sectors which were strategic from the view point of defence, natural monopolies and where the required investment size was well beyond the private sector's capabilities. The Indian regulatory mechanism had the perspective of a planned development.

Small Scale Sector:

Protection and promotion of small enterprises has been an important component of India's developmental policies. But when it came to translation of the policy, the legislation evolved was wholly out of focus. The rationale behind protection of small scale units was that due to low capital intensity the sector could provide a relief to the employment problem. The sector was also supported as it could protect the artisans, utilise raw materials to produce consumer goods for local consumption and help reduce pressure on economic and physical infrastructure. The sector was also visualised as a mechanism for saving on foreign exchange. The operationalisation of the small scale sector, however, has been confined to size of capital investment only. The location, nature of industry, the raw material sources, the markets to be serviced, the nature of technology, employment or the characteristics of the owner do not find even a mention in the official criteria of small scale unit that gets state support.[28] Small scale sector in India has grown; the initial logic, intention or justification, however, have been put aside.

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27. For an elaboration on the rationale and objectives of the licensing policy one may refer to India, Ministry of Industrial Development, Internal Trade and Company Affairs, *Report of the Industrial Licensing Policy Inquiry Committee*, 1969. The Committee also made a detailed examination of the working of the Industrial Licensing System (ILS) during 1956-1966.

28. The discrimination in terms of ownership though was introduced later on, in operational terms it did not mean much as (i) the investment limits were raised progressively and (ii) there was no suitable official mechanism to detect violation of the provision. The manner in which the definition evolved, how with successive increases in investment limits led to uneven distribution in the sector, the manner in which the reservation policy was made a mockery by large companies especially TNCs and how even MRTP companies continued to claim the facilities meant for

The distorted small scale sector has tended to become a vested interest in itself. Small scale sector is now encouraged to enter into technical and financial collaborations, link their activities to international markets and have interface with TNCs and large enterprises. The present small scale sector is dominated by small groups of entrepreneurs who may be less than one per cent by numbers but control nearly two-thirds of the total capital invested or the total production in the sector.[29]

Small scale units with less than Rs. 2 lakhs of investment accounted for as much as 83.6 per cent of the total number of units at the end of 1987–88 (See Table-1). On the other extreme, the largest ones with investment of Rs. 20 lakhs and above formed just 1 per cent of the total but accounted for nearly one-fourth of fixed investment. More importantly, number of persons employed per lakh of fixed investment declined steeply from 7.38 in the lowest slab to just 1.55 in the Rs. 20 lakhs and above range. In spite of this being the reality at the end of the 'eighties, the investment limit was raised from Rs. 35 lakhs to Rs. 60 lakhs in August 1991.

Table-1

Distribution of Registered Small Scale Units in Different Investment Ranges (As on March 31, 1988)

Fixed Investment Slab (Rs.Lakhs)	No. of Units	Fixed Capital (Rs.million)	Employ-ment (Nos.)	Share in Total (%) No.of Units	Share in Total (%) Fixed Capital	Employment per lakh of Fixed Capital
0–2	486,941	25,984.6	1916534	83.6	27.9	7.38
2–5	59,203	18,159.6	697204	10.2	19.5	3.84
5–10	20,780	14,265.0	421216	3.6	15.4	2.95
10–20	9,487	13,023.8	297609	1.6	14.0	2.29
20 & above	5,957	21,527.3	333247	1.0	23.2	1.55
Total	582,368	92,960.3	3665810	100.0	100.0	3.94

Based on: India, Ministry of Industry, Development Commissioner Small Scale Industries, *Report on the Second All-India Census of Small Scale Industrial Units* (Regd. Upto 31st March '88), 1992.

small units were discussed with the support of concrete empirical evidence and examples in S.K. Goyal, et al. *Small Scale Sector and Big Business*, Corporate Studies Group (precursor to the Institute for Studies in Industrial Development -- ISID), Indian Institute of Public Administration, New Delhi, 1984.

29. It is now officially stated that a small scale unit can have up to 24 per cent equity of TNCs and local large houses! Strangely enough, the demand for increasing the investment limit is invariably put forward by industry lobbies representing big business interests.

