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SUSTAINABLE DEVELOPMENT UNDER LIBERALISATION REGIME IN INDIA – SOME MYTHS AND REALITIES

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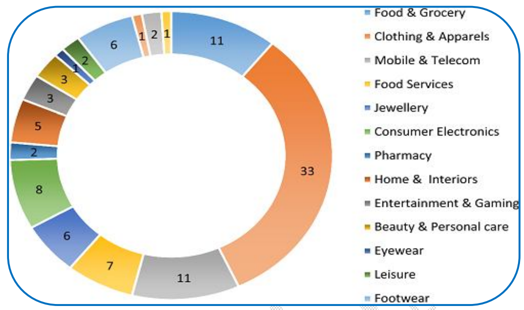

ABSTRACT :

Economic reforms were initiated in mid-1991 because of issues like insurmountable external debt, unmanageable balance of payments circumstances, high chance of acceleration within the rate of inflation and therefore the underlying fiscal problems. The peripheral factors like the Gulf war and the disintegration of the Soviet economy have also contributed a bit to this disaster. With a view to tide over the unprecedented economic crisis and ensuring the sustainability of the growth process, it was considered necessary to introduce certain major policy reforms on industrial, trade and public sector fronts, almost simultaneously with measures of stabilization for reduction in fiscal and current account deficits. The reforms aimed at fundamental shift towards greater reliance on the market mechanism to allocate resources and influence decision making. In the initial budget speech in 1991 by the finance minister Dr. Manmohan Singh said that 'the idea of the emergence of India as a front ranking powerhouse of the world economy was an idea whose time had indeed come". Quoting Victor Hugo, he furthermore mentioned that 'no power on earth can stop an idea whose time had come'.

KEYWORDS : *Sustainability – Conditions – Economic Reforms – Impact – Measurements .*

INTRODUCTION

After the introduction of new economic reforms a span of 25 years soon since India embarked on big-bang economic reforms in 1991. Prof. Tendulkar in cooperation with Bhavani has analysed in an article titled "Understanding Economic Reforms: Post-1991 India" about the aspects that initiated the reforms since 1991. In this book, the authors shown how despite low income, regional politics, and coalition governments at the centre, these reforms enabled faster and sustained economic growth. They also mention that change in economic system has both positive and negative consequences and the choice can only be made on the basis of a judgment about the balance.

It is well acknowledged that we have moved away from 'Hindu Rate of Growth' in the last three and half decades. There is a discussion on the turning point and structural breaks in economic growth in the country. Nayyar (2006) believes that the turning point in the early 1950s was very much important than the structural break in the early 1980s. Inspite of low growth during the period 1950-1980, there were some achievements such as construction of institutional capacities, expansion of social institutions and legal framework for a market economy, precedence have been given to science and technology, establishment of capital goods sector etc. Thus, one view is that the base created during the first three decades after independence helped during the reform period since 1991.

Some argued that the turning point started in the Fifth Plan itself. Growth rate of GDP was 5% during 1974-79 period. According to this view, one of the reasons for this break could be increase in savings rate for household sector and public sector. Bank nationalization in 1969 could have helped in mobilizing savings in both rural and urban areas.

GROWTH OF GDP AND LIBERALISATION

Everybody will agree that economic growth in terms of GDP since 1980s was greatly higher than the period between 1950 and 1970. Some studies indicated that the true break occurred in the 1980s. According to some analysts, the growth in the 1980s was not sustainable and the real break occurred in 1991 because of economic liberalisation. There is no doubt, growth and other macro indicators have been much better since 1991. As shown in Table 1, growth rates of Gross Domestic Product has increased considerably in the post-reform period led by service sector growth. The development rate of Gross Domestic Product growth in the 25 years of reform period has been 6.5 per cent per annum. The growth rate was nearly 9 per cent per annum during 2003-04 to 2007-09. In the last 1.5 decades, the increase rate has been around 7 per cent per annum. Service sector growth was 7 to 9 per cent per annum in the last two and half decades. Industrial growth was the highest in 2000s. Furthermore, agricultural growth within the last one and half decades was lower than those of 1990s and 1980s. The average growth of the last five years in agriculture was around 1.7 per cent per annum.

In the post-reform period India has done well in many indicators such as economic growth, exports, balance of payments, and resilience to external shocks, service sector growth, and major growth of foreign exchange, information technology, stock market and improvements in telecommunications.

