Today, India doesn't need a paradigm shift of the 1991 reforms, but sector-specific reforms

Growth Won't Be Automatic

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1991 is an important landmark in India's post-Independence history. The country faced a severe economic crisis, triggered largely by a serious balance of payments (BoP) problem. The crisis was converted into an opportunity to effect some fundamental changes in the content and approach to economic policy.

The break with the past came in three important directions. The first was to dismantle the complex regime of licences, permits and controls that dictated almost every facet of production and distribution. Barriers to entry and growth were dismantled. Second, the reversal of the strong bias towards state ownership of means of production and proliferation of public sector utilities (PSUs) in almost every sphere of economic activity. Areas once reserved exclusively for the state were thrown open to private enterprise.

Third, abandoning the inward-looking trade policy. By embracing international trade, India signalled that it was boldly jettisoning its export pessimism and was accepting the challenge and opportunity of integrating into the world economy. Interestingly, this is contrary to what we did normally when faced with a BoP problem.

The management of the external sector is a success story of liberalisation. Except for one or two years like 2008 and 2013 when there was a hiccup, we have had a reasonable record of good performance. Even in these few difficult years, we had sufficient reserves to manage the situation on our own. Of course, we continue to run a current account deficit (CAD). But it is manageable and financing it is no problem. Forex reserves have increased, even though they continue to be the result of financial flows.

On the growth front, the Indian economy has done well in the post-liberalisation period. Looking at the data on GDP with 2011-12 as base, between 1992-93 and 2019-20, the rate of annual growth was 6.4%. With the same base, between 1951-52 and 1990-91, it was 4.2%. Recent revisions in the methodology of computing national income data have made it difficult to make comparisons with earlier data.

With 2004-05 as base, GDP at market price had an impressive growth of 9.4% between 2005-06 and 2007-08. But the new series with 2011-12 as base, gives an average growth of 7.9% for the three years. The growth story, as of now, is a matter of concern. Even according to the new series, there has been a steady decline since 2016-17. This is a pre-Covid phenomenon.

REAL REFORMS 1991→

Nurture Investor Sentiment

The decline in growth rate after five years of strong growth beginning 2005-06 was partly cyclical. The economy had reached the limit of its capacity or potential. Perhaps, the downturn could have been better managed. Reforms do not automatically translate into growth. The investment sentiment must be carefully nurtured.

The fall in investment rate from 39% of GDP in 2011-12 to 34.7% in 2019-20 is steep, and calls for deep introspection. With the decline in growth rate, the employment situation has also deteriorated.

Ball by ball

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The reform agenda of 1991 had an enormous impact. It released the energies of entrepreneurs to build a strong economy. But that reform agenda constituted a paradigm shift. Today, we don't need a paradigm shift. We need to look at individual sectors and see which one of these needs reforms in terms of creating a competitive environment and improving efficiency.

Reforms do attract criticism. The 1991 reforms were dubbed by some as dictated by the International Monetary Fund (IMF) and World Bank. Some criticised some of the reforms as a 'sell-out to capitalists'. Under the shadow of a crisis, some of the reforms in 1991 could be pushed. But today this is no longer possible.

Onus on States

Power sector, the financial system, governance and even agricultural marketing need reforms. But we need a lot more of discussion and consensus-building. Timing and sequencing are also critically important. For example, labour reforms are best introduced when the economy is on the upswing.

Looking at the recent discussions on agricultural marketing reforms, the best course of action now may be to leave these measures to each state to decide whether they want these legislations or not. That will set the stage for experimental economics, and farmers themselves will be able to see the best possible solution for different agricultural crops and conditions.

Some years ago, there was talk about India becoming a $5 trillion economy. We are today a $2.7 trillion economy. To reach the goal of $5 trillion, India needs to grow at 9% a year for at least five years. That is the challenge before us, as growth is the answer to many of our socio-economic problems. It was only during the high-growth period that the poverty ratio came down fast. We were also able to introduce several social safety nets such as extended food security and rural employment guarantee scheme.

Reforms, to be credible and acceptable, must not only result in higher growth but also benefit all sections of society. In that sense, reforms are not ends in themselves. At the same time, equity will remain a dream, if it is not supported by growth spurred by reforms.

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NON-BANKING FINANCIAL COMPANIES