

## 1991 REFORM : A WATERSHED IN INDIAN ECONOMY

### FOR MAINS:

- Context
- 1991 economic reforms
- How changes were made?
- Growth rate after liberalisation
- Current Account Deficit after liberalisation
- Poverty reduction after liberalisation
- Reasons for unequal performance of economy after liberalisation
- Recent government measures
- Way forward

### CONTEXT:

The 1991 economic reforms were the most needed during those times, termed rightly as 'Liberalisation'. What are the benefits we now see in the future and what moves must be taken next?

### 1991 ECONOMIC REFORMS

- This was the year in which the **economy was faced with a severe balance of payments crisis**. In response, we launched a wide-ranging economic programme, not just to restore the balance of payments but to reform, restructure and modernise the economy.
- The **year 1991 is a milestone in the history of independent India**. It was a year in which, in the words of Congress leader Jairam Ramesh, action, drama and outcome were everything.
- **Situation in 1990s that led to reform:**
  - The country was facing an acute economic crisis, which was triggered by an **increase in world crude oil prices** following Saddam Hussein's onslaught of Kuwait in August 1990.
  - The **balance of payments (BoP)** situation became unmanageable. There was a sharp reduction in the forex reserve due to a sharp decline in capital inflows. It was a serious threat to the sustainability of the growth process. India was close to default.
- The **reforms began with the devaluation of the rupee** on July 1, 1991, followed by a second round of transfer of a total of 46.91 tonnes of gold from the reserve assets of the RBI in Mumbai to the Bank of England, which enabled India to borrow \$400 million to solve its liquidity problems.

### HOW CHANGES WERE MADE?

- The **three important steps** which were taken to rise from the pathetic conditions of 1990s were:

- dismantling the vast network of **licences**, controls and permits that dominated the economic system.
- redesigning the **role of the state** and allowing the private sector a larger space to operate within,
- abandoning the inward looking foreign trade policy and getting integrated with the world economy and **trade**. The last was particularly important because it was the opposite of what we normally did when faced with a balance of payments crisis.
- **The trio of Manmohan- Rao - Chidambaram were the sparks of these reforms:**
  - Dr. Manmohan Singh as Finance Minister articulated the need for change and provided not only the broad framework but also the details of the reforms.
  - P.V. Narasimha Rao as Prime Minister gave the valuable political support and shield which were very much needed, and also held the portfolio of Industry which was directly responsible for initiating the changes that led to the dismantling of various types of controls and licences related to the industrial sector.
  - At the ministerial level, strong support came from P. Chidambaram as Commerce Minister who oversaw the transformation of the external sector.

#### **GROWTH RATE AFTER LIBERALISATION**

- Between 1992--93 and 2000--01, GDP at factor cost grew annually by 6.20%.
- Between 2001--02 and 2010--11, it grew by 7.69% and the growth rate between 2011--12 and 2019--20, was 6.51%.
- The best performance was between 2005--06 and 2010--11 when the GDP grew by 8.7% showing clearly what the potential growth rate of India was. This is the highest growth experienced by India over a sustained period of five to six years.
- This is despite the fact that this period included the global crisis year of 2008--09.
- The recent decline in growth rate which started even before the advent of COVID--19 should make policymakers reflect and introspect.

#### **CURRENT ACCOUNT DEFICIT AFTER LIBERALISATION**

- The balance of payments situation had remained comfortable. There were three years in which the current account showed a small surplus.
- Most of the years showed a small deficit.
- The exceptions were 2011--12 and 2012--13 when the current account deficit exceeded 4%. This was taken care of quickly.
- Foreign exchange reserves showed a substantial increase and touched \$621 billion as of last week.
- The opening up of the external sector, which included liberal trade policy, market determined exchange rate and a liberal flow of external resources, has greatly strengthened the external sector.
- Of course, we still run a high merchandise trade deficit which is off-set to a large extent by the surplus in services.

## POVERTY REDUCTION AFTER LIBERALISATION

- Besides growth, the other major objective of economic policy is to reduce the number of people living below the poverty line.
- Going by the procedure adopted by the then Planning Commission using the Tendulkar expert group methodology, the overall poverty ratio came down from 45.3% in 1993--94 to 37.2% in 2004--05 and further down to 21.9% in 2011--12.
- The per year reduction in percentage points in poverty ratio between 2004--05 and 2011--12 was 2.18.
- The post-re-form period up to 2011--12 did see a significant reduction in poverty ratio because of faster growth supplemented by appropriate poverty reduction programmes such as the Rural Employment Guarantee Scheme and the Extended Food Security Scheme.
- With the decline in growth rate since then and with a negative growth in 2020--21, this trend must have reversed, i.e. the poverty rate may have increased.

## REASONS FOR UNEQUAL PERFORMANCE OF ECONOMY AFTER LIBERALISATION

- It is the **decline in investment rate** of nearly five percentage points since 2010--11 that has led to the progressive decline of the growth rate.
- **Growth requires more than reforms.** Reforms are, in the words of economists, only a necessary condition. It is not sufficient.
- The '**animal spirits**', **influenced by non-economic factors such as social cohesion**, didn't allowed the creation of suitable conditions for large-scale investment.

