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### CURRENT POLITICAL AND ECONOMIC REFORMS IN INDIA- A CRITICAL ANALYSIS

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#### ABSTRACT

The agenda for reforming the political process is a long and fragmentary one. Our Constitution visualizes a representative democracy. Corruption, threats of muscle power and coercion in elections have receded over the years. Challenges like money power, transparency of finances, inner party democracy and influence of the media, including social media, have emerged recently. The Election Commission alone cannot force this electoral and political reforms agenda. Commission's mandate is limited only to the conduct of free and fair elections. Such crisis situations have been handled by the Supreme Court of India. Being a welfare state, it is difficult for India to demarcate the dual components of Political-Economy. Any major change in one sphere has significant implications in the other. The series of current structural reforms like Demonetisation and the Goods and Services Tax (GST) have been claimed by the government to be worthy of putting the Indian economy on a stronger track. *These are likely to be described as the two game changers of the Indian Economy.* India demonetised large currency notes on November 8<sup>th</sup> 2016. It was an initiative to root-out black money and fake currency in the system. However, it was noticed later that the move couldn't achieve the desired result. Fake currencies were still running. The government succeeded in profiling the people by digitalisation and getting to know the differences between actual flow of money and the undeclared money. Social security benefits are assured by the Central government under various flagship programmes. Further several key initiatives such as 'Make in and Start-up India' have been undertaken in order to enhance job creation. This paper attempts a critical analysis of the current political and economic reforms in India and its huge impact on the human life.

#### KEYWORDS

Political reforms, Economic Reforms, Demonetisation, GST and Flagship Programmes.

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#### INTRODUCTION

The agenda for reforming the political process is a long and fragmentary one. Our Constitution visualizes a representative democracy. Corruption, threats of muscle power and coercion in elections have receded over the years. Challenges like money power, transparency of finances, inner party

democracy and influence of the media, including social media, have emerged recently. The Election Commission (EC) alone cannot force this electoral and political reforms agenda. EC's mandate is limited only to the conduct of free and fair elections. Such crisis situations have been handled by the Supreme Court of India. Being a welfare state, it is difficult for India to demarcate the dual components of Political-Economy. Any major change in one sphere has significant implications in the other. The series of current structural reforms like Demonetisation and the Goods and Services Tax (GST) have been claimed by the government to be worthy of putting the Indian economy on a stronger track. *These reforms are claimed by the government as two game changers of the Indian Economy.* India demonetised large currency notes on November 8<sup>th</sup> 2016. It was an initiative to root-out black money and fake currency in the system. However, it was noticed later that the move couldn't achieve the desired result. Fake currencies were still running. The government somehow succeeded in profiling the people by digitalisation and making them to know the differences between actual flow of money and the undeclared money. Social security benefits are assured by the Central government under various flagship programmes. Further, several key initiatives such as 'Make in and Start-up India' have been undertaken in order to enhance job creation. This paper attempts a critical analysis of the current political and economic reforms in India and its huge impact on the human life.

#### **Reforms-Political and Economic**

'Reform' by its very meaning is gradual with clearly stated objectives. It is a transparent process using deliberation and persuasion instead of coercion. The reform context includes the country's socio-economic, political, cultural and historical characteristics. The context description takes into account relevant elements of the political economy in terms of social and economic inequality, property rights, power relations, social organizations (including kinship systems, ethnic groups and traditional authorities), regional disparities, systems of exchange and markets, the state apparatus, and the political parties, institutions and powers.

The economic reforms initiated in 1991 are considered to be a watershed moment in post-colonial India's economic history. They had a far-reaching impact on the growth track of India. The economy was transformed from a state-driven, centralised one to a largely liberalized and open market economy. The reforms exposed India to the international market forces. The consequences are felt in many sectors-industry, banking, agriculture, social and cultural.

#### **Current Reforms**

It is the need of the hour to prevent tax evasion, reduce red-tapism and unnecessary bureaucratic intervention. In order to facilitate the transition of India into digital one, the government initiated several reforms. Among these, demonetisation and the Goods and Services Tax (GST) have been claimed by the government as the practical solution.