After big-bang reforms in the early 1990s, India has pursued a gradualist approach. Two factors Gradualism or calibration could be the due reason. First, it is better to be cautious instead of taking too many risks as India can't afford too many risks with so many poor people. Second one is where you do not need caution but you have to be gradual and slow due to compulsions of the democratic process in a very large and heterogeneous country. You need consultation and consensus building which often takes time. One good feature of Indian elections in recent years is that people are also voting for development apart from other factors.

Table 1: Growth in Real GDP (% per annum)

Period	Agriculture	Industry	Services	GDP
1950s	2.7	5.6	3.9	3.6
1960s	2.5	6.3	4.8	4.0
1970s	1.3	3.6	4.4	2.9
1980s	4.4	5.9	6.5	5.6
1990s	3.2	5.7	7.3	5.8
2000s	2.5	7.7	8.6	7.2
2011-2 to 2015-16 (NS)	1.7	5.5	8.9	6.5

NS= New series with 2017-18 base, Note: New series refer to Gross value added (GVA) at basic prices; 2015-16 numbers are advance estimates; Numbers upto 2000s are based on 2004-05 base, GDP at factor cost. Source: Author's estimates for 2011-12 to 2015-16 based on Central Statistical Organization data. Panda (2013) upto 2000s.

Political Economy of Reforms: **Tendulkar and Bhavani (2007)** discuss some individual schemes beneath political economy of reforms. They cope with four selective specific reform initiatives to demonstrate the evolving political economy of interested group politics that determines the future lane. They classify the reform measures into three broad groups keeping in mind the coalition politics. These are:

1) Measures accepted by an agency rather than the central government like the financial sector and exchange rate reforms carried out by the Reserve Bank of India.
2) Measures that lie within the discretionary powers of the government;
3) Measures that require legislative amendments.

According to them, given the constraints of democracy, diversity and coalition politics, the progress of reforms can be fastest in category (a), slow in category (b) and extremely difficult in category (c). In the current context of disruptions to Parliament, their observation on the whole on category 'c' is more relevant now.

They select two procedural and two institutional reforms to bring out both the strengths and weaknesses of coalition politics. In the case of two procedural initiatives (a) liberalization of domestic and international private investment and (b) liberalization of international trade in goods and services, the progress in reforms was rapid. The two institutional procedures are (a) privatization of government owned commercial enterprises and (b) organized labour market reforms. There was a partial success in the case of privatization while in the case of labour reforms, one observed emergence of informal labour flexibility.

GLOBALISATION OF INDIAN ECONOMY

Indian economy with more than 2 trillion dollars in 2016 is different from 1991. The country is added integration globally now as compared to the year when reforms started. The global economic crisis that originated in the US in the year 2008 transmitted to rising market economies like India. Again continued global delay within the previous few years had unpleasant impact on India's economy as the value of exports declined considerably in the last one year.

India has the potential to achieve 8 to 9 per cent GDP growth. In order to have higher and sustainable growth, the country needs to have appropriate policies and implementing systems. For raising growth investment should be revived mostly in the private investment. There is a debt problem for private sector. It may take some time for revival of private investment and climate has to be created. Global economic situation is not in good shape. There has been a slowdown in Europe. Brazil and Russia were not doing well among the BRIC countries. The slow-down in China is particularly worrying. Exports in India showed negative growth consecutively in the last 13 months. Therefore, one has to concentrate on domestic economy. Public investment in infrastructure and other areas is crucial as counter-cyclical measure to revive the economy. This can also raise private investment.

The problem of large NPAs (non-performing assets) in public sector banks has to be resolved. Political economy with crony capitalism and political interference are visible particularly in public sector banks. Public investment is important at this stage even if it involves small deviation from the fiscal deficit target. There can be small deviation in the targets but one should stick to medium term announcements. Revenue deficit has to be reduced to zero over time. Both the objectives of raising public investment and sticking to fiscal deficits can be achieved if non-merit subsidies are removed and disinvestment targets are achieved. On corporate tax, reduction in the rate must be accompanied by reduction in exemptions, which are in the tune of Rs.5.8 lakh crores. This can be used for infrastructure and social sector development. Financial policy by reducing repo rate has tried to get better credit and investment growth. However, financial transmission to other banks has not happened.

The erstwhile NDA-led government has undertaken several reform measures in the last one and half years. The second generation reforms should be continued to improve growth although it looks like introduction of Goods and Services Tax (GST) may get delayed. Land acquisition and labour market issues should be left to states. There is a requirement for additional improvement in the rank of 'doing business' in India. Among the other articles, introduction of impoverishment laws can help in improving business environment.

