TWO DECADES OF ECONOMIC REFORMS IN INDIA: AN EVALUATION WITH HER PLANNING GOALS

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ABSTRACT

Our rethinking on economic policy had begun in the mid of 1980s. However it was edged within decontrolling and freeing some restriction in the system without making any fundamental changes in the system itself. While the reforms initiated in 1991 were very different mainly because they taken into account the need for a system change, involving liberalisation of state intervention, growing importance of private sector and the integration of the country with the global village. India also has been trying to travel in tune with the changes and reforms that have been in practice in the rest of the world. These new policy measures seek to redefine the role of the state and market so as to improve the productivity and efficiency of the system. The fundamental shift from what we have been practicing in the economic policies our country has invited serious deadlocks and debates. When the international institutions, forum and persona hailed the shift, the national scholars, although, very little in number, at first, questioned the result and the direction of the reforms. The growing loss of faith in the direction and course of the reform is evident from the speech our prime minister, the mastermind of the reform movement in India. This paper is a humble attempt to discuss the rationale of the reform, the major component and appraisal of the economic reforms in our country based on the development goals enlisted in the five year plan viz; (1) A higher rate of growth of GDP, (2) Enlargement of employment potential leading to full employment, (3) Removal of poverty,(4) Promotion of equity in distribution of income and (5) Removal of regional disparity between the rich and the poor states..

Keywords: *Economic reforms, Planning, Women empowerment*, Poverty, Gini's Coefficient.

Introduction:

The great planners and leaders of our nation started their effort in making the country a best place to live in ensuring inclusive and equitable growth immediately after getting independence. For this purpose at the beginning of reconstructing our economy after century long loot and plunder by the foreigners, they deliberately reserved most of the economic activities reserved for public sector. They focused on self-reliance and curbing concentration wealth with a few and to ensure balanced regional development. Hence import-substitution, licenses and controls coupled with dominance of public sector in economic affairs were special characteristics of development strategies till 1991**.**Along with these development strategies they highly focused on five year plan to ensure equitable resource allocation and equitable development. Our leaders set the objective like (1) A higher rate of growth of GDP, (2) Enlargement of employment potential leading to full employment, (3) Removal of poverty, (4) Promotion of equity in distribution of income and (5) Removal of regional disparity between the rich and the poor states for accomplishing a equitable and inclusive growth in our country.

Later we found the strategies we have been following need urgent revision and reforms otherwise we might have been declared pauperised. Hence in an attempt of saving our country from destruction, and with giving enough consideration for the basic objectives of our planning and the principles of our leaders who fought for freeing our country from the clutches exploitation and divide and rule, we thought of restructuring our economy. Thus the year 1991 was a fork in the economic history of India. It has initiated to fundamental changes in economic practices what we have been following in our country since independence. Although we had started rethinking on our economic reforms in the mid of 1980s, we kept the basic elements of our economic policy unchanged. Thus what we stared in 1990s was re-structuring our economy making alterations in various macroeconomic relationship. Of course the economic reforms are based on some objectives like increasing the productivity, increase employment opportunities, increase competitiveness and no doubt we entered with a trust that it would help in improving the overall development of our nation. These new policy measures seek to redefine the role of the state and market so as to improve the productivity and efficiency of the system.

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Review of literature:

The present literatures on the economic reform provide a mixture of expectation, concerns and rationale of the reforms. The over dependence on foreign aid and domestic borrowing which has grown un sustainable since mid of eighties hastened the crisis of 1990s.The failure of the government to strategically tackle the challenges brought by the oil price rise exacerbated the situation (V Joshi and I.M.D Little 1996). The fiscal mismanagement resulting huge hidden subsidies, and removal of which may not be affected the poor in no manner is considered a big contributor to the crisis. In 1987-1988 these hidden subsidies amounted 15 percent of Gross Domestic Product (Mundle and Rao 1991). Considering the effect of reforms on agriculture, although some products were granted protection, the significance of these is disappeared as a result of the un protectionism in cereals and cotton, so that on balance agriculture has been greatly unprotected (Desai 1993). Looking to the Industrial policy we had before reforms, we find that, Indian socialist policy became both bourgeois and elite. Those who promoted these protective policies ignored the fact that they benefited only the relatively well off and excluded large numbers of much poorer people with no jobs in medium or large scale factories (Kumar 1991).When considering the effect on farmers themselves, one must link the removal of subsidies with the higher output prices that would result from trade liberalization. An estimate for 1992- 1993 suggested that output prices might rise by 15-20per cent, which would be more than enough to compensate for the loss of subsidies, which may be about 11 per cent of agricultural GDP. But the experience shows other way around. Hence free trade in agriculture would thus need to be approached slowly (Pursell and Gulati 1995). As the majority of the labor force still works in agriculture, reform of this sector is essential for widespread growth and to reduce income inequalities. Reform measures should enhance both production and marketability of the country's agricultural production (Ahluwalia, M.S 2002). The image of an "India Shining" post 1991 is hardly a representative or fully accurate portrayal of a country where the economic reforms of the 1990s did much to liberalize and stimulate growth; the direct beneficiaries were more affluent urban dwellers. About a quarter of India's one billion-plus population, who constitute a third of the world's poor, continue to live in poverty (World Bank 2004). Wealth is generally more concentrated in urban rather than rural areas where the majority of Indians live. Economic growth also tends to be higher in wealthier states in the south and west such as Gujarat and Maharashtra than poorer states like Bihar, Orissa, and Uttar Pradesh in the north and east (Ahluwalia, M.S 2002). It is evident we have to do much in removing the concentration of wealth and regional disparities in India even after economic reforms which has been in practice since 1991.

