Transition Toward Market Economy in India : Possibilities and Apprehensions

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Summary

The 21st century will be the era for a borderless world economy. All nations, small and large, developed and developing are closely affected by the phenomenon. Movement toward market economy and shift from planned to market economy is becoming an easy-going optimism for many as the panacea for underdevelopment in all situations. Generally speaking, market economy policies in the west have put emphasis only on a growth-centric approach to development.

The discouraging results witnessed in the name of 'development' in post-colonial societies since the 60s, however, have prompted many in the 80s to search for an alternative to counter the hegemony of growth-centric approach to development. The concept of growth of human /social development and the measurement of 'health' of the society which, many believe, consititute the core of development, have gained credibility during the 80s. The same are also highlighted by the UNDP through its Human Development Report (1990) which was prepared by a group of top economists. But, for the economically poor countries, economic growth remains to be the first priority.

Facing an economic crisis after four decades of centrally planned economy, India, in 1991, made a commitment toward market economy and initiated a phase of rapid and great change. As several new structural adjustment challenges are faced many raise questions about the model path India should follow and others also underline caution about the negative outcomes which may defeat the very purpose of the reform.

Keyworks: Underdevelopment, Economic reforms, Model path, Income inequality, Informal sector, Toxic waste dumping, Trickle-down and Percolate-up processes.

I Introduction

The end of the cold war and the advent of market economy in Russia and the developing Asia can be considered as the two most important events of the last decade. Physically large and ethnically diverse countries like Russia, China and India have initiated reforms to move towards market economy. The experiences of Russia till date are not very encouraging, there is confusion in the market, inflation skyrocketing and the currency is in doldrums. Many say reforms were brought in too quick, the Russian society was not prepared for it at all etc..

In China and India, which together account for nearly 40 percent of the world population, the task is a great struggle, not only economically but also socially and politically, threatening stability. However, a change from a longdrawn centrally controlled system to a market oriented system is not a smooth process, and in the short term, it is also difficult to reasonably evaluate the results of such changes.

China started with the reforms since the mid 80s where as India started only since 1991. Because only four years have passed, clear trends have not emerged yet in the macro economic condition of India which can directly be attributed to the reforms. However, some initial reflections of success and many apprehensions are available. Some intrinsic problems associated with the change are discussed here.

It is a fact the '90s have brought an 'easy-going' optimism that market oriented economies are the most efficient and a free market economy is the most promising way for the developing economies to achieve faster and steadier economic growth. The truism of the fact, however, is that no market economy is 100 percent free from the government controls and the success of the market economy policies in a given country context significantly depends upon the social, economic and political conditions prevailing in it.

Stabilisation of the macro economic conditions, some economists stress, is important for a developing country and they argue that directed efforts towards achieving stabilisation and market oriented liberalisation simultaneously would lead to confusion in the economy. They observe that that the objective of stabilisation is in conflict with the objective of boosting growth through liberalisation.

Policies aiming at market economy, conventionally, ask for two important actions; one, structural deregulation to facilitate access of foreign investments in the domestic market, and two, structural reforms to facilitate domestic capital market. Both actions are economic in nature.

Related social, eneivonmental, organizational and political actions, though equally important, often are not given due importance. Even though it is known that, if addressed effectively, these non-economic actions would also support the market economy. It is also known that neglect of these actions may even negate the economic reform process.

Movement towards market economy, in a country context, should, therefore, be viewed in three dimensions, reform, development and stability. The pace of growth and the efficiency of the economy has also to be viewed as the facets of the same coin. In a democratic country like India, maintaining political and social stability during the process of market reform is a necessity. In the context some development economists believe that market oriented economic reforms expand economic opportunities for all and therefore in turn help maintain stability. But, some other analysts believe that if adequate measures are not taken to ensure egalitarian distribution of the benefits which helps the majority and protects the growing small indigenous industries and businesses from international competition, maintaining stability would be very difficult.

India's commitment to the reforms, is expressed in the words of the finance minister of India in his March '95 national budget presentation on the fourth year of the economic reform. He said "perpetual second rate industrial processes which are unworthy of India must go and so must the 'Stalinist' remnants of the country's command economy". The major challenge is to work out a development path for the future which is politically accepted and gets the support of the people.

The decision to move towards a market economy in India was taken during a period (1987–90) when the Country was facing a serious economic crisis. Quick decisions had to be taken to save the economy. Delicensing of all but 18 industries was the first to come. Significant removal of restrictions on foreign investment, simplification of the tax structure and greater freedom to the private companies to price their shares soon followed. All these quickly increased the capital flow to the market which rose almost three fold by '94–'95. Great changes were made visible, and proved largely successful also. Realizing that unsound deregulation decisions would surely become regressive, the government early 1995, set up of a National Regulatory Authority to review and recommend deregulation of the economy.

A number of national debates of experts which followed to evaluate the nuts and bolts of the reform policy have, however, raised many apprehensions. Emphasizing caution in the task of deregulation and removal of controls in many sectors of the economy, the experts also have raised some basic questions regarding the implementation of the policy. It is argued by some that the reforms, most likely, will not benefit the low income and the poor people which constitute the majority of the population, and therefore, will not improve their condition in the foreseeable future. There is also a strong argument by some that, if timely counter measures are not taken, the reforms will further widen the already existing big gap between the rich and the poor. In that case, the reforms would surely bring serious social and political repercussions. Negative outfalls in the process for the low income and the poor, especially during the transition phase, it is argued, may even threaten the socio-political stability of the country. Proponents of this argument clearly caution on the lack of egalitarian means for distribution of the benefits of the reforms.

Some others question the usefulness of opening the Indian economy freely when the country's macro economic stability is yet to be achieved. They caution on how free the market economy should be and at what levels competition be desirable. Some also think that the Indian administrative bureaucracy, for long, has been geared to control firms, not the market, hence, it will not quickly accept the reforms at the expense of its leverage of control and power. Serious apprehensions are raised as to whether the bureaucrary will be able to adjust, psychologically and structurally, to a power loosing stuation. Even in the post industrial transformation phase of Japan, many think that psychological adjustment of the bureaucracy to the progressive changes continues to remain a hurdle. This fact indicates that bureaucracy, with its dominating psyche and mindset, is hard to change. The answers are not simple, more so in the context of a developing country like India which has a long rooted bureaucracy developed through the 200 years of colonial period. In the wake of the reforms the government administration, bureaucracy and and even people's psychology are struggling to adjust. Many have relief some are apprehensive.