## RECENT GOVERNMENT MEASURES

- The Government announced a **special economic and comprehensive package under AtmaNirbhar Bharat** including measures taken by RBI amounting to about Rs. 27.1 lakh crore – more than 13 per cent of India's GDP– to combat the impact of the COVID-19 pandemic and to revive economic growth.
  - **Under Pradhan Mantri Garib Kalyan Package** valued at Rs. 2.76 lakh crore, free food grain for 80 crore people, free cooking gas for 8 crore families, and direct cash transfer to over 40 crore farmers, women, elderly, the poor and the needy were provided.
  - A total of 323.19 crore person-days have been generated in the current FY 2020-21 under **MGNREGS**.
  - Under **Pradhan Mantri Garib Kalyan Rojgar Abhiyan**, 50.78 crore person-days of employment was generated incurring an expenditure of Rs. 39,293 crore.
  - Rs. 3 lakh crore **Collateral-free Automatic Loans for Businesses, including MSMEs:**
    - Under Emergency Credit Line Guarantee Scheme (ECLGS) 1.0, Rs. 2.14 lakh crore has been sanctioned to 90.57 lakh borrowers
    - Additionally, ECLGS has been extended to 26 stressed sectors identified by the Kamath Committee and the healthcare sector
    - Additional credit amounting to Rs. 15,571 crore has been sanctioned to 2,772 borrowers under ECLGS 2.0.

- Rs. 45,000 crore **Partial Credit Guarantee Scheme 2.0** for NBFCs are being provided.
- Rs. 30,000 crore Additional Emergency Working Capital Funding for farmers through **NABARD** is being provided.
- Centre had enhanced the borrowing limit for the States from 3% to 5% of GSDP for FY 2020-21.
- Rs. 50,000 crore liquidity through TDS/TCS rate reduction has been effected.
- The **Union Budget 2021-22** has also announced a number of measures to support broad-based and inclusive economic development under six pillars listed as under:
  - Health and Well-being
    - A holistic approach to strengthen healthcare with focus on three areas- Preventive, Curative, and Wellbeing
    - Rs. 35,000 crore for COVID-19 vaccine.
    - Roll out of Made-in-India Pneumococcal Vaccine across the country
    - Launching of a new centrally sponsored scheme PM AtmaNirbhar Swasth Bharat Yojana in addition to National Health Mission, Mission Poshan 2.0
    - Universal Coverage of Water Supply
    - Urban Swachh Bharat Mission 2.0 etc.
  - Physical & Financial Capital, and Infrastructure
    - Production Linked Incentive scheme (PLI) in 13 Sectors,
    - Mega Investment Textiles Parks (MITRA)
    - 7 Textile Parks
    - Expansion of National Infrastructure Pipeline (NIP) to 7,400 projects.
    - Launching of National Hydrogen Energy Mission 2021-22
    - Extension of Ujjwala Scheme to cover 1 crore more beneficiaries
    - Development of a world class Fin-Tech hub
    - Increasing FDI limit in insurance sector from 49 percent to 74 percent
    - Setting up of Asset Reconstruction Company.
  - Inclusive Development for Aspirational India
    - Key measures include ensuring MSP at minimum 1.5 times the cost of production across all commodities
    - Extension of SWAMITVA Scheme to all States/UTs, enhancing agricultural credit and infrastructure funds
    - Investments to develop modern fishing harbours and fish landing centres
    - One Nation One Ration Card
    - Rs. 15,700 crore budget allocation to MSME Sector, etc.
  - Reinvigorating Human Capital
    - Key measures include qualitative strengthening of 15,000 schools under National Education Policy
    - Setting up of 100 new Sainik Schools, Higher Education Commission of India, Central University in Leh, 750 Eklavya model residential schools in tribal areas
    - Revamped Post Matric Scholarship Scheme for welfare of SCs
    - Measures to enhance skilling like realignment of existing National Apprenticeship Training Scheme (NATS), etc.

- Minimum Government and Maximum Governance
  - Key measures include reforms to rationalize the functioning of Tribunals
  - National Commission for Allied Healthcare Professionals Bill in Parliament to ensure transparent and efficient regulation of the 56 allied healthcare professions
  - National Nursing and Midwifery Commission Bill to bring transparency, efficiency and governance reforms in the nursing profession
  - Setting up of a Conciliation Mechanism for quick resolution of contractual disputes.

## WAY FORWARD

- Reforms along with careful and well-planned policy for investment is required.
- Policymakers should identify the sectors which need reforms in terms of creating a competitive environment and improving the performance efficiency.
- We need to focus on the financial system, power sector and governance.
- The Centre and States must be joint partners in this effort.
- In terms of government performance, there should be increased focus on social sectors such as health and education. In terms of the provision of services, the emphasis must be not just on quantity but quality too.

## Sources

- The Indian Express
- The Hindu
- PIB