

The 1991 Reforms & Inclusive Growth

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In 1991, India, one of the defenders of third world dirigisme since the days of its independence embarked on a neo-liberal economic policy course, a shift which was ranked by a leading World Bank economist of the time among the “three most important events of the 20th century” alongside the collapse of Soviet Union and China’s turn to market reforms. A Balance of Payments crisis caused mainly by the Gulf war opened the way for an IMF program that led to the adoption of a major policy package often referred to as the New Economic Policy (NEP) that involved opening for international trade and investment, deregulation, initiation of privatization, tax and exchange rate reforms.

The Big Bang of Liberalization promised to liberate India from the episodic crisis and Indians from perennial poverty. As Manmohan Singh (the then Finance minister) said in his speech “I do not minimize the difficulties that lie ahead on the long and arduous journey on which we have embarked... But as Victor Hugo once said, ‘no power on earth can stop an idea whose time has come.’ I suggest to this august house that the emergence of India as a major economic power in the world happens to be one such idea.” There is widespread debate on whether the path to achieve the above

mentioned idea was one that arose from the state of the Indian economy or, given the fact that the reforms were supported by financial assistance of the IMF and the World Bank, the adoption of the NEP was under pressure from these multilateral agencies. Those supporting the former view say that the reforms were not an externally designed blueprint thrust on an unwilling government. “The driving force was endogenous; a realization by the leadership that the old counterproductive policy model had run down their economies into the ground and that change of course had to be undertaken.”- Jagdish Bhagwati. On the other hand, some are of the view that the reform package has been in use for many years in a number of Latin American and African countries and had been known by differing connotations such as the Washington consensus, Structural Adjustment program and Liberalization. The debate will no doubt go on, but acknowledging the fact that the NEP was adopted the question of relevance is why even today, after 20 years of reforms our goals seem distant and another crisis not too far. This article makes an effort to throw light on this issue, discussing the extent of success of the Indian reforms.

The purpose of initiating the reforms was stabilization of the Indian Economy and delivering growth subsequently. Infact, growth was regarded as the primary “instrument”, a strategy for pulling the poor out of poverty through gainful employment, not as an end in itself. No doubt in this span of 20 years India’s economic performance (in terms of various macroeconomic indicators) has been exceptional yet whether this performance can be termed as “inclusive” is questionable. By the term “inclusive” I’m not just talking about the

pace of growth, but its pattern with a view to cover all in the growth process. It allows people to contribute to as well as benefit from economic growth. The initial response to the reforms was an impressive acceleration in annual GDP growth which averaged 6.7% in 1992-97, slowing down a little to 5.7% in 1998-2005 and then accelerating to record levels of 9% just before subprime crisis. The view that India was an “emerging superpower” was now widespread. On the industrial front the reforms have gone a long way towards freeing the domestic economy state control, state monopoly has been abolished and opened to private sector. The license raj is a thing of the past. Though small scale industry reservation still persists but even here progress has been made. The rate of growth of industrial output was progressive as shown in table 1. The Index of Industrial Production (IIP) for 2009-10 was 10.5% with high growth in manufacturing, consumer durables, capital goods and intermediate goods. In the service sector where government regulation has been eased significantly or is less burdensome-such as communication, insurance, asset management and information technology-output has grown rapidly with exports of IT enabled services particularly strong. In those infrastructure sectors which have been open to competition such as telecoms and civil aviation, the private sector has proven to be extremely effective and growth has been phenomenal. The performance of the agricultural sector has not been so impressive. This sector has witnessed a slowdown since 1991. Some like to link it with the NEP yet others like P. Balakrishnan, R. Golait and Pankaj Kumar argue that the slowdown is due to structural factors on the supply side of

Indian agriculture.

The reforms also involved a radical reorientation of foreign investment policy with foreign investment being actively sought not only as preferred means of financing BOP deficits compared with external borrowings, but also it provides access to closely held technology and to global marketing linkages. Both Foreign Direct Investment and portfolio flows have been encouraged in the post-reforms period with positive results in both cases. Besides, the enhanced growth was associated with lifting nearly 200 million of the extreme poor above the poverty line. As far as relative economic outcomes of the disadvantaged groups is concerned, economist Amartya Lahiri have studied India's scheduled castes and scheduled tribes and concluded that the last 20 years of major reforms have seen a sharp improvement in their relative economic fortunes.