An important question raised is regarding the relevance of adapting the conventional western growth-centric development model while moving towards market economy. Following the goal of achieving rapid economic growth only at any cost is considered to be undesirable, hence, the western growth-centric model, many believe, is also not desirable. While economic efficiency is emphasized on one hand, on the other, some emphasize egalitarian distribution of the benefits and social justice. We know, it is very difficult to balance these two objectives perfectly. Therefore, both the short-term and long-term repercussions of the reforms are needed to be carefully estimated, evaluated and incorporated into the policies.

But, whatever the economists and planners may decide regarding the above mentioned balancing, it is important that there continues a strong government at the centre and there prevails a general political environment in the country to push the reforms in right direction.

In fact, the Finance Minister of India in a press interview for the magazine India Today (1995) has announced that contrary to some views large scale privatisation is better done with broad mass support. And since obtaining a broad mass support is largely a political issue, the government has decided to go slow on further deregulation and privatisation of the economy until the next national election as it would only show whether or not a strong and purposeful government could function at the centre.

Apprehensions and concerns raised during the initial phases of transformation toward market economy can perhaps be broadly categorized into two: first, about the possibility of effective acceptance and adaption of the reforms by the existing administrative, economic and social systems, second, about the benefits the process would bring to the majority of the population during the transition period. The second category of concern is emphasized especially in the context of the existing extensive poverty situation, income and social inequalities and also the burden of a large population. This sort of concern should be pertinent, for example, in the case of China and India.

As mentioned earlier, it is important to note here that it is premature to conclusively support the apprehensions with data. Some careful estimates and learning about possibilities by referring to similar experiences by other developing countries can be made. Though not conclusive observations, the discussion should be useful in gaining some insights.

II Some relevant facts about India

India is nine times larger territorially than Japan and its estimated low population now is 935.7 million (estimated by UN ESCAP, Aug. '95) (846 m in 1991), about eight times that of Japan. Projections show that India's population, adding nearly 16.8 million at the current rate (1.80%/year) would reach clearly over a billion by 2000 and it may be the most populous country in the world surpassing China by 2020.

India is a multi-language, multi-ethnic country characterized by wide regional diversities in the levels of development. Percapita GDP is low. The GDP grew at 5.3% last year and for '95–'96 fiscal the estimated rate is 6 percent. With a middle class population of over 200 million in 1993 (23% of population) increasing at 10–15% a year, India provides a single largest consumption market in the region according to the official data supplied by the Indian Embassy, Tokyo (1995). Some favourable factors for foreign investment in India are said to be a strong manufacturing industrial base, a large technical manpower (3.5 million), cheap skilled labour, well developed capital market & administrative systems, fast increasing consumption market especially by the middle class, and an impressive record of meeting financial and debt obligations. Since the reforms, during July '91 to December '94, foreign investments have increased sharply from a mere 200 million $ to 9 billion $ and during the same period 5,500 joint venture projects with foreign partners have been finalized. US Commerce Dept's (1995) report, quoted by PTI in Washington Post, (1995), says that since the start of reforms nearly 200 American firms have equity investments in India, mostly concentrated in and around four major cities excluding Calcutta. Major investments are in the power generation and telecommunications sectors. The secondary urban areas, the report says, will soon also be attractive for American investment.

The same US report further mentions, the field of information technology of India, is a 9 billion $ technology market which registered a 25% annual growth since the reforms, one of the fastest growing in the world. The report estimates that expenditures for telecommunication products and services would exceed 6.5 billion $ in 1995 alone and the annual growth rate in the market would average at 30% over the next 30 years. Introduction of cellular telephones in a big way in 1995–96 will lead to dramatic growth in service revenues.

India's pre-budget annual economic survey by the government of India in March 1995 underlined renewed commitment to free market reforms. The report said the industrial sector grew at 8.0% last fiscal year, almost double of the previous year's level. It also said that the trade deficit increased sharply to reach 1.28 billion $ in 93–94 indicating a strong industrial recovery demanding higher imports. The report made the following official policy indications;

1. to improve fiscal management
2. to cut administrative overheads to reduce wasteful expenditure,
3. to adopt special measures to check inflation below two digit level,
4. to cut corporate taxes and reduce further tariffs.
5. to continue food and other logistics subsidies to support the targeted poor.

The major infavourable factors for foreign investment may be listed as follows:

1. Large state capitalistic public sector.
2. High income inequalities, nearly 60 to 65 percent of the population (450 to 500 million) has low income of which nearly 200 million is poor and poverty stricken.
3. There is wide regional disparity in the levels of development.
4. The level of provision of infrastructure and facilities is rather low generally and large urban areas are struggling hard to catch up with their huge deficiencies. The National Five Year Development Plans, however, are set for spending at least 100 billion $ in infrastructure development between '92 and 2000 of which 50% will be in the transportation sector.
5. Strong labour unions operating mostly in the large public sector undertakings threaten to oppose any change which goes against their interest and jobs.
6. Chronic shortage of energy. The US commerce dept. report July (1995) states that in the first quarter of '95 the demand for power has exceeded the supply by 8% and the peak demand is more by 20%. Government plans to double the generation capacity in next 12 years (by 140 gigawatts) at a 160 billion $ cost and largely through equity based foreign investment.
7. Considerable levels of corruption at all levels which brings uncertainty to decisions and the ways those are taken.
8. New political parties antagonistic to the ruling party at the centre with varied ideologies about the economic reforms are gaining power in different states. This situation makes a firm commitment to the investment decisions in the state sector projects difficult.

In this context it may be worthwhile here to examine briefly the reasons which are believed to have contributed to the economic success of the NIES and ASEAN. When we attempt this important questions rise in the mind, first, what indicator determines the success level best; second, what factors have contributed to the success most?

III Indicators of Success

Economic indicators at a national aggregate level, such as, growth rate of GNP, trade balance and increase of exports, inflation rate, investment in the development of basic industries, infrastructure and services etc. are conventionally used to measure economic success. However, economic success alone, argue many, may not be indicative of success in overall development context including social/human development. Therefore, beside the economic indicators, some development analysts put emphasis on indicators which are non-economic but consequential to economic development, such as, reduction of inequality in real income terms, rise of real income of the low income and poor, increase in the level of literacy and education especially for the adults (ALER), reduction of infantile mortality rates (IMR), and rise in the life expectancy level etc.. It is argued that these indicators are important because the conditions these indicate stand out as the core of overall development, and in turn, these also supplement economic growth by creating conditions for sustenance for development.