TNCs:

Regulation of foreign private capital in India is extremely week. The FERA, however, is reported to be one of the most oppressive legislations. The FERA adopted the equity dilution strategy to control and limit foreign exchange outflow. All foreign companies, except the ones in high technology and export business, were directed to reduce the percentage of equity held abroad to 40 per cent. To what extent could the foreign exchange outflow be controlled through equity dilution strategy? Studies undertaken show that payments by way of dividends were less than five per cent of the overall foreign currency utilised by subsidiaries or associates of foreign companies operating in India.[30] The sway of the FERA thus cannot but be marginal.[31]

Nearly 80–90 per cent of the foreign currency utilised by the TNCs operating in India is on account of raw materials and capital goods imports.[32] For raw materials and machinery imports there is no legal system to ensure that there was no indulgence of transfer pricing. Exports and imports by TNCs are generally of the nature of inter-branch transactions. Studies on imports by foreign companies show widely prevalent practice of obtaining machinery, components and other raw materials only from their respective associates abroad. If TNCs like Suzuki, Peugeot, Ford or Benz are to manufacture automobiles they would have all reasons to get their requirements from their respective parents or associates. If Modi Xerox has to manufacture Xerox photocopying machines in India (apart from CKD or SKD) the imports of the desired quality and specifications will have to be routed essentially through the parent company only.[33] While these

30. For a detailed discussion on the policy towards foreign investments and for empirical evidence on the extent of net drain of foreign exchange from India by TNCs, see: S.K. Goyal, *Impact of Foreign Subsidiaries on India's Balance of Payments*, Corporate Studies Group, Indian Institute of Public Administration, 1979. The study was prepared for the Joint CTC-ESCAP Unit, Bangkok. Also see: Sudip Chaudhuri, "FERA: Appearance and Reality", *Economic and Political Weekly*, April 21, 1979, pp. 734-744 and "Financing of Growth of Transnational Corporations in India: 1956-75", *Economic and Political Weekly*, August 18, 1979, pp. 1431–1435.

31. Incidentally, there is no legal identity given to TNCs under the Indian laws.

32. Strangely enough, the latest study of foreign controlled companies by the Reserve Bank of India refers to 1990-91. Thus there is no official attempt to study the behaviour of TNCs during the new policy regime till now. In 1990-91, the overall share of dividends paid out by 300 foreign controlled-rupee companies was 7.66 per cent. In sharp contrast, the share of imports was far higher at 82.23 per cent. See: "Finances of Foreign-Controlled Rupee Companies, 1988-89 to 1990-91", *Reserve Bank of India Bulletin*, November 1994, pp. 1395-1448.

33. For empirical evidence on the import transactions of large TNCs, see: S.K. Goyal, et al., *India's Imports and Exports: Some Insights (An Analysis of Daily Trade Register Data)*, Institute for Studies in Industrial Development, 1991. The report was submitted to the Ministry of Finance.

business transactions are essentially between related parties there is no mechanism to ensure fair transactions to regulate transfer price practices. Indian regulatory mechanism should be required to go into questions relating to appropriate international prices instead of remaining indifferent. If this role has to be played then the governmental system has to prepare and equip itself accordingly.

Transnational corporations (TNCs) occupy an important place in the world economic system. TNCs have large financial, physical, manpower, technology resources, legal wisdom and rich worldwide experience of long many years. Their access to centres of academic excellence and political power and wide networking cannot be matched by any one government. TNC systems are very different from that of the governments, especially in the Third World countries. They are not obliged to obtain sanctions from any legislature nor the organisations are accountable to any Parliament-like institution of shareholders. TNCs have high degree of flexibility and when required even politics is their business. In India one is not sure if the true nature of TNCs is fully understood by policy makers. If it was so reasons for opening up of the economy would not have been ridden with false assumptions.

There is evidence to suggest that the claims to large flow of foreign capital to India, as a result of country's acceptance of the liberalisation package, would remain a distant dream, especially in terms of creating new and large production capacities. Given the labour problems, `Sons of the Soil' theory and the anxieties regarding obtaining of legal and the administrative approvals a TNC would find it more convenient and rewarding to encourage production under franchise by local entrepreneur instead of taking up production directly under their ownership and management. The trends clearly suggest that TNCs would provide technology, supply raw materials, designs and equipment to their local associates. The production in total would, however, be marketed by the TNC under its own banner, trademark, packaging and pricing policy. The TNC's main input would be coordination of quality control, giving price specifications and norms and organise distribution within and outside. There is growing evidence on such emerging trends.

The area of information and communication technologies are witnessing revolutionary changes. The new technologies offer a variety of opportunities and challenges to the world business. The advent of satellite-based audio-visual broadcasting has made direct access of the advertisers to the consumers. The mass media can have tremendous influence in promoting consumer preferences and acceptability besides setting consumption norms and living styles. How would this potential be utilised by different interest groups and sections of the society? Large corporations from industrially developed societies are already operating in the new environment which is coming up in the Third World countries. It would take time to evolve regulatory norms and practices to protect various vulnerable groups from advertisements and other mass media programmes. The weak or non-existence of effective regulation in the Third World would be fully exploited by the TNCs. The worst of all is the regulation of industrial processes which have high level of pollution and belong to high risk category.