Objective of the paper:

The present paper is a humble attempt to examine and evaluate cause, course and curse of the economic reforms in our country for the last two decades. We consider the development goals enlisted by planning commission for evaluating the economic reforms in our country. Hence the important objectives are;

1. To examine the rationale for the economic reforms
2. To look in to the course of the economic reform based on the planning goals.
3. To draw a comprehensive picture of the cause and the course of economic reforms.

Economic Reforms: The Rationale:

What Britishers had handed over to Indian leaders was the shards of century long loot and plunder. India was in her last breath when she was able to stand alone. Therefore from the inception of planning it, growth with social justice and self-reliance has remained the central objectives of development strategy. Import-substitution, licenses and controls coupled with dominant role of public sector in economic activities were the peculiar features of development strategies till July, 1991. License - permit - quota raj led to widespread corruption. The bureaucracy was the principal beneficiary of this system. The Government officials in collusion with the political bosses earned huge money via corruption. Hence, it was increasingly felt to dismantle the system of licensing and controls. Quite a large number of public enterprises which played crucial role in setting up heavy and basic industries; social and economic infrastructure development were king problem of inefficiency and high cost of operation. Further, there was a high pressure of the World Trade Organisation (WTO) to expose Indian industry to face world competition. The performance of the Indian Economy was not up to expectations. It was a time of massive wave all over the world in integrating and developing the nations as a global village. The survival and existence of the economy demanded some modifications and changes. But how long it was in consensus with the great Ideals of our nation for which we fought against the colonial people is a topic hot debate.

Principle Components of Economic Reforms:

Economic reforms in India refer to the set of instruments and strategies adopted since 1991. Liberalisation, privatisation and globalisation are the three constituents of economic reforms.

Liberalisation of the Economy:

In the context of economic reforms, liberalisation refers to shifting of license- dominated regime to de-licensing, deregulation and de-bureaucratisation. Ida has taken following measures towards liberalising the economy. It includes (a) Removal of Industrial Licensing (b) Dereservation of SSI Items and (c) Withdrawing MRTP Restrictions

Privitisation of the economy:

Privitisation refers to any process that reduces the involvement of state or public sector in the economic activities of a nation. In narrow sense, Privitisation refers to the induction of private ownership in a public sector undertaking. In a broader sense, it implies the enlargement of the scope of the private sector in the growth of the economy. Privatisation in the narrow sense can take the following forms: (a) Total De nationalisation, (b) Joint Venture, (c) Workers' Co-operative, (d) Token Privatisation and (e) Disinvestment. Among this a mere change of ownership is not considered sufficient to increase productivity and profitability. For this purpose, other measures like linking wages to productivity, changing promotion policy based on the efficiency of the workers is needed so that a competitive environment is created in which efficiency pricing becomes a norm.

Globalisation of the Economy:

Globalisation means the economic integration of the country with the rest of the world. In other words, it is a process of integrating the various economies of the world without creating any hindrances in the flow of goods and services, technology, capital and labour. This involves four components:(i).Reduction of trade barriers in the form of custom duties or quantitative restrictions or quotas so as to permit free flow of goods and services among different economies; (ii) Creation of an environment in which free flow of capital (or investment) can take place between nation-states; (iii) Creation of an environment for free flow of technology; and (iv) Creation of an environment in which flow of labour or human resources can take place among different countries of the world.