Let us examine this aspect a little further. The data for different developing countries, however, show that both the categories of indicators do not apply mechanically nor coexist in case of the developing economies. Singapore, for example, has had a fast growing economy for over 15 years, has the highest per-capita income and highest education level for almost a decade now in Asia exluding Japan, but, it shows a low equality level of income and wealth distribution. In contrast, Sri Lanka has a high education level a relatively high level of income equality, but, has only a slow economic growth and low percapita income. Thailand's percapita income is twice that of China and its economy is also growing fast over the last decade, but, its IMR is very much higher than that of China and its ALER is equally lower.

Such comparisons, in the first place, may not be revealing a true comparative situation between countries because of the wide variations in their population, size, date of start of economic reforms toward market economy etc. But, one realization may emerge from this that, per-capita income level in itself, is not an adequate indicator of potential condition for fast economic growth and income equalities. There are some important non-economic indicators of development which cannot be ignored while assessing a country's development success.

IV What factors have contributed to economic growth?

Many economists believe that Asia's developing economies have quite distinct characteristics. Some, however, hold the view that it is possible to find some common denominators amongst them. World Bank holds the view that the major factors, which have contributed towards the fast economic growth in the NIES, are accumulation of physical and human capital and allocation of the same to highly productive investments and acquisition and mastering of technology. World Bank (1993) underlines three contributing factors for the success of the NIES; one, address to problems in the functioning of markets, two, solid fundamental policies for intervention, and three, ability of the government to establish and monitor appropriately economic performance criteria related to the interventions. In brief, the importance is on mechanisms of support, fixation of appropriate performance criteria and effective monitoring.

The report also says that history, cultural factors even political situation of the countries have also had a contributing role. Paul Krugman, professor of economics Stanford university, even suggests that willingness to sacrifice current satisfaction for economic gain, a bi-product of the cultural and traditional values, is the secret to the growth of the NIES.

Some other analysts of the Asian situation, however, say that success toward market economy and actual achievements in most NIES and ASEAN countries do not show significant links with the cultural values of the population concered. Supporting the contention John Kohut (1995) puts forward, contrary to the views of Max Weber in the early years of the century, the present era is that of fast capitalism where quick money making and spending it is the goal. Even for the Chinese, Kohut thinks, cultural and traditonal values have had little retarding influence on the desire to make quick money. At least in the initial phase of the movement towards market economy cultural and traditional values may not play any significant role. Hence, it is the proper orchestration of the economic reforms and keeping the short-term negative repercussions under controllable limits which are important. As far as the task of orchestrating the reforms is concerned, India has done a good job till now and has come out of the economic crisis much sooner than most other countries. However, regarding control over the possible negative repercussions, especially income inequalities, reduction of environment pollution, protection of children and women from exploitation etc. the policies are inadequate.

V Some initial macro results of reform

Let us briefly examine some macro results since the economic reforms began in 1991 in India. Sunil Jain (1995) reports that the 1994–'95 national budget presented in March '94 underlined that the economy from a mere 0.9% growth in '91–'92 sustained at 4,3% in '92–'93, and in '93–'94. The estimated growth for '94–'95 was 5.3% and actually the GDP increased at 5.31% during the year. The forecast for '95–'96 is above 6.0%. Fast growth was induced largely by over 8% growth in the industrial sector and increase in the exports by 17% in dollar terms in '94–'95. Foreign currency reserves from a mere 1 billion $ in June 91 sharply increased to a reasonably comfortable level of 19.65 billion $ by February 1995. Agricultural production sharply increased to achieve 4.9% growth by '94–'95 and agricultural exports boomed by over 50%.

But, Sunil Jain (1995) further says, accompanied rise in rice and wheat prices benefited only the few rich farmers who had enough to sale. The small and marginal farmers were hard hit and had to continue under subsidy with increasing burden on the government. Agriculture economists say that this situation forced the government to continue huge subsidies which in amount equalled the public investment. Economists say that while the demand side has been tackled by raising prices steadily, little has been done to help augment supplies.

The employment generation though significantly increased since the reforms, the overall results have been widely deficient from the planned targets. Against a target of 10 million new jobs a year from '91–'92 (which was double the average rate achieved during the '80s), until the end of '94–'95, the annual increase was just very marginally higher than the '80s rate observes Sunil Jain (1995). Only about 5.45 million new jobs could be created per year. As a result, by '94–'95 the number of unemployed had increased by 1.7 million (total 18.7 million).

Mobilization of private wealth funds including investments through the non-resident Indians (NRIs) is gradually emerging as a major source of foreign investment. Like China, India has a large population of NRIs all over the world and their economic level is very good. Now all types of NRI investment is welcome in India and attractive incentives are available. The India Economic Survey (1994) says that in 1990 the total foreign investment was a paltry level or 105.3 million $ out of which only 4.1% was through the NRIs. By '94 NRI's investment share was nearly 2.0 billion $. NRI's annual investment is expected to be more than double by the year 2000.

From computer softwares to aerodynamics hardwares to establishment of technology parks, construction of international airports, to multi-purpose huge irrigation and power generation projects, in many sectors foreign investment is looking for avenues to come in. Same is true in textiles, breweries, electronics and car manufacture. A fast growing internal market and cheap labour are the major attractions. For example, the USA Commerce Dept report (1995) observes that in the computer software sector, Bangalore alone, India's sillicon valley, employed computer software engineers, the number of whom is only next to USA with possible exception of Russia in the world.

An array of impressive aggregate statistics as above do bring initial confidence in the reforms. But, at the same time, the rush in the reforms has also made some persisting problems more acute. For example, a sound foreign investment policy till now is still lacking which may delay or even misplace foreign capital investments. This situation also creates uncertainty with the investors and makes proper management of the flow of foreign capital a problem. On the other hand, the major cities and their influence regions where most of the new enterprises converge suffer from inadequate infrastructure, deteriorating environmental problems and quality of life. Along with improving these, it is necessary to have a consistent and fully transparent set-up for attracting foreign capital. The government admits that a lot still needs to be done regarding the bidding and tendering procedures in order to facilitate the foreign investors. Improvement of the environment for capital investment, especially for foreign capital, therefore, continues to be an urgent task.

VI Possible implications of the economic reforms in the initial stage

There prevails a general acceptance in India in favour of market economy, (even the only lone standing leftist government in the state of West Bengal supports the move towards market economy), however, some significant apprehensions are being raised, mainly by economists, about the negative repercussions likely to occur in the initial phase of the transition, say within a decade. Some of these apprehensions and few other related issues are discussed in the following.