Given the significance of TNCs and the need to harness their potential with minimum cost, the state regulatory mechanism has to be realistic, efficient and a sensitive one. Can this be done with the civil service that prefers to operate in closed doors? TNCs need to be regulated. No country can permit their un-restricted entry or exit. There is a need to identify the operations for which regulations need to be evolved. Such exercises have to be on regular basis and it is not sufficient to have periodic reviews only. But, how can a country like India meet these obligations when it is argued that TNCs are welcomed to the country with assurance that there would be no special regulations for them. Indian government takes pride in claiming that foreign companies would be granted all types of clearances in a matter of days. In short the purpose is to keep the door open with minimum questioning.

With the adoption of the new economic reforms, besides diluting the operations of the IDRA, the FERA and substantial changes having been affected to make the MRTPA loose whatever teeth it had, there is no anti-monopoly legislation in India. MRTPA remained under regular attack. It was argued that it did not permit establishment of economic size industrial units and caused delays. This is not the place to present a comprehensive review of the working of the MRTPA. However, it may suffice to refer to a number of empirical studies to show that the anti-monopoly legislation was never a hindrance to expansion or furtherance of concentration in terms of market shares, net assets or any other criteria.[34] The growth of large industrial houses has been phenomenal, especially after the enactment of the legislation.

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34. Growth and regulation of monopolies is a well researched area in Indian industrial policy. The studies include: S.K. Goyal, *Monopoly Capital and Public Policy*, Allied, Delhi, 1979; H.K. Paranjape, "Curbing Monopoly: Plans and Pitfalls", *Mainstream*, 10th and 17th October 1981; India, Ministry of Law, Justice and Company Affairs, *Report of the High-powered Expert*

A common feature now observed in India is the growing collaboration among TNCs and large Indian industrial houses and emerging concentration in distribution *i.e.*, monopoly markets. The other serious trend is in the matter of takeovers and amalgamations. SEBI has been actively reacting to these developments from the view point of the interest of share holders. But there is no agency to examine and propose early action from the technology and economic angles.

Taxation:

The impact of the new economic policy reforms in India has been most prominent in the area of fiscal measures. The reforms package desired the Indian tax system to be re-organised. Consequently the last few years have witnessed a sharp reduction in effective direct tax rates as also in the excise and custom duties. The tax reductions and multiple exemption have resulted in the tax revenue declining as a percentage of GDP. Ever since the adoption of planning in India the revenue to GDP ratio had been rising. However, the ratio started showing a definite declining trend for the first time since the beginning of the 'eighties. A reduction in the revenue would naturally reduce the capacity of the state to transfer resources. The transfers may be in terms of current expenditure to savings for the future; from the relatively richer sections of the society to the poor; or from one region or sector to another. The size of revenue determines the capacity of the state to intervene by supporting desired pattern of expenditure.

A feature of the 'eighties is that public expenditure grew faster than the system's ability to collect taxes and generate other revenues. Leaving aside the isolated instances of 1958–59 and 1971–72, the total revenue was not able to meet total expenditure only since 1979–80 when it was unable to cover approximately 6 per cent of total expenditure. This gap widened steadily later on, peaking in 1987–88 when it reached 20 per cent. Under the new economic policy reforms initiated in 1991, the rates of direct and indirect taxes have been revised downwards. The custom duties have been brought down drastically on the plea that high tariff rates were a hurdle to free flow of goods and services and a hindrance to the process of globalisation. Similarly, excise rates have

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Committee on Companies and MRTP Acts, 1978; Rakesh Khurana, *Growth of Large Business: Impact of Monopolies Legislation*, Wiley, 1981; and N.K. Chandra, "Monopoly Legislation and Policy in India", *Economic and Political Weekly*, Special Number, 1977, pp. 1405–18.

been lowered. In recent years the gap has worsened further. In 1993–94, the government revenue could meet only 70 per cent of the government expenditure. The gap between tax revenue and government expenditure is large and has been rising faster. This is reflective of the inadequacy of the tax system to mobilize adequate resources for covering government obligations. Until the mid-'50s bulk of the government expenditure was covered by tax revenues, by 1984–85 it had declined to less than two-thirds and in 1993–94 the tax revenues could cover less than half of the expenditure. (See Table-2)

Table-2

Total Revenue and Tax Revenue as a Percentage of Current Government Expenditure (at current prices)