Economic Reforms in India –An Appraisal:

Economic reforms though important cannot be an end in itself. It is only ways to achieve some pre-determined goals and objectives. The subjects of the reforms should not be eliminated or trounced as a result of the objects used. Hence both the end and means are important and should be in good direction. This implies the need to bridge regional, social and economic disparities, as well as the empowerment of the poor and marginalized, especially women, to make the entire development process more inclusive. The draft Twelfth Five Year Plan's subtitle 'Faster, More Inclusive and Sustainable Growth', puts the growth debate in the right perspective. Thus in this section the performance of our national economy in the post and pre reform period is assed using the development goals and inclusive principles forwarded by the five year plan in our country. The important development goals taken as parameters in this paper are; (1) A higher rate of growth of GDP, (2) Enlargement of employment potential leading to full employment,(3) Removal of poverty,(4) Promotion of equity in distribution of income and (5) Removal of regional disparity between the rich and the poor states. On the basis of these goals, economic reforms can be assessed as under;

Rate of Economic Growth:

The growth rate of GDP is considered as an important measure to assess the performance of the economy. It is argued by the proponents of economic growth that the reform process accelerates the economic growth. The annual average growth rate of GDP during the post after 1991, the post reform period was high compared to pre reform period.

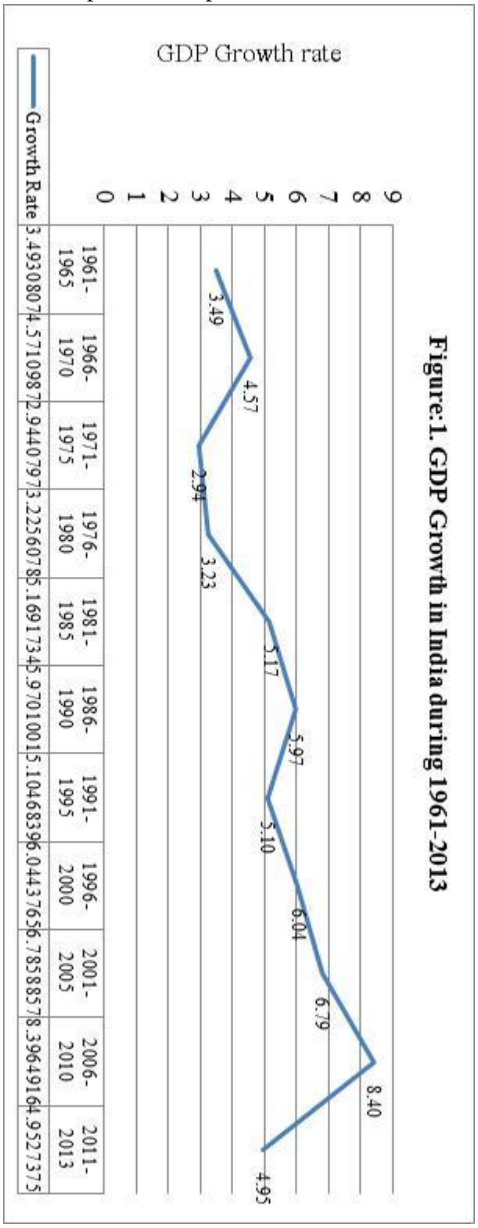


Figure:1. GDP Growth in India during 1961-2013

Source: Developed from World Bank Database 2013

The average growth rate for the period between 1992 to 2012 accounts 6.7% per annum where as it was only about 5.2 per cent during the pre-reform period between1980-81 to 1990-91.However the growing concern in maintaining the previous growth has invited serious debates and discussion in both the academics and politics. We witness high volatility and sharp decline in GDP to less than it was in pre reform period. It has come to a mere 3.2 percent in 2012 while it was 10 percent in 2010.

Growth of Employment:

Employment generation is one important goal of both our planning and economic reforms. But from the data we find the employment which grew at 1.20 per cent per annum during1983-1994 but decelerated to 0.03 per cent per annum during 1994-2007.So also the growth rate of employment declined from 2.39 per cent per annum during 1983 and 1990-91 to a mere 1 per cent per annum during 1990-91 to 1999 - 2000. The growth rate of employment in organised sector was merely 0.6 per cent. This was just one-third of the growth of employment witnessed in the pre-reform period. The growth rate of unorganised sector which was of the order of 2.4 1 per cent during the pre-reform period 1983 to 1990-91, also, declined to 1.1 per cent in the post-reform period. Thus, decline in the employment indicates the state of jobless growth. The sharp slowdown in employment was also noted by The Report of Special Group constituted later by the Planning Commission. Based on Current Daily Status criteria, the results of the Special Group reveal that the observed workforce growth dropped down from 2.7 percent between1983 – 1993 to 1.07 percent per annum during 1993 – 1999. This has happened against a rising GDP growth from 5.2 to 6.7 percent respectively for the same period.