A The Issue of Income Inequality

It is said that some inequality in income distribution is necessary if society wants to reward investors for taking risks and individuals for working hard and better. However, exessive income inequality can break the spirit of those trapped with long drawn low income and poverty and the situation can also exacerbate social political tensions. Following Kuznet's classical theory most economists believe that in the initial stages of economic reforms toward market economy the country's income inequality level would increase until a certain per-capita income level is reached. An apprehension corollary to this believe is that in countries where a wide income inequality already exists, transition toward market economy is most likely to worsen the income ineqality situation.

Privatization is a major thrust in movement toward market economy. The countries in which the public sector dominated the economic activities, quick change to market economy has been a difficult task. The main reason has been the sharp rise in unemployment especially due to the unregulated privatization of the erstwhile public owned enterprises. We will deal with this issue in this section later.

In India income inequality is already quite pervasive with a very wide gap between the rich and poor, and the low income and the poor together account for nearly 58% of the population as may be seen from the following sample data. (Rao 1990)

As can be read from the above table in 1990, 58.10% of the households was

Income configuration in India-1990
Estimated number of households by income groups'89–'90 (in '000)

Category	urban	(%)	rural	(%)	All India	(%)
High	1505	3.75	552	0.53	2057	1.44
Upper Middle	2591	6.46	1191	1.16	3782	2.65
Middle	7175	17.89	7232	7.06	14407	10.11
Low Middle	13940	34.75	24445	23.89	38385	26.94
Low	14895	37.10	68914	67.34	83809	58.10
Total	40106		102334		142440	

having low and poor income, 39.70% had middle income hence, categorized as middle class, and 1.44% had high income. The ratio between the incomes of the low and high categories taken as the base for the above calculations was 1: 4.5. If one considers the value of movable and immovable assets and wealth possessed by the different categories, one is sure to find much more wider disparities between the low and high income categories. The situation indicates prevalence of a high level of income inequality already in the country.

The same source also mentions that during 1985–86 and the '89–'90 period, prior to the start of market reforms, the index of change for the middle and high income groups taken together was +63.17%, where as the proportion of the low income and poor group continued to be high with no considerable reduction. This situation is indicative of worsening of the income inequality situation before the start of the economic reforms.

Fast growth of the 'middle class' during the 80s and the reforms have boosted the level of private consumption to new highs. According to the government of India's information, until 1991–92, the starting year of the economic reforms, private consumption expenditure had grown at 13% through the 1980s to reach 110 billion $

in 90–91. Since the beginning of the reforms the private expenditure on transport & communications increased by 21% per year, and on consumer electronics by 30%. These official figures of private expenditure based on the Govt. of India's Economic Survey report (1993–94) indicate significant shifts in private expenditure emphasis from primary products to manufacturing goods and services. While significant growth in the consumer markets has helped the reforms by creating very favourable conditions for foreign investments, it is not clear whether or not the significant shifts in private expenditure would reduce income inequality.

The famous Kuznet's curve states two things; one, in the transitional stages of structural reform income inequality widens, second, that the income equality gap declines only after achieving a certain level of per-capita income. Many studies like the one conducted by Yukio Ikemoto (1992) at sub-national level in Thailand confirms that inequality in income rises in the initial stages of economic growth.

Hungary's experience in moving toward market economy since 1991 shows that in 1991 alone due to unregulated privatization there was a massive five-fold jump of unemployment from 80 thousand to 406 thousand (7.5%). The increase was overwhelmingly contributed by the privatization of 2,200 state enterprises of which 350 were employing between 5 to 10 thousand people (Bachus, 1995). In the Sub-Saharan African countries, Ghana, Gambia, Kenya, Tanzania, which started reforms toward market economy early or mid 80s, experiences till now have not been encouraging and there have been significant short-term negative social impacts. UNDP (1993: 45) reports that economic structural adjustment programmes in three quarters of the Sub-Saharan countries have actually resulted in the decline of per-capita incomes. UNDP states that "The reforms are yet to bear fruit in terms of human development. It is difficult to say whether their performance would have been worse without the reforms".

In the wake of the reforms toward market economy rising prices of the essential commodities, public expenditure cut and introduction of user charges in education and health sectors etc. directly and very adversely affected the living condition of the low income and the poor in Gambia, Ghana, Kenya and Tanzania, observes Akira (1995: 10). In some other countries, for example, Taiwan and South Korea, it is said that there was not any considerable adverse effect on income inequalities and the reforms did not very adversely affect the low income group.

However, one needs to be careful in analyzing intra-national income inequalities data because the official income distribution data usually do not give a total picture of inequality. Direct comparisons between the average incomes of different regions or between groups of people located in different areas is not effective unless we take into account the purchasing power of the income and the satisfaction level of living into account. Countries are not homogeneously provided with facilities and the price one has to pay to avail facilities, even the cost of daily consumption goods also vary significantly between regions within a country. For example, housing rent, construction cost, cost of schooling, cost of daily comsumption food items etc..

Despite the problems regarding intra-national comparisons and also the uncertainty over estimating the possible widening of the income inequality gap during the transitional stages towards market economy, the fact cannot be ignored that in poor countries like India where already one third of the population has very low income and the income distribution in highly skewed, the likely possibility that income inequalities would further increase during the transitional phase should surely be a matter of concern. During the presentation of the 1995 national budget in the parliament the finance minister of India, an internationally reputed economist, and the main architect of reforms toward the market economy said "unless the reforms result in rapid and meaningful benefits for the poor, the economic plan has little prospect of success".

Analyzing the widening inequality in incomes in the highly mobile society of USA where there is also a high rotation or high and low paid jobs, The New York Times (1995) quoting expert research findings reports that high mobility has not offset the rising income inequality in anyway. Rising inequality in US is said to be caused substantially by the middle class families which moved up in the income ladder, widening the gap with those below them. The expert view also suggests, the paper quotes, that the rising inequality is largely due to technology adaptation. The wage gap between the high and low skilled workers in USA doubled during the 80s. In the case of India, there seems that a similar situation will develop. The growing middle class (200～250 million) gaining a larger share of the benefits of reforms would move up in the income ladder leaving the poor and low income (500～550 million) stagnant and at a wider gap. Technology adaptation also has already increased the wages of the skilled over that for the semi-skilled and unskilled. There is the minimum wage law in India but it is hardly effectively enforced in the private sector.

