

Central Financial Institutions and the New Economic Policy : A Critical Appraisal

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ABSTRACT

With the drawn of independence of the country in 1947, there was heart breaking poverty in the country. A larger segment of our population was not able to meet its both ends. As a result of this it was thought that a quick economic development should take place in the country to make the politic independence more meaningful and purposeful. But there important bottlenecks in the way of rapid economic development i.e. scarcity of capital and entrepreneurship. The industrial development require both these things as a pre-condition.

Key Words: Bank, RBI, Institution, Industrial, Financial, Economic Development Hypothesis.

Introduction:

The process of economic development requires as one of its accompanying structural changes in the economy, the development of a capital market which will provide an adequate and properly distributed supply of finance to the entrepreneurs setting up new industrial plants or thinking of expanding the already established one. Economic development has been particularly regarded as the determined by investment function, population changes and technological progress. And contribution of capital to economic progress embraces at least two distinct Processes, First, a grater abundance of capital permit the introduction of more round about methods of production. This covers the freer use of capital instruments in the production of a given product. After all, the of capital has been normal feature of economic expansion, norms referred to as widening rather than depending the structure of production secondly, additional capital me be required to allow technical progress to take place.

Objectives:

Keeping in view the above facts in mind this has tried to meet the following vital question :-

1. Whether the Central financial institutions have been able to realise the objectives for which they were created.

2. How for the industrially backward areas have been helped to bring them in line with other developed areas?
3. Whether these financial institutions have come forward to strengthen our domestic entrepreneurs and to make them more competitive?

Hypothesis:

The present study has been undertaken with the following hypothesis in mind:-

- (a) The central financial institutions have utterly failed in reaching their objectives.
- (b) The backward and industrially backward regions have been neglected.
- (c) After the emergence of new economic policy, the financial health of the domestic entrepreneurs has not sufficiently been strengthened.

Play Of Study:

The research plan has entailed the use of both published and unpublished work of different authors. A questionnaire has been prepared to elicit the opinion of different concerned pretties to reach a logical conclusion various persons have been contacted.

Several committees and commissions were appointed in India and abroad to suggest way and means to expedite the process of economic development. All these commission and committees were of the opinion that in the absence of adequate income, saving were low and hence low capital formation. Therefore it was suggested only Institutional financing one serve effectively in attaining the objective of industrial development. Macmillan committee in England, Industrial Commission and Central Banking Enquiry committee and the provincial Banking Enquiry committee in India unequivocally recommended the setting up of such financing institutions which might accommodate the existing and emerging industries where commercial bank financing had been inappropriate. The Govt. of India also announced in 1946 as a matter of policy that all India financial institutions be established to look after the financial requirements of industries.

The first such pioneering specialized financial institution in India was the establishment of Industrial Finance Corporation of India in 1948 to cater to the medium and long term financial needs of the industrial undertakings. For the purpose of encouraging industrial development in private sector. Industrial Credit and Investment Corporation of India was created in January, 1955. The ICICI was organized as a wholly privately owned institution. Its ownership was entirely in private hands.

With the passage of time a number of other financial institutions came into existence which catered to the financial needs of a variety of industries. The multiplicity of financial institutions operating in the same field to overlapping and duplicating in the efforts of the financial institutions with the result that financially well off concerns could manage financial assistance from a number of institutions while weaker concerns were left high and dry. Co-ordination of functions, and workings

of existing financial institutions was, therefore, considered necessary so that they might play a more useful role in industrial development of the country. For this purpose industrial Development Bank of India was set up as a wholly owned subsidiary of the RBI and to act as an apex institution and co-ordinating the functions of all financial institutions. The over all objective of these financial institutions in our country as to cover up the gape of capital and enterprise with this end in mind, these institutions are supplementing rather than supplementing the economic development of the country.

But there has been a change in our economic policy since 1991, when these institutions were set up ours was a controlled economy and we did everything to promote the objective of a socialistic society. But the recent changes in the economic policy of the country believes in promoting competition among the entrepreneurs. The economy has been opened up. Therefore our domestic entrepreneurs have to compete with the mighty foreign competitors. Hence, the role of financial institutions has to change in order that they might provide more strength to our domestic entrepreneurs and make competitive.

Conclusion:

To know whether these financial institutions i.e. IFCI, ICICI and IDBI have fulfilled the objective for which they were set-up, it is essential to make a critical appraisal of their working in the all round industrial development of the country.

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