#### **Goods and Services Tax (GST)**

The reform process of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Manmohan Singh, then Finance Minister under of P V Narasimha Rao, initiated early discussions on a Value Added Tax at the state level. A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 to design a GST model. In 2002, a task force was formed under Vijay Kelkar to recommend tax reforms. In 2005, the Kelkar committee recommended and proposed a comprehensive GST to deal with the myriad problems and complications suffered by India's taxation system. The 12th Finance Commission (now named NITI AYOOG) also suggested for its implementation.

GST is an indirect tax which was introduced in India on 1 July 2017. Throughout India it replaced multiple cascading taxes levied by the central and state governments. The Constitution (One Hundred and First Amendment) Act 2017 paved way for necessary changes in the Constitution to the effect of GST implementation. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. The following four slabs such as

5%, 12%, 18% and 28% were fixed initially. GST is intended to replace a swing of indirect taxes with a unified tax. India ushered in the biggest post-independence tax reform.

Value Added Tax (VAT) was introduced in order to replace Sales Tax, which was in operation at State level, whereas GST will be applicable at both Union and State level and will replace taxes like VAT, MODVAT, CST, VAT, etc. GST is the most awaited and highly debated taxation system of India. Its implementation will be the most effective step in the Indian tax reform history. It has been claimed that implementation of GST will bring tax simplification and facilitate the collection of Indirect Taxes at union and state levels through a single window.

The single GST replaced several former taxes such as central excise duty, services tax, additional customs duty, surcharges, cess, value added tax and octroi. Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime. GST is levied on all transactions like sale, transfer, purchase, barter, lease, or import of goods or services like banking, insurance, construction work contracts, etc. Under this dual GST model, taxation is administered by both the Union and State Governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. An Integrated GST (IGST) is levied by the Central Government for inter-state transactions and imported goods or services. GST is a consumption-based tax. Therefore, taxes are paid to the state where the goods or services are consumed, not the state in which they were produced. IGST disables state governments from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue.

Application of GST has invited a plethora of mixed reactions. It was introduced to provide a friendlier platform to investors, producers, distributors to make best from this age of ample opportunities. Hence, it could prove to be a boost for India's economic and political prospect worldwide. But, some questions have yet to be answered. India is a Nation of diverse

cultural, geographical, economic topography. Considering this fact, our Constitution makers rightly perceived India as federation too. They wisely distributed those features to states which are unique to states only because of their peculiarity and uniqueness. Taxation was one among those features which were transferred to states. With the implementation of GST, this important federal tool guaranteed by the constitution will be diluted. Imposition of GST will leave no scope for states for financial empowerment. In fact states will lose financial autonomy. There are some other apprehensions too, Services will become expensive e.g. Banking, Telecom, etc. It will take some time for the people to understand the implications of GST. The foundation of the 'Zollverein' was the first instance in the history of unified taxation system by coalition of German states. Zollverein was a unified taxation system in Germany which replaced the old cumbersome, varied and complicated taxation system. By the end of 1834, all German states joined Zollverein. The economic policy of Zollverein paved way for mass level production and distribution of goods which later reflected in its unprecedented growth (Livelaw.com)<sup>1</sup>.

### **Demonetisation**

Demonetisation is an act of scrapping a currency unit of its status as legal tender. It is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. At macro level, it will impact financial, trading, political and social systems in life. Earlier in 2002, the European Monetary Union decided to adopt Euro by currency change over<sup>2</sup>. However, the old currencies were allowed to convert into Euros for a period of time in order to ensure a smooth transition through demonetisation. The other countries which have opted for currency demonetisation were Zimbabwe, Fiji, Singapore and Philippines. In India's case, the move has been taken to curb the menace of black money and fake notes by reducing the amount of cash available in the system. This was not the first time the Government of India has gone for the demonetisation of high-value currency (Livelaw.com)<sup>3</sup>. The government demonetised in 1978 (Demonetisation)<sup>4</sup>.