No doubt the spillover effects of India's increasing international competitiveness have helped in improving the rate of growth of export earnings making better quality, lower price goods available yet even today after 20 years when the Human Development Index Reports of the World Bank (no matter how much the HDI is criticized) are published, we realize how far we are from our goals.

Despite high growth levels the nation is gripped in poverty, illiteracy, rising inequality and poor health conditions of a large portion of the population. Such a scenario forces us to think whether India as a developing economy is heading on the path of aimless opulence? What will India be like in the future- Brazil or South Korea? Here are some of the depressing facts of

the “emerging superpower”

- 37% people in India live below poverty line. (Tendulkar Committee Report 2009). Keep in mind that Indian standards of poverty measurement are below those of the world.
- 645 million poor living under multi-dimensional poverty index (MPI) in India. (Oxford Poverty and Human Development Initiative 2010)
- 80% of India's population lives on less than \$2 per day. (world Bank 2009)
- About 49% of the world's underweight children, 34% of the worlds stunted children and 46% of the worlds wasted children live in India. (WHO 2009).

These are just some of the stark facts of our country. India's record on social development expenditure has not been satisfactory considering its requirements. It's not just the social sphere that is lagging behind we see that the reform process has not been complete and reforms have not been seen at all in labor markets which continue to be rigid in the hiring and firing processes. Another major failure of the reforms was that the overall growth experience was that of “jobless growth”. There has been little absorption of labor into growing capitalist sector. Taking two decades as a whole organized sector employment has scarcely increased at all and between 2001 and 2008 it has even fallen in absolute terms. The post reform period has also witnessed growing disparities in the distribution of income. We

often come across the government's view that people becoming better off diversify away from food grains to other expenditures and hence acquire lesser calories. How credible is this stance? International experience clearly shows that food grain consumption rises with income until a fairly high level of income (much higher than what the bulk of Indians earn) and then flattens out. In India during the last two decades a rise in per capita real income is accompanied by a decline in per capita food grain intake. (this is also true for calorie intake) This clearly indicates that income distribution within the country is worsening to a point where the bulk of the population is becoming absolutely worse off.

In my opinion too much emphasis is being laid down on growth, and fiscal consolidation as one of the means to achieve this end. We have to realize that the government still has a major role to play, be it in the form of the food security bill or NREGA or any such programme that takes a step towards providing the basic necessities of life. India must bridge the social development gap by increasing public expenditure on social services (food, education, health) and employment generation. We must understand that the relationship between economic progress and social development is not unidirectional rather it's a two way process with each affecting the other. Social development is not just an end in itself but also a precondition of accelerating growth. It's time that we start helping the poor of the country in the true sense, provide them with a standard of living that each man deserves. Such serious issues of hunger, poverty, shelter etc. cannot be discussed in terms of mere trade-offs and fiscal deficits. 20 years have passed, the pie has

grown large enough and distributing it among all people cannot be delayed any further.

Table 1 Growth of Real GDP
(Per cent per year)

	1992-97	1990-02	2002-07	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8
GDPfc	6.6	5.5	7.8	3.8	8.5	7.5	9.4	9.6	9.0
Agriculture	4.8	2.5	2.5	-7.2	10.0	0.0	5.9	3.8	4.5
Industry	7.3	4.3	9.2	7.1	7.4	10.3	10.1	11.0	8.5
Services	7.3	7.9	9.3	7.5	8.5	9.1	10.3	11.1	10.8
Per capita GDP	4.4	3.5	6.1	2.3	6.9	5.8	7.7	8.1	7.5

Source: Central Statistical Organisation (CSO)

Note: Industry includes construction.

QUIZ ANSWERS

1. Stagflation
2. Reebok
3. SverigesRiksbank
4. King Gillette
5. Most stolen book from library
6. Silicon Valley
7. Trishul
8. Henry Ford
9. Bic Mac Index/Tall Latte index
10. Occupy World Street