Many argue that a further widening of the income inequality, continued high inflation (9.6% estimated for 94-95) for long and continued decrease in real wages, may create conditions prone to serious political and social instability in India. The present (July 1995) ruling party which initiated and spearheaded the reforms has a very marginal majority in the parliament. The general elections are due mid 1996 and significant changes in the balance of power is expected calling for difficult adjustments between political parties with divergent ideologies. Though the very path of transformation toward market economy seems is not threatened, change in power balance at the central government would most likely make the period of transition long, protracted and perhaps confusing. In view of this, as mentioned earlier, many experts emphasize political stability as the primary need for the country now in order to keep the reforms in line. Political stability, at this stage, calls for arresting any further loss of income and deterioration of the living condition of the majority through careful balancing of the reform policies, continuing with the strategic subsidies and by avoiding hasty decision making.

B Public sector domination psychology

Opening of a long drawn regulated economy to international market is most likely to face stiff opposition from the vested private business groups, public sector labour unions, leftist political parties etc. The Indian case is no different. Most opposition to the change has been from the large labour unions of the public sector enterprises which apprehend large scale retrenchment due to privatization. Under the national law labour unions are permitted to function independently. The government's view has been firm in favour of privatization of a number of public enterprises. However, the timing and staging of such action is the present concern.

Incremental privatization of the public sector enterprises and balanced mix between the private and public sectors in being advocated by many and in the process, the private sector getting the major share in the long run. It is advocated also that the public sector should have full control over selected strategic sectors and in others, where public sector is the sole operator now, private investments on joint partnerships should be freely encouraged on equity basis. Further, the government should evolve effective ways by which the retrenchment of labour should be judicious and minimal especially using methods such as re-training, re-deployment, counselling etc. for the labour found surplus.

In fact, the Indian government following the recommendations made by the Rangarajan Committee (1992) set up for the purpose, has decided that sectors such as defense research & products, atomic energy, minerals for atomic energy etc. will be under the control of the public sector. In the reserved sectors namely, steel, fertilizer, cement, coal & lignite, mineral oil, railways, port development, power, highways, telecommunications etc. which are dominated by the public sector now would be disinvested incrementally on equity basis to 49%. In other non-reserved sectors, presently under the public sector, the equity disinvestment share could go up to 74%.

The basic apprehension of the public sector workers is loss of security and loss of job due to privatization. Powerful labour unions have already started trying to show their stiff opposition through stopwork strikes and 'go slow' tactics. Another aspect is the getting rid of a long standing psychology of the bureaucrats to control the industrial sector and other economic activities through regulations. Through the control and licensing system bureaucracy gets power, leverage and status. The system also created opportunity for corruption and malpractices. Now, with the sweeping deregulations in practice, bureaucracy finds itself at loss, and tries to find ways to retain its control and power in many indirect ways.

C Managing the Public Sector Enterprises (PSEs).

Economic Survey Report, Govt. of India (1993–94) shows that in 1989 the PSEs accounted for 71.81% of all employment, 18.461 million jobs, which was distributed among the public agencies as follows:

Manufacturing sector accounted for 24.15% of all employment (6.246 million) of which 29.2% (1.863 m) was in the public sector. In contrast 80 to 90% of total employment in the transport & communication, finance & insurance and construction sectors was in the public sector. The total capital employed by the public sector enterprises (237 units) was 44.1 billion $ in 93–94.

Public Sector	employment no. (in '000)	%
1. Central government-	3391	18.39
2. State government-	6827	36.99
3. Quasi-government (Public Corporations)-	5997	32.49
4. Local governments	2237	12.12
Total	18461	

These figures show the dominance of the public sector in the Indian economy. However, the performance of nearly 45% of these enterprises (104 units) has not been good for long and those have incurred direct loss. The Economic Survey Report of the Govt. of India, 93–94, notes that although the 131 profitmaking, units made an increase of 20.8% in their profit in 92–93 over 91–92 (2.31 b.$), the profit was largely negated by the net loss (1.24 b.$) incurred by the loss making enterprises. Out of the 15 top large public enterprises, which are monopolies and operate in the core public sector, five have incurred direct loss. These include the Fertilizer Corporation of India, Indian Airlines, National Steel Corporation & Hindustan Shipyard.

Following the reforms, prices and distribution controls were widely deregulated and the important duty on the basic materials for the core manufacturing industries has been significantly reduced. As a result, for example, in the steel industry, the market prices of steel products have moved in a narrow range, between 2 to 6 percent during the last three years. A number of other fiscal and deregulative measures are being taken to make the public enterprises internationally competitive including complete or partial privatization of many of them.

The most vexed question for the public enterprises in the context of privatization is the management and efficiency of the existing employees quite a sizeable section of whom is surplus.

The five day work down strike by half a million employees in June '95 of the telephone & communications sector against the privatization move for the sector is the indicator of such strong labour union activities in future. A quick decision by the supreme court of the country against the move of the lavour unions however, has brought strong support for the government and the economic reforms. But such protests are expected when privatization moves to other core service sectors, namely, banking and insurance in the coming years.

Notwithstanding the labour union's hardline stand, USA telecommunications giant AT&T president J. Legere announced in mid August that his company finds India more attractive than China for direct business because of the aggressive steps taken by the government of India to accelerate the reforms for foreign investors especially in the telecommunications sector. AT&T joined India's Birla group to bid for license to wire up four lucrative high growth zones in the country.

The government also has created a National Renewal Fund in February 92 to assist the public sector employees in re-training, re-deployment and counselling. A fund of 332 million $ was budgeted in '93–'94 and nearly 60,000 workers of the public sector sick textile industries have opted for voluntary retirement.

Despite these positive steps, the government is very cautious and concerned over the likely mass retrenchment of labour and their re-deployment. Smelling very difficult situations ahead in the form of labour strikes and also apprehending that the situation may lead to some kind of social unrest adversely affecting the chances of regaining power in the 1996 general elections, the ruling party has postponed taking any further decision on the privatization process until after the elections. (India Today Oct. 15, '95)

D Growth of environmentally hazardous industries

Fast growth of environmentally harzardous industries has been another consequence in the wake of the economic reforms. One of the major concerns in the recent years has been the dumping from abroad of toxic wastes as raw materials for industries in India. In fact, the whole of Asia has been the dumping ground for such wastes by the developed nations endangering life of large sections of the populations. According to Greenpeace (June '95 report) 10.4 million tons of toxic waste in the form of chemical by-products, plastics, used batteries, radioactive substances, used films etc. have been dumped in the Asian countries since 1990 by the OECD countries. During '90–'93 Australia, Germany, Britain, USA and Canada dumped 5.4 million tons of toxic waste in China, India, Malaysia, Indonesia, Philippines and Thailand the report says. Most of these wastes are extremely hazardous for human health and environment. Reprocessing these wastes in the countries of origin is expensive and it does not cost anything to dump the same in the poor countries especially in south Asia where the harzardous wastes are considered as source of much-needed revenue.

