Growth needs steps beyond reforms

(Mains GS 3 :Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.)

Context:

- The Indian economy has travelled through an eventful period through the last three decades.
- In the post-independence economic history of our country, 1991 stands out as a watershed year as the economy was faced with a severe balance of payments crisis.

Crisis converted into an opportunity:

- In response to the crisis of 1991, the government launched a wide-ranging economic programme, not just to restore the balance of payments but to reform, restructure and modernise the economy.
- Thus, the crisis was converted into an opportunity to bring about fundamental changes in the approach and conduct of economic policy.
- A near tragedy was averted and a new path was laid out before the country.

The shift and the key players:

- It is important to recognise in what way the new regime was different from the earlier one.
- The break with the past came in three important ways: in dismantling the vast network of licences, controls and permits that dominated the economic system; in redesigning the role of the state and allowing the private sector a larger space to operate within, and in abandoning the inward looking foreign trade policy and getting integrated with the world economy and trade.

- The integration with the world economy was particularly important because it was the opposite of what we normally did when faced with a balance of payments crisis.

The metrics:

- There is a common thread running through the various measures introduced since 1991.
- The objective has been to improve the productivity and efficiency of the system by creating a more competitive environment by removing barriers to entry and growth.
- It is therefore appropriate to look at three broad parameters to judge the performance of the economy after liberalisation — growth rate, current account deficit and poverty reduction.

Growth rate of the country:

- 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 despite the fact that this period included the global crisis year of 2008-09.

The Foreign reserves:

- The balance of payments situation had remained comfortable.
- There were three years in which the current account showed a small surplus; however, most of the years showed a small deficit.
- The exceptions were 2011-12 and 2012-13 when the current account deficit exceeded 4%.
- 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.

Poverty ratio in the country:

- Besides growth, the other major objective of economic policy is to reduce the number of people living below the poverty line.
- There are many problems associated with the definition of poverty and the kind of data required to measure it.
- Going by the procedure adopted by the erstwhile 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-reform 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 might have reversed, i.e. the poverty rate may have increased.

Reforms with growth in investment needed:

- Economic growth requires more than reforms and reforms are, in the words of economists, only a necessary condition.
- In a developing economy, growth is driven by investment.
- 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.
- Reforms normally create a natural climate for investment but ‘animal spirits’ are also influenced by non-economic factors such as social cohesion.
- Thus reforms supplemented by a careful nurturing of the investment climate are needed to spur growth again.

Need for continuity:

- The reform agenda must continue as it will be incremental in character.
- Policymakers should identify the sectors which need reforms in terms of creating a competitive environment and improving the performance efficiency.
- From this angle, stakeholders need to take a relook at the financial system, power sector and governance where 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 quantitative expansion but also quality.

Conclusion:

- Reforms are necessary to improve the productivity of the economy and achieve higher growth.
- But stakeholders cannot ignore equity considerations as growth and equity must go together.
- It is only in an environment of high growth, equity can be pushed aggressively.