During the pre-reform period, of the total man days lost, 53.8 per cent were accounted for by the strikes and remaining 4432 per cent were due to the lockouts. However, in the post-reform period, i.e., 1991-2000, the proportion of the man days lost due to strikes came down to 39.8 per cent and share of lockouts increased to 60.2 per cent. Thus, in the post-reform period, proportion of man days lost due to lockouts was much higher in the post-reform period than in the pre-reform period. This shows that due to privatisation and policy of reform, the employers' militancy has increased and the workers have been put in much vulnerable position. The quality of employment has also deteriorated in the post-reform period. The share of casual labour in the total workforce which was 32 per cent in 1993-94 rose to 33.2 per cent in 1999-2000. All these facts indicate that labour has been adversely affected by the economic reforms.

Poverty and inequality:

The poverty ratio declined from 36 per cent to 26.1 per cent in 1999-2000. However, the rate of poverty reduction which was around 3.1 per cent per annum during the period 1983-1991 reversed to 1 per cent in the 1990s, i.e., between 1991 and 1997. Thus, an inverse relationship is observed between GDP growth and poverty reduction. This reflects that the benefits of growth do not reach to the poor.

In the case of inequality amidst all the programmes and slogans for reducing inequality and inclusion in India the inequality is still growing or even worsening.

The Gini measure shows an increasing trend from 30 to 32 in the post reform period. Another indicator is the quintile income ratio, which is a measure of average income of the richest 20 per cent of the population to that of poorest 20 per cent. The quintile income ratio for India was 4.2 for the period 1983 to 1991, but it has grown to 5.01 in 2010 even after passing ten years the reform measures in the country.

Figure:2.Gini Ratio after Reforms

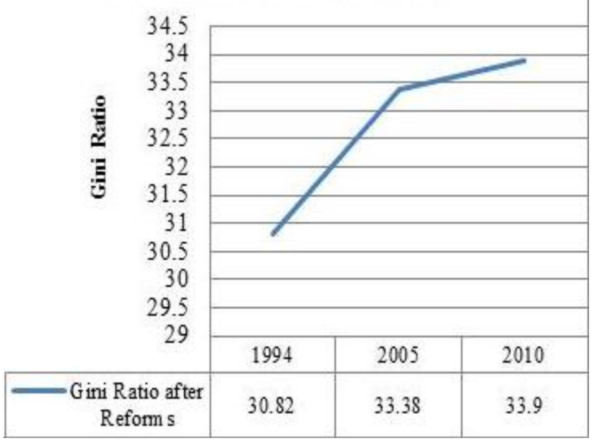
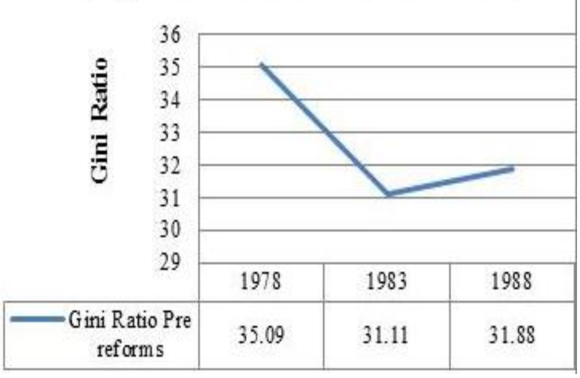


Figure:3.Gini Ratio Pre reform Period



Source: Developed from World Bank Data base 2013

Regional disparity:

Economic reforms have aggravated regional disparities by favouring the forward states. The ratio of maximum and minimum Net State Domestic Product (NSDP) has increased from 2.7 in 1990-91 to 4.6 in 2000-01. Thus, regional disparities in terms of growth of NSDP - both total and per capita - has widened further.

Women empowerment:

Women empowerment is considered as the new mantra of inclusive and sustainable development and poverty eradication. However when we are examining the performance of the women folk in finding their space in the active life of the economy, one important determinant of women empowerment, we find that the un employment, female(percentage of female labor force) has increased from 3.9 percent in 1994 to 4.3 percent in 2010.

