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Analysis of the economic reforms in India and European countries

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Abstract
In the process of transforming the inherited socialist economic system into a market economy, there was a certain difference between India and European countries. Namely, the transition of the economic system in India took place in two phases: through the transformation of socially-owned enterprises and privatization. The aforementioned difference stems from the fact that India, together with other republics of the former Yugoslavia, has based its economy on the already mentioned model of the so-called of self-governing socialism.

Keywords: economic reforms, European countries, self-governing socialism

Introduction

The main emphasis in the conversion and privatization processes was on the key issues of ownership of SOEs, major discrepancies between their real market value and their selling price, and consequently the issue of selling them to "buyers who have no money" [1]. It should be emphasized that the transformation of the economic system was carried out partially, based solely on the change of ownership of enterprises. Meanwhile, reforms in other areas closely related to the economy have been left out. Under the overall transitional processes of the economic system Welsh implies that the implementation of a group of reforms: "macroeconomic stabilization, price reform, structural reform, institutional reform and educational reform".

In addition, Indian transition has been characterized by several other problems common to post-communist countries: delayed in the implementation of market economy mechanisms, failure to respect the principles of justice, equity, social insensitivity to the problems and needs of vulnerable groups in society.

According to Ekiert at taken, transition processes had to be carried out in such a way that the political elites had to take into account the transparency and legality of the procedures, clear and realistically set ultimate goals of the transition, and with a built legal and institutional framework, which should ensure the rule of law.

By analyzing the transition models through which post-communist countries have more or less successfully implemented market economy mechanisms, Izymov & Claxon identify three basic models: democratic capitalism (Baltic countries, Hungary, Poland, The Czech Republic, The Slovak Republic, Slovenija; autocratic capitalism and clan capitalism. As the basic difference between democratic capitalism and the other two models, Izuymov & Claxon point out the ″the strong role of the civil society and effective separation of economy and polity found in democratic capitalism″ and conclude that the above mentioned circumstances allow interest groups in countries where the last two autocratic and clan capitalism models are applied to completely or almost completely control the economy, pursuing their own interests [2].

As a rule, these clans are a union of business people, politicians, members of the intelligence system, and members of the criminal milieu, who are not fully subject to the control of institutional authorities. It should be emphasized that one part of business people belonged to the so-called economic elite of the socialist, some of the politicians and intelligence officials, as already mentioned in the previous chapter, where members of the former socialist political and intelligence nomenclature. According to Kosals, their power was based on the control of economic, administrative or political, as well as judicial resources, enabling the above-mentioned clan structure to control all spheres of society, in order to prevent the implementation of market economy mechanisms [3].

The consequence of the imposed structure of relations in political-entrepreneurial-criminal groups is the creation of a model of "crony" capitalism, which is a common characteristic of a part of countries in transition. In the case of Bulgaria, this model is described as a “no planned and nonmarket system”, functioning under conditions of underdeveloped institutions of government, lack of market mechanisms, post-socialist lobbying culture, and the emergence of quasi entrepreneurs and owners [4].