Normally, in the developing countries, though environmental regulations are there, their strict imposition always is difficult and quite often those are overlooked in favour of short economic gains. During the transition period toward market economy, wide scale deregulations and increasing law enforcement problems surely would further aggravate the problem of growth of environmentally hazardous small enterprises.

In India toxic wastes are recycled and made to new products. But, in the process serious damage to the health of the workers, which include often children, is caused and serious local environmental pollution also results. For example, India recycles a lot of used car batteries, plastic bags, bottles, lead, cadmium, metal scraps which are dumped by USA, Germany, Britain and Canada. Almost all these activities are done in cities and mostly by the 'informal sector' enterprises which operate clandestinely ouside the regulations and environmental laws. Ban of such toxic waste imports is not easy. Intl. Herald Tribune (July 02'95) quotes India's environment minister saying, the government allowed such imports as long as the recycling was safe, but, enforcement of controls on small and large number of enterprises, especially in the 'informal sector' is difficult. Ban on such activities should ensure alternative employment for the people dependent on those activities, a task which is not easy.

This is an intriguing issue and the problem is fast spreading endangering many cities and their suburbs.

E The issue of child labour

Child labour is another related and growing problem and the problem is expected to be worse in the wake of the reforms toward market economy. The ILO's recent estimates, quoted in Intl. Herald Tribune (1995 May) show that 200 million children from the ages 10 to 14 throughout the world work on jobs that are dangerous, unhealthy and often inhumane. In the poorest developing countries one out of every five children holds a job, at times, some of them are only five years old.

Despite laws and children's rights advocacy against child labour, the Asia's largest concentration of child labourers is in the populous south Asian countries. For example, in Nepal, half of 300,000 carpet weavers are children. In Pakistan child labourers make about 25% of all labour engaged in the most paying soccer ball making industry which is located in the Sialkot district near Lahore. In Bangladesh child labour is pervasive in the garment manufacturing industry and the country has refused to sign an agreement with international agencies to end child labour.

India has 55 million child labourers and it is estimated to jump to 70 million by the end of the century reports Operation Research Group (ORG) (1990–91). Weaving by hand looms, match stick making, stone quarries, brick kilns, recycling of toxic waste such as lead, car batteries, plastics etc., small engineering and moulding works, manual cloth dyeing, leather goods making, leather tanning and processing, fireworks making, are some of the common jobs where child labour employment is high. Besides these there are many other odd jobs in the services sector where the child labourers are employed.

Major proportion of child labour in India is found in the 'informal sector' activities, which in large cities often constitute 60–70% of all enterprises. ILO in its 1972 report on Kenya defines 'informal sector' as very small-scale units producing and distributing foods & services, and consisting largely of independent, self-employed producers, some of whom employ family labour and/or a few hired workers or apprentices. These small units are 'illegal' for the government as those do not confirm to the laws controlling enterprises and labour.

Mostly operating outside the surveillance of the government and regulations, the 'informal sector' activities are the mainstay for living for the low-income and the poor. This sector of economic activities has a large proportion of child labour. The wages paid to the child labourer is invariably much lower than the minimum wage set by the government, at times as low as a sixth. The Indian demographers estimate that as the country's rapidly growing population pushes more rural families into poverty, economic liberalization toward market economy fuels demand for many products made with cheap and exploited child labour. The carpets and other goods made by child labour adore most expensive house decor stores in USA and several other developed countries including Japan. The largest pool of child labour in carpet making is in the Palamau and Garhwa districts, the poorest in the country. Child labourers invariably come from destitute familes.

In the wake of economic liberalization toward market economy, most analysts are apprehensive that the incidence of child labour would further increase and it will continue to be extremely difficult to enforce the laws and regulations. More and more poor families would migrate or send their children in search of jobs to urban areas and the open market would find it easier to employ child labour directly or indirectly. In India child labour for small or medium enterprises is recruited by middlemen and who in turn take a cut in the salary of the children. This means that the money that ultimately reaches the child labour is further reduced and the child labour is always at the mercy of the middlemen and the enterprise owner.

The very small factory/enterprise owners find child labour very cheap and abundant. They also find easy ways to circumvent the legal labour and other restrictions and even to dodge social activists who make surprise raids on their establishements to rescue child workers. Instead of producing goods, namely carpets, leather products, match sticks etc. in large factories, factory owners parcel the work out to smaller factories or sub-contractors in distant villages in rural areas where it is more difficult for the government to enforce the legal restrictions and for the journalists and activists to visit the work places.

From an economic point of view providing some employment to the children of the destitute families may be a good thing to do, but, low wages, exploitation, forced or condemned labour, very poor work conditions etc. are matters of concern. An activist group based in Kathmandu, Nepal surveyed half of the child labour engaged in 365 carpet weaving factories and found conditions of such labour was appalling. According to ORG (190–91) half of the child workers were frequently ill, girls were sexually abused and 90% worked under poor ventilation conditions and 75% of such labourers was less than 14 years in age. Situation in India, if not same, will not be very different. Indian law does not prohibit the use of child labour in small shops and workplaces and in family businesses. In order to deal with this complex problem, it may be essential to review the existing relevant laws and also find wider and better means of enforcement.

F The 'Informal Sector' activities

As mentioned above the 'informal sector' activities account for 60～70% of all gainful workers in urban & rural areas of India. The same is true for all countries of the developing Asia, in fact, in Thailand, in 1988, the sector accounted for 86% of all workers. ILO reports that one of the major reasons for failure of improving the conditions of workers in urban areas in the Third World is the non-consideration or inadequate consideration of the workers engaged in the 'informal sector' who consititute 40 to 66% of all workers as part of the main stream of development by the governments.

The dilemma is, the operating units/enterprises in the informal sector are 'illegal' in the eyes of the government, hence, are not regulated under any labour or company law. These large number of workers, therefore, face irregular incomes and highly unstable employment conditions.

A large body of studies in India have shown that 'informal sector' activities are the reflection of state of the economy which is constrained largely by restrictive laws and controls. It is also confirmed that not only that the informal sector employs a major proportion of all workers, the sector also significantly contributes to the economy. Accelerated urbanization and low level of market development has contributed to fast growth of the sector, especially in cities, providing employment, though low paid and irregular, to many who otherwise would be unemployed.