Table:1.Rate of female labour force participation

Year	1990-1994	1995-1999	2000-2004	2005-2009	2010	2011
Labor force participation rate, female (% of female population ages 15-24)	30.2	28.18	27.24	24.3	19.4	19.2
Labor force participation rate, female (% of female population ages 15-64)	36.94	36.66	37.08	35.32	30.3	30.3

Source: Computed from World Bank Data Base 2013

In the case of Youth female labor force participation rate, female (% of female population ages 15-24) it has decline from 30.2 percent in1990 - 1994 to 19.2 in 2011.Like wise the total female labour force participation rate was 36.94 percent in 1990-1994 which was declined to 30.3 percent in 2011.It is very evident from the figures that the women folk is finding it difficult or they are thrown away from active participation

Balanced Growth:

Balanced growth is an important determinant in reducing both the regional and inters personal disparities. It implies the growth of the different sectors according the overall of growth activities in the country. It helps in guarding from undue fluctuation and in promoting inclusive growth. Growth of a particular sector will lead to multiple distortions in the resource allocation, resource utilization and resource distribution.

Figure:4.Sectorial Value added (annual % growth)

Source: Developed from World Bank Data Base 2013

We witness to the lowest level of value added even after we adopted technology and modernization. We still remain in a state what were in pre reform period. Both the service sector and industry has shown an increasing trend in value added percentage growth with an exception of recent phenomena. But it was not

Table 2: Percentage Sectoral Contribution to GDP 1961-2012

Year	1961-1965	19661 970	1971-1975	1976-1980	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2010	2011-2012
Agriculture	41.32	43.02	40.36	35.47	32.72	29.42	28.27	25.32	20.47	18.01	17.47
Industry	20.23	19.75	21.27	24.04	25.36	26.12	26.1	26.05	26.7	28.3	26.24
Services, etc.	38.45	37.23	38.37	40.49	41.92	44.45	45.64	48.64	52.83	53.69	56.29
Manufacture	14.45	13.18	14.75	16.21	16.06	15.99	15.87	15.57	15.03	15.48	13.95

Source: Compiled from World Bank data base for India 2013

appreciable when we are examining the value added growth in industrial and manufacturing sector. In the case of self-employed which included the employed in their own business or with a partner who create employment for themselves has been showing declining trend.

It was 1.9 percent in 1994 which was dropped in to 1.1 percent in 2010.The figure 4 says that in the case of agriculture the value added percentage growth has decline from 4.3 percent in 1980-1990 to 2.8 percent in 1991-2000. The low levels of value added may lead to lopsided growth with an exclusion of lion share of Indian population in attaining the income even at least for their subsistence.

From table 2 we can see that regarding the percentage contribution to GDP the service sector shows an appreciating growth. It has galloped from 42 percent in 1981-1985 to 56.3 percent in 2011-2012.But our performance in the case of industry and manufacturing is not satisfactory. It exhibits nearly a stagnated level of performance. This increases our concern on the direction and the result of the reforms. Moreover in the case of agriculture where the majority of Indians find their living exhibits sharp decreasing trend in term of its contribution towards GDP. It was 42 percent in 1961-1965 and 31 percent in 1981-1990 but it drastically declined to 17.4 percent. This might be what is reflected in less growth of employment, increasing poverty and inequality in our country.

Conclusion:

The great planners our nation was in a struggle to relive a plundered and deteriorated nation when she was awaken to new dawn to redefine her destiny. Hence from the inception of planning, growth with social justice and self-reliance have been the central objectives of development strategy. They adopted mixed economy with simultaneous existence of strong centre with sufficient importance to the private participation. Strategically import substitution, licenses and controls coupled with dominant role of public sector in economic activities were the peculiar features of development strategy (popularly known as License Permit Quota Raj) till July, 1991. Unfortunately the policy adopted for re constructing a looted home upholding her invaluable principles of justice, equality and inclusiveness led to widespread corruption and inefficiency. The economic reforms introduced since July, 1991 seek to redefine the role of state and market. Liberalisation, privatisation and globalisation are the three constituents of economic reforms. Except for five industries, all industrial licensing have been abolished. Small-scale industries have been forced to face domestic and international competition. Total de-nationalisation, joint venture, workers' cooperatives, etc. are the various forms of privatisation. Due to various reasons, privatisation is resisted by the trade unions. Globalisation is the process of integrating the various economies of the world through flow of goods and services, capital, technology and labour. Due to globalisation, India's export earnings particularly our net software earnings have improved. While in the post-reform period, the growth performance of Indian Economy has been quite impressive, the decline in the employment growth rate, deterioration in the quality of employment, slowing down the poverty reduction rate, neglecting of agriculture sector, widening regional disparities, growing in equality and lack of inclusive growth all demand the present paradigm a shift to more inclusive and growth oriented one.

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