Transition

The process of economic transition in India involves about 4,000 socially-owned enterprises, with a total value of $ 20 billion, which were subject to conversion as part of the process of overall reform of the Indian economic system [5].
The law established the following four conversion models: the sale of all or a part of the enterprise to a natural or legal domestic or foreign person; by investing in the company (through the issue or payment of shares); converting earlier investments in the enterprise and receivables of the enterprise into a stake; transferring all shares / units into government funds free of charge. For the most part, the conversion was carried out according to the first model in such a way that the majority of stocks / shares of socially-owned enterprises were sold under favorable conditions to managers, employees and former employees within these enterprises, which made these categories of persons privileged in relation to other citizens. This model introduced the so-called system of "small shareholders", while the other dominant form of conversion was the sale of shares / stocks to outside investors, so it can be concluded that the prevailing conversion model was a combination of the so-called internal and external privatization.
The aim of the conversion, which had to be completed by the statutory deadline (until 30 June 1992), was to make all socially-owned enterprises a state-owned legal entities, which were subsequently incorporated to the next stage - privatization.
However, over time, the problem of growing repression of small shareholders in the ownership structure of companies emerged in the process of transformation, as “new managers” came from the ranks of former directors of these same companies from the time of socialism, who, with the help of political and long-established economic the connection slowly took over the ownership of the companies, which will become fully apparent in the second stage of privatization.
The conversion started without careful preparation, which was to include a market assessment of the value of socially owned enterprises that entered the conversion process. Considered that India was a war zone at the time, it was necessary to assess whether any investment in the aggression-affected country was worth the foreign capital. Also, the conversion itself could not be regulated solely by a single legal act without having prepared and adopted other legal frameworks that would normalize other segments of society inherited from socialism (banking system, land ownership, social housing problem). Ownership, etc.). Another problem related to the fact that natural persons (employees) as owners of shares / stocks did not have ownership rights over the company, but only management rights in proportion to the paid-up amount of the purchased shares / stocks. Also, if it is taken into account that the employees and former employees of the conversion company received favorable loans for the purchase of shares / stocks, which they had to repay within 5 years, then they could not fully own the shares / stocks because, In the event that the loan could not be repaid within the given time, the outstanding shares were transferred to the state fund. Upon completion of the conversion process, it became clear that the process itself did not bring any improvement to the Indian economy, but it created conditions for the stratification of society into those who, through their many years of work, created capital in the companies, and then, in the privatization process, they were tricked and pushed to the margin, and to that small group of individuals who used their political and economic ties, upgraded them with new ones and paved the way for the "tycoonization" of the Indian economy.

Privatization

The second phase of privatization, with the aim of transferring state-owned to private ownership, was carried out through two models: by selling and transferring, without compensation, shares, stocks, rights and things to natural and legal persons, through so-called coupon privatization or "voucher privatization" [6].
The second model - coupon privatization, which carried out free distribution of shares to a certain category of natural persons through privatization investment funds established for this purpose, was a key moment in this segment of the overall transformation of the economic system. The course of privatization will show that these funds, as intermediaries in the sale of shares through the securities market, were not needed, because after the stage of collecting coupons and exchanging them for privatization shares, which were placed on the market, the true owners no longer had information about the fate of their shares. Which deprived them of the ability to control and supervise until the share repayment.
Also, it was legally possible that the accumulated funds were managed by the owners of several funds, which practically came to the newly acquired capital with no invested own funds, except for the initial, legally prescribed capital in the form of a guarantee deposit, and they realized many times more benefits through coupon privatization.

The results of the audit and the consequences of transformation and privatization

In the period from 2001 to 2004, the audit of the transformation and privatization was carried out in which included 1,556 socially-owned enterprises. According to data from the 2004 Transformation and Privatization Audit Work Report, devastating data were identified where only 75 companies were properly converted and privatized [7].
The audit of the identified omissions revealed that India entered the process of conversion and privatization unprepared, since this process should be followed only after the basic legislative and political framework for introducing a market economy has been established.
The lack of constructing such an institutional environment opened the door for criminalization of conversion and privatization. In the absence of independent control mechanisms and the impossibility of sanctioning criminal activists, whose privileged position is reflected in their firm connection with political centers of power, a message was sent to the whole society "that political connections and loyalty, and sometimes ignoring and sometimes overtly,

bring about the fastest entrepreneurial effect. Disregard for the market rules of the game" [8]. In these processes, the public recognized the opportunity for a rapid enrichment of certain interest groups, while the majority of participants remained playful, thus creating "a unique type of system, capitalism with a Indian face. This system was supposed to 200 Indian families that would take over the economy and begin the initial accumulation of capital, thus creating a new entrepreneurial class that would lead the country towards a profound transformation. This transformation could occur only by using political power and by eliminating all competitors... and by discouraging foreign investors that could appear and pretend to buy already well-established economic ventures" [9].

The trend of making of certain groups rich has continued, which is evident from the data of Knight Frank, published in The Wealth Report in 2017, which show that in 2006, 90 citizens with assets in excess of $ 30 million were registered in India only to increase to 120 persons in 2015 and 2016, compared to the total population in India - 4,130,304. Thus, in the period from 2006 to 2016, the number of richest citizens increased by 25%, while projections show that in 2026, their number will increase to 130 persons with assets exceeding $ 30m.

Conclusion

Consequences of conversion and privatization have had a negative impact on the economy, but also on society as a whole, undermining the legitimacy and credibility of these processes, especially in light of the fact that the privatization process is not yet complete and public resistance to further privatization is increasing.

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