On November 8<sup>th</sup> 2016, India demonetised large currency notes as a step to root-out black money and fake currency in the system and declared Rs 500 and Rs 1000 notes as invalid. All notes in denomination of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Rs 1 and all coins continued to be valid. New notes of Rs 2,000 and Rs 500 were introduced. This move was expected to scoop out black money from the economy. In this single move, the Government has attempted to tackle all the **three issues affecting the economy i.e. a parallel economy, counterfeit currency in circulation and terror financing**. However, it was noticed later that the move couldn't achieve the desired results. Fake currencies were still running. Progress on these would make a real contribution to reducing the long-term gain of reducing the generation of black income over time. However, the government succeeded in profiling the people by digitalisation and getting to know the differences between actual flow of money and the undeclared money.

#### **Major Flagship Programmes**

Social security benefits are initiated by the Central government under various flagship programmes. Pradhan Mantri Jan Dhan Yojana aims to bring people under poverty line and to ensure access to financial services such as Banking, Savings, Pension, etc in an affordable manner. Besides the larger aim of providing direct cash benefits, this Yojana offers an overdraft of Rs. 5,000. Aadhar Card initiative aims at a unique identification process where it uses biometrics to ensure ghost identities. It forms the backbone of the government's JAM Trinity (Jan Dhan, Aadhar and Mobile linking) schemes to get the direct cash benefits. Pradhanmantri A was Yojana Several key initiatives such as 'Make in India', 'Skill India', and 'Start-up India' have been undertaken in order to enhance job creation (Make in India)<sup>5</sup>. It is essential to ensure a seamless transition to the GST regime and better-targeted delivery of welfare entitlements under the Aadhaar-enabled platform (Economic Times)<sup>6</sup>.

Stressing the need for more labour reforms and skill development, the government launched new labour schemes including a unified web portal where employers can submit a single compliance report for

16 labour laws, a new labour inspection scheme, Unique Account Number facility for EPFO members, a new skill development and apprenticeship scheme and a revamped Rashtriya Swasthya Bima (Peplematters)<sup>7</sup>.

#### **Impact on Common Man's Life**

It was a logistical nightmare for Reserve Bank of India to manage the cash replacement in banks and smooth functioning of the banking system. It caused considerable inconvenience to people to queue up at banks to exchange the old banned ones into new notes. Tragically, many deaths have also been reported. In addition to inconvenience, the shortage of cash has also disrupted business in the cash-based informal sector, which is where the majority of the population is employed.

Demonetisation is a memorable experience and becoming one of the economic events of our time<sup>1</sup>. Its impact is felt by every Indian citizen. Slowdown in consumer spending due to limited cash availability will hurt small shops. Farmers, fishermen, vegetable sellers, small shopkeepers without card readers or e-wallets, taxi drivers, truckers, etc., have all been affected with loss of livelihood which may be irretrievable in some cases, for example, Active loss of daily wages for casual labour, or lower sales for vegetable vendors.

Demonetisation acted as a liquidity shock that disturbs economic activities. It led to liquidity crunch, means people are not able to get sufficient volume of popular denomination like Rs 500. A sudden stop in the availability of currency created a situation. Shortage of currencies blocked consumption, investment, production, employment etc.

Severe liquidity issues in cash based sectors like Real Estate and other non-essential products and services. Given the capacity constraints at the two printing presses which can print the high-value notes (assuming three shift operation), it took considerably long time to replace all notes. This caused total inconvenience to the common man. Switching to digital payments was given to the common man as the option to overcome this difficulty. Important services like phone bills, life insurance policies, banking etc are expected to become costlier.

This measure led to the slowdown of major sectors which are more employment-intensive. Farmers were unable to get enough cash to buy seeds and fertilizers for their winter crops. This disrupted downstream income flows in the form of wages to construction labour, purchases of cement and other construction materials, including steel, paint, glass, etc. This had downstream effects on both employment and income.

## CONCLUSION

In terms of impact in prices, services held to be more expensive than the goods. It is expected that the consumers will be benefitted eventually in the long run. Demonetisation as a cleaning exercise may produce several good things in the economy. However, it created unavoidable income losses to the poor workers, who get income based on their daily work. Also it caused welfare losses to the poor sections of the society, who do not have the digital transaction culture. Overall economic activities will be dampened in the short term. Immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits. The economic current of demonetisation and GST are to be settled down in the coming days.

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## CONFLICT OF INTEREST

We declare that we have no conflict of interest.

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