Economy since 1991 – Need for Growth with Equity Considerations

What is the issue?

With three decades from the 1991 economic reforms, here is a reflection into the performance of the economy over the years and the course corrections needed.

What are the 1991 reforms all about?

- **Objectives**
    1. Address the balance of payments (BoP) crisis
    2. Reform, restructure and modernise the economy, with fundamental changes in the approach and conduct of economic policy.
    3. Improve the productivity and efficiency of the system by creating a more competitive environment.
- So the reforms brought three important changes
    1. Dismantling the vast network of licences, controls and permits that dominated the economic system (Liberalisation)
    2. Redesigning the role of the state and allowing the private sector a larger space to operate within (Privatisation)
    3. Abandoning the inward-looking foreign trade policy and getting integrated with the world economy and trade (Globalisation)
- The last was particularly important as normally the opposite of it is done when faced with a BoP crisis. But instead, the barriers to entry and growth were removed.

How has the economy performed post-1991 liberalisation?

- **Growth Rate -** GDP at factor costgrew annually by
    i. 6.20% between 1992-93 and 2000-01
    ii. 7.69% between 2001-02 and 2010-11
    iii. 6.51% between 2011-12 and 2019-20
- The best performance was between 2005-06 and 2010-11 when the GDP grew by 8.7%.
- This is the highest growth experienced by India over a sustained period of 5 to 6 years (despite the 2008-09 global economic crisis).
- Notably, the recent decline in growth rate started even before the advent of COVID-19.
- **Current Account Deficit (CAD)**

  Current Account Surplus/Deficit = Trade gap + Net current transfers + Net income from abroad

- Simply, CAD is the shortfall between the money flowing in on exports, and the money flowing out on imports.
- A rising CAD shows that the country is becoming **uncompetitive** and the investment climate is getting weak.
- The key changes made in this regard in 1991 were:

  1. opening up of the external sector, which included liberal trade policy
  2. market determined exchange rate
  3. liberal flow of external resources

- Post-reforms period witnessed

  i. a small Current Account Deficit in most of the years
  ii. a small surplus in three years
  iii. exceptions in 2011-12 and 2012-13 as CAD exceeded 4%, but was taken care of quickly

- Foreign exchange reserves showed a substantial increase and has touched $621 billion (August 2021).
- But India still has a high merchandise trade deficit, which is offset to a large extent by the surplus in services.
- **Poverty ratio** - The post-reform period up to 2011-12 saw a significant reduction in poverty ratio.
- The factors were faster growth supplemented by appropriate poverty reduction programmes [Rural Employment Guarantee Scheme, Extended Food Security Scheme].
- As estimated by the erstwhile Planning Commission using the Tendulkar expert group methodology, the overall poverty ratio –
  i. came down from 45.3% in 1993-94 to 37.2% in 2004-05
  ii. further down to 21.9% in 2011-12
- But with a decline in growth rate since 2011-12 and a negative growth in 2020-21, the poverty rate may have increased.

What is the priority now?

- The progressive decline of the growth rate since 2011 is largely driven by the decline in investment rate (5 percentage points since 2010-11).
- While growth is driven by investment and reforms do provide a natural climate for investment, real growth **requires more than reforms**.
- It should take into account the influence of the non-economic factors such as social cohesion and equity.

What should the approach from now on be?

- Focussing on reform agenda which is incremental in character, supplemented by a careful nurturing of the investment climate.
- Identifying the sectors which need reforms for a competitive environment and improved performance efficiency.
- A relook at the financial system, power sector and governance, with Centre and States being joint partners in this.
- Increased focus on social sectors such as health and education in terms of government performance.

- Emphasis on quality beyond the quantitative expansion in service delivery.
- Overall, same economic approach and direction as in the past three decades, with added equity considerations.
- Growth and equity are interdependent i.e., only in an environment of high growth, can equity be pushed aggressively.

Source: The Hindu