

# 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** 