High labour absorption and other flexible characteristics have been the major sustaining factors for the informal sector. However, in the wake of movement toward market economy, the sector is facing increasing competion and decline of logistic supports etc. Some analysts, (Kundu 1990) say the labour absorption rate in the sector is declining.

Employment in the organized sector is increasing but, the rate is very slow. During the first four years of economic reform, as mentioned earlier, employment generation has been far short of the estimates. On the other hand, the the 'informal sector' which has absorbed a major section of employment demand in the past, is unable to do so anymore due to reasons mentioned in the above paragraph. This problem is going to continue in the transition period.

The experience of Thailand shows that only about a decade after the reforms toward market economy the rate of growth of employment in the organized sector could rise appreciably, observe Suganya & Twaichai (1990). They observe that 'informal sector' which accounted for about 86% of all employment in 1988 started to show first decline in the proportion from early 90s. But, no doubt that 'informal sector' still continues to be the major sector of employment. One may realize from the Thailand case that it takes a fairly long transition time to achieve appreciable increase in regular, full-time and gainful employment after the start of reform toward market economy. Therefore, it is reasonable to assume that during the transition toward market economy the 'informal sector' will continue to play a critical role in the economy.

It follows from the above that while planning for the transition toward market economy it is necessary to identify and give special support to those 'informal sector' activities which can effectively integrate with the organized sector in the due course. These may include various kinds of small manufacturing units, fairly skill based services etc. The other marginal activities of the 'informal sector' which over time and in competitive market economy would reduce and ultimately vanish, may be carefully regulated in gradual manner during the transition period to reduce irregularity, wage exploitation etc..

G Empowerment of Women

In a market economy women are sure to play a greater and wider role as workers and earners. Traditionally, lack of access to education, health care, credit, political paticipation and legal rights etc. have stood in the way of the women to play their effective role. Experiences of country after country throughout the developing world have demonstrated that wherever these accesses for women have been improved, women have made the best use of it and have very significantly improved their contribution to the economic development. As rightly pointed out by many World Bank studies and a growing body or research, questions surrounding social development, especially of women, are at the core of the political and economic challenges the developing countries face.

The transformation toward market economy should make endeavour to get rid of or at best to minimize the 'gender bias' or discrimination in the development process. Towards this end, improving access to education, credit and legal rights, and above all, eradicate discrimination in employment for women are the crucial tasks. Here, interestingly India offers instructive examples of low-tech, low-cost strategies. For example, as regards improving access to employment and learning through job, Self Employed Women's Association (SEWA), similar to Grameen Bank of Bangladesh, has proved very successful in Ahmedabad, a major western India textile centre. With over 40,000 members and an asset of over 2 million $, the bank is only for the women and run by the women. Such enterprises create confidence among women, give them status, and in turn, also help better rearing of the new generations.

Realizing the critical importance of women education support for adult education programmes, special women education, vocational training etc. have been boosted in recent years and many have been successful. However, toward women education a lot more needs to be done in India in order to get better results from the current reforms toward market economy.

H Privatization of the education sector

In a poor populous developing country like India, education as an input to the development process becomes crucial. In India, higher levels of education including technical education are quite advanced while, though paradoxically, the diffusion of education and literacy levels at the grass-root levels has remained poor. The overall literacy level is low and a little over a third of the women are literate. The government has followed crash programmes to improve the situation, and the public sector has been dominant in controlling the education sector at all levels. During the last two decades, however, a significant number of private sponsored schools and colleges including some technical colleges have come up and, as a policy, the government is encouraging private enterprises in the education sector with performance controls.

Vigourous pursuance of R&D in education especially in conjunction with the business houses and industrial firms should be a necessity in support of the economic reforms. Most of the R&D presently is done by the public institutions. Private sector sponsored R&D is done mostly in-house and there is no adequate sharing of knowledge between the public and private sectors.

The government of India, as a policy, rules out complete privatization of the education sector. Private initiatives will be encouraged only as additionality to the major public sector efforts. In the wake of moving toward market economy the government boosted more than 2.5 times the budget outlay for the education sector in the current five year National Plan by assigning 6% of the GDP (25.21 b. $). As a policy, the government would work against commercialization of education with emphasis on quality and increased financial support for the needy students.

During the transitional period, adequate efforts have to be taken to support more vigourously the grass-root level school education as compulsory education up to middle level and the promotion of adult education, women education & distance education strategies should be simultaneously boosted.

I Related issues in urban development

The urban population is growing fast in India. From the 217 million level it would reach a level of 325–350 million by year 2000. Though by then it would account for less than 35% of the urban population, the urban sector would account for nearly 70% of the GDP. Hence, proper development of cities, especially the metro cities, is a pressing task. Under the pressure of a accelerated urban growth and more so with the advent of the market economy, infrastructure in large cities is under very severe strain, and in many, it has already become a major huddle for development. Promoting investment, both national and international, in urban infrastructure development must be a crash programme for the economic reforms.

Power and telecom sectors are crucial for urban development and so is the improvement of the transportation sector. Power generation and distribution are being largely reorganized in favour of private, even foreign, investment in India. These are high-tech capital intensive sectors for which foreign capital is a necessity. In this task experience of other countries should be shared. The reforms in 80s in UK, for example, separated power generation, transmission and distribution activities and were privatised. Improved competition is expected to enhance efficiency considerably. Power rate quotations are given everyday in UK for the next day and the regional power distributing authorities choose the lowest bidders for their next day sources according to P. Purkayastha (1995).

Competition in generation of power in UK came only after the possibilities of technical efficiency improvements in the system through integration had been exhausted. It is argued by Purkayastha that creation of competition in infrastructure is the underlying theoretical premise of the World Bank's case for privatization. Whether it is power or telecom or rapid transit system privatization need to be followed by careful pricing of each segment of these important infrastructure sectors in the transition stage and it also will be necessary to check monopoly.

It is also necessary to withdraw the current cross subsidies in these sectors. In

India cross subsidies are a part of state-run monopolies and at places such subsidies are desirable. Cross subsidy is necessary for rural electrification and telecom services. India being predominantly rural, provision of such subsidies is not only a social obligation but makes also hard economic sense because it has much to do with the food sufficiency achieved in the country for long. The development of the rural and semi-urban areas by the provision of power and telecom would surely significantly correct the present regional disparities and the pressure on large cities.