(Amount in Rs. Crores)

Year	Total Revenue as a % of Govt Expenditure	Tax Revenue as a % of Govt Expenditure
1950–51	117.08	102.99
1960–61	106.20	88.37
1970–71	105.16	77.13
1979–80	94.23	71.20
1980–81	88.21	64.55
1981–82	98.15	72.93
1982–83	93.52	67.49
1983-84	89.53	67.61
1984-85	87.46	63.46
1985-86	81.54	59.38
1986-87	80.38	55.82
1987-88	79.63	56.83
1988-89	81.31	60.00
1989-90	82.09	57.65
1990-91	75.64	56.39
1991-92	80.95	58.66
1992-93	80.68	56.21
1993-94	70.88	47.57

Source: RBI, *Reports on Currency and Finance*, various issues.

At this point it needs underlining that in the planning regime, high custom and excise duties were consciously imposed on non-essential consumer goods and low priority imports. Lower the plan priority higher the tax rates. On the other hand essential goods had low or no taxes. The decision to go in for a drastic reduction in import duties has meant an opportunity for supporting all such consumption that was restrained earlier. There was undoubtedly pent up demand for all varieties of luxury consumer goods.

Understandably, the new policy was welcomed by the affluent sections of the Indian society and prices for imported goods came down sharply. The opening up of imports and reductions in custom tariff help a small section of the Indian population -- the consumer who is comparatively rich and vocal.

Direct tax in India comprises of personal income tax and corporation tax. Though both fall under the 'income tax' category there are substantial differences in their nature. Personal income tax is collected by the employer at source. It is obligatory on the part of the employer to deduct personal income tax and deposit the same with the government. The income tax assessee has no option other than the deductions officially allowed on provident fund, etc. Secondly, the personal tax rates are fixed on slab system. The upper income groups pay higher income tax. In the case of corporate tax the "tax provision" is made by the corporation after deduction of all that the payee considers as `expense' for tax calculations. It is open to the managements to manipulate profits. Furthermore, the corporate tax is not progressive in character. There is a fixed percentage. There are, however, a large variety of concessions offered under which a corporation can reduce its income tax liabilities (See Table-3). These are indirect subsidies to the corporations. The significance of these concessions has been on the increase. As a result, the tax provision by the corporate sector as a percentage of profits before tax has been declining fast (See Table-4). The Effective Tax Rate (ETR) was nearly 50 per cent in 1975–76 but thanks to the variety of exemptions the ETR fell to nearly 14 per cent by 1994–95.

Table-3

Showing the Income Tax Exemptions allowed to the Corporate Sector

Section	Description	Percentage Deduction for the assessment year 1995-96
88-HH	Deduction in respect of profits and gains from newly established industrial undertakings or hotel business in backward areas.	20% in respect of profits and gains shall be allowed in computing the total income in respect of each of the ten assessment years.
80-HHB	Deduction in respect of profits and gains from project outside India.	50% in respect of profits and gains will be allowed in computing the total income of the assess.
80-HHC	Deduction in respect of export turnover	100% of the profits derived from the export of goods or merchandise.
80-HHD	Deduction in respect of earnings in convertible foreign exchange.	50% of the profits derived from services provided to foreign tourists.
80-HHE	Deduction in respect of profits from export of computer software.	100% of the profits derived by the assessee from the export of software and technical services.
80-I	Deduction in respect of profits and gains from industrial undertakings, etc.	-20% in case of company carrying on the business of repairing ocean going vessels permissible for four assessment years immediately succeeding. -25% in case of other companies permissible for seven assessment years immediately succeeding.
80-IA	Deduction in respect of profits and gains from industrial undertakings, etc.	-30% for a company for ten assessment years. -50% for an approved hotel located in hill area. -30% for approved hotel located in any other place.
80-M	Deduction in respect of certain inter-corporate dividends.	60% of net dividend income.
80-O	Deduction in respect of royalties etc., received from certain foreign enterprises.	50% of royalty, fees etc. included in the gross total income.

Table-4

Showing Effective Tax Rate for Profit Making Companies 1975-76 to 1994-95

Year	No. of Companies	Effective Tax Rates (%)		
		PUC less than Rs. 10 Mn.	PUC more than Rs. 250 Mn.	All Companies
1	(2)	(3)	(4)	(5)
1975-76	1211	51.24	22.47	48.81
1976-77	1208	52.01	29.83	49.12
1977-78	1264	49.40	39.20	47.92
1978-79	1335	44.39	34.03	44.74
1979-80	1393	41.00	37.85	43.76
1980-81	1574	37.76	41.28	39.69
1981-82	1283	38.02	32.58	37.23
1982-83	1229	34.90	19.55	31.15
1983-84	1324	41.01	19.32	34.78
1984-85	1321	40.86	16.51	34.59
1985-86	1590	34.14	22.56	31.87
1986-87	1785	30.75	20.22	28.53
1987-88	1757	34.47	22.24	30.44
1988-89	2063	25.90	18.74	23.95
1989-90	1960	30.54	26.25	27.59
1990-91	1458	28.84	23.37	24.16
1991-92	1784	27.51	26.25	26.16
1992-93	2195	24.44	20.41	21.21
1993-94	2679	18.99	18.97	18.58
1994-95	2553	21.35	14.69	14.26

Source: An on-going study on corporate taxation at the Institute.
Note: The basic data is taken from Reserve Bank of India company finance studies for the period 1975-76 -- 1989-90 and the IDSS database for the period 1990-91 -- 1994-95.

Operational significance of the exemptions has been that a good number of companies did not pay even a single rupee as income tax. In spite of making high profits and experiencing phenomenal expansion in their assets and turnover a set of companies do not pay any income tax. The 'Zero Tax' companies have always attracted attention but their number and operations was not well known. The liberalisation process has made it possible for more than half of the stock exchange quoted profit making companies to avoid payment of any corporate tax (See Table-5). One observes that if during 1990–91 the PBT on which no tax was paid stood at nearly 1,000 crores of rupees, by 1994–95, the corporate tax was received on profits which totalled more than 12,000 crores of rupees. The impact of liberalisation policies was substantial and clearly visible.

Table-5

Showing Profit Before Tax (PBT) of the Zero Tax Companies for 1990-91 to 1994-95

(Rs. in Crores#)

Range	No. of	Profit Before Tax					
	Cos.	94-95	93-94	92-93	91-92	90-91	Total
Last 5 Years	163	5793.05	3195.76	2145.02	1611.80	1093.72	13839.36
Last 4 Years	90	1158.47	619.49	398.00	449.53		2625.49
Last 3 Years	188	1484.07	956.15	530.25			2970.46
Last 2 Years	362	1633.13	1031.06				2664.19
Last 1 Year	497	2572.54					2572.54
Total	1300	12641.27	5802.46	3073.26	2061.34	1093.72	24672.04

1 crore = 10 million.
Source: A study by the Institute for Studies in Industrial Development, New Delhi.

Table-6

Effective Tax Rates for the Top Ten# Industrial Houses: 1994-95

(Amount in Rs. crores*)

House	No. of Companies	Profit Before Tax	Effective Tax Rate (%)
Reliance	3	1,129.65	0.00
MA Chidambaram	13	159.90	1.78
Modi	11	70.29	9.05
Thapar	7	269.80	10.62
Tata	42	1934.83	13.74
Larsen & Toubro	1	326.36	15.01
Birla	39	1921.04	15.89
Singhania	5	182.26	18.66
Mafatlal	8	165.42	25.66
Bajaj	7	532.70	28.99
All the Above	136	6,692.25	13.28

* 1 crore = 10 million.
# Ranking based on assets in 1990 of the houses registered under the MRTP Act.

While the number of companies who were in the `zero' tax bracket had risen high, the extent of net benefit obtained through availing of income exemptions has not been uniform. There is a built-in system to enable the fast expanding and large corporations to walk away with the lion's share. Observers of the Indian economy would know that the management of the Reliance Group of Companies has been close to the centres of power and the Group has expanded at a phenomenal speed. Reliance is important for various reasons. For one, it has not paid any tax for many years. Table-6 gives the ETR for India's largest conglomerates for the year 1994–95[35]

Given the fact that Indian press is owned and controlled by large private conglomerates it should be no surprise if the liberalisation package got abundant support in the Indian media. The Indian business has developed a vested interest in the continuance of the new economic policy package. Similarly, the new reforms gain whole-hearted support from the middle and upper classes since they have access to imported (*phoren*) consumer goods at lower prices. The vocal sections of the Indian society provide the support structure to the liberalisation package.

35. With this year the new government has announced a minimum tax of nearly 12.5 per cent of PBT. This is being opposed by all business. An important role in this is played by business associations like the Federation of Indian Chambers of Commerce (FICCI) and Confederation of Indian Industries (CII). It is understandable. But the interesting part of the present debate is in its playing on the margins. The system that gives discretion to indulge in manipulations and window dressing of business accounts has not received any attention. An attempt on these lines was made in 1962, but soon after, due to business pressure and lobbying, it was withdrawn.