Extension of cross subsidies to maintain low access cost for basic infrastructure for the low income and the poor is also a necessity in order to ensure a reasonable living condition for the majority in the transition period of the reforms. Unregulated privatization and continuation of subsidies would be cross purposive. Therefore, careful pricing strategies integrated with the gradual withdrawal of the subsidies is required during the initial period of the reform.

Another area of severe strain is urban housing. Backlogs are huge and the new demand is sharply growing. Urban housing activity has not yet fully developed as an industrial activity, nor the government considers the housing sector as an industrial sector. As a result, the sector does not attract any foreign investment though potentials are good. Bombay needs one million new houses to meet the existing demand and on an average 600 immigrant families arrive in the city each day.

Skyrocketing of land price is yet another situation in large cities of India which becomes the single most important factor in contributing to income and social inequalities and also the growth of squatter colonies and slums in cities. Undesirable increase in land price also pushes up undesirably rents for commercial and residential use in cities. The Associated Press (1995) reported on 26 July '95 that monthly rent for office space in Bombay (1,566$/sq.m) is more expensive than that in Tokyo (Inner wards, 1,545$/sq.m.), and is over three times more than that for New York's midtown area. This may appear ridiculous in a Third World country, but, it is an indication of the situation emerging. It is expected that land price and housing rents would continue to rise sharply with the opening of the market and the big cities will be the hard hit. If the situation is not kept under control the majority of the urban population will be priced out of the land and housing market in the initial phases of the reforms.

Therefore, appropriate and quick methods are necessary to control urban land supply and demand, a failing which the large cities are surely going to face serious huddles for smooth transformation toward market economy. Housing for at least 80% of the needy families will be adversely affected and provision of urban infrastructure will be highly expensive. Not only that, perpetuation of the situation wouuld further precipitate the inequality situation and urban social unrest.

There is, however, already a national law to restrict ownership of land in cities aiming at more equitable distribution of this important resource and asset. Free market advocates generally oppose this move. But, the government thinks the restriction is necessary from a societal point of view and it is taking steps to rearm the law in view of the liberalization of the market and ensure its better implementation. It is also suggested by many that the government along with its controls should also encourage the public sector to compete with the private sector in the land and real-estate markets.

J Failure of 'trickle down' belief in economic development

The experiences of the 80s in many developing countries and even in USA show that the earlier faith on the 'trickle down' phenomenon in development has totally been shaken. In economies, where 'trickle down' faith forms the base for economic development, in aggregate terms, have grown, wealth has been created, but, rich have become richer and the poverty instead of reducing has actually increased. In real income terms and also in terms of access to opportunities in life, the level of poverty has increased in most countries. The failure of 'trickle down' process is seen in the fact that millions of workers working full-time but still find themselves well below the poverty line. Equitable sharing of the process.

To find a way out, some theorists, Moran (1995), suggest an opposite theory, 'percolate-up'. Implying that the best way to stimulate the economy and increase the standard of living of the majority is to put more money into the hands of the poor. The logic is, poor spend higher proportion of their income than the rich and with more money they would spend more. The increased consumption would set the chain of more production, more employment and thus generate more energy for economic growth.

It is not so much the lack of capital in the case of USA, the theorists say, which is the problem, it is lack of opportunities for profitable investments. Profitable investment opportunities are lacking because the demand for goods and services has not kept pace with the productive capacity. So, putting more money in the hands of the poor aims at augmenting demand, for businesses expand production and add jobs only if they can reasonably expect to sell what they produce. Therefore, what is advocated here is, instead of tax breaks for the rich and business houses, the minimum wage for the poor should significantly increase. In support of this argument it is said that contrary to some economists' thinking that higher minimum wage would increase unemploment, recent research in USA has shown different results. Between 1978 and now though the minimum wage in real term has decreased unemployment instead of decreasing has increased significantly.

Thus, through 'percolate up' idea wealth will be created at the bottom. If the benefits of economic growth do not percolate up to the middle class and the upper income class, at least it surely will benefit the poor. The idea logically sounds good for the poor developing economies, for two reasons. First, the 'trickle down' path has been followed for long but results are discouraging, both poverty and inequality have increased. Second, in poor countries the poor constitute nearly half of the population, hence, if the 'percolate up' based economic development benefits the group significantly it should be a desirable thing to do.

VII Concluding Observations

Transformation toward market economy for territorially large, populous and poor countries, like India, is a movement which must be planned with utmost caution. It is especially so when there is a democratic political system and a strong government at the centre is a necessity to pursue the reforms with commitment. Market economy in itself cannot be the panacea for all development needs for countries like India. In moving towards it innovative but pragmatic ways must be found and followed to ensure an economic development process which benefits the majority, not a small minority. In this sense, the western model of market economy or other such models followed by Japan, NIES in Asia, should not be blindly followed and the approach has to be carefully selective.

We know about the experiences of many countries in Latin America, Africa who opened their economies to the invasion of foreign companies for their primary resources and products during the 60s and 70s. The result was, despite increased productivity and new consumption patterns, only a small minority class was benefited to achieve modernization. Even after several decades only a sort of "perepheral capitalism" resulted, a capitalism which is unable to generate innovations and is highly dependent upon external decisions for transformation. Obviously, the income inequalities widened and regional disparities in the levels of development also worsened. Such an approach definitely is not desirable for India. Therefore, it can be emphasized that while selecting components of development models from other countries utmost care should be taken to select only the relevant ones.

Success of the reforms toward market economy, however, requires high level of flexibility in the mobilization of internal and external investible resources. Many think that the growing middle class and its fast increasing consumption demand will function as the engine or the driving force for fast economic growth. In this context it is worthwhile to refer to the recent experience of Mexico. As a national policy the middle class was supported as the sole driving force for achieving fast economic growth in the country through the 80s. But, a shift of the economic policies at the change of the government and inability of the new government to continue artificial support for the currency brought the sudden crisis of the peso in December '94 and shattered all hope for the middle class to be the active force. At the same time, the economic revolution of the Salina's government through the 80s which focused on the middle class had left Mexico's 40 million poor untouched and to mend for itself. The condition of this large group worsened giving rise to many serious social even political problems. The path of market reform which was characterized by a quick rush to privatize banks, inflate the currency, encourage credit spending and more importantly implement the North American Free Trade Agreement gave a boost to economic growth no doubt, but, that growth could not be sustained even beyond 5/6 years. Mexico's experience put the pointer on the need for a more careful, balanced and incremental approach in pursuing the path towards market economy, perhaps a good lesson for India.

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