FIVE FAILURES

In the last 25 years of reform episode, India has done well and one can see major visible changes. But, there are some failures in policies, processes and outcomes within the post-reform stage.

There are five failures which, are elaborated below. There is a need to focus on these five areas in short and long terms.

(a) Slow Infrastructure development

Although there's bunch of progresses, most of the indicators score poorly if one appears at India's infrastructure mostly compared with countries like China. For example, power shortage is perennial in India. This is one of the distinct biggest constraints for our growth. Meeting the energy requisites for growth of this magnitude in a sustainable manner presents a most important challenge. However, there are positives during 11th five year plan. During 12h Plan period, out of one trillion dollars projected, 47% investment is expected to be from private sector. It is not shocking that the indicator of infrastructure across states is highly associated with per capita income and level of poverty. In the post-reform phase, we have much greater dependence on private investment through different forms of public-private partnerships (PPPs) than was the case when the reforms started. PPPs have not met the expectations. Ahluwalia (2012) said, "policy is being framed such that PPPs should be a means of bringing private money into public projects and not siphoning public money into private projects!". May be a different approach is needed on PPPs. Moreover clearances on the surroundings and land acquisition must be faster so that investments can be improved. Similarly ease of doing business in India has to be undertaken. Vijay Kelkar committee's recommendations would be useful to revive PPP in infrastructure projects. Particularly energy security is important for economic growth and also providing power to many households.

(b) Failure in increasing labour intensive manufacturing

Rise in manufacturing employment is need of the hour. Share of manufacturing in total employment has been almost stagnant at 11 to 12 per cent for a long time. It increased marginally to 13 per cent in 2011- 12. In 2010, India accounts for 1.4 percent exports of the world manufactures while the share of China is a whopping 15 percent. The reforms since 1991 have not been comprehensive enough to remove the bias towards capital and skill intensive industries. Also there are distortions in input markets like land and labour. For example, Prof. Tendulkar strongly believed that among other things, labour market reforms were one of the key factors for revival of manufacturing sector particularly in the organized sector.

A study by Ramaswamy and Agarwal (2013) powerfully suggested that services sector would be an unlikely target for the millions of low skilled unemployed. India must target on production sector to produce large scale employment. Manufacturing has the ability because it has stronger backward linkages dissimilar the services sector. We cannot afford to neglect manufacturing at this stage of development. The policy signals have to clearly say that we stand to support manufacturing activity in a big way. India requires focusing on manufacturing sector so as to provide large scale employment. Manufacturing has the potential as a result of it has stronger backward linkages. We cannot afford to neglect manufacturing at this stage of development. Labour strength of organizing manufacturing sector has to be enhanced apart from increasing the productivity of employment in SMEs and unorganized manufacturing.

(c) Not taking advantage of demographic dividend

It is identified that with demographic dividend, there will be large numbers connecting labour force. Labour force in India is expected to increase by 32 per cent while it will decline by nearly 5.0 per cent in China over the next 20 years. India is meant to possess surplus of 56 million whereas the remainder of the world will have shortage of 47 million working population. Demographic dividend varies across regions. Northern states will have youth population (dependency ratio in Bihar 1.05, UP 1.08). The Southern states have already started aging (dependency ratio TN 1.74, Kerala 1.79). There has been sluggish progress in education and skill levels of workers. Youth population is an asset only if it is educated, skilled and finds productive employment. During the Twelfth Five Year Plan (2012-17), 50 million non-farm employment opportunities are proposed to be created and at least equivalent number of people would be provided skill certification. There are vast challenges in increasing education and skills of workers and population.

In India, education and skills of employees is low though it has been rising over time. As shown in Table 2 even in 2011-12, around 78 per cent of rural female, 56 per cent of rural males, 47 per cent of urban females and 30 per cent of urban males are either illiterate or have been educated upto primary level. Only about 5 per cent of rural females and 13 per cent of rural males have education higher secondary and above. In the case of urban employees, the share of graduates and higher rose significantly particularly for urban females.

Regarding skill development, only 10 per cent of the workforce in the age group of 15-59 years received some form of vocational training in 2009-10. The percentage of workers who received vocational training was the highest in the service sector with 33 per cent. This is pursued by manufacturing (31 per cent), agriculture (27 per cent). In the non-manufacturing and allied activities only 9 per cent had vocational training (GOI, 2013). The main issue is that huge majority of employees have non-formal vocational education. Only 11 million workers had formal training while 33 million workers had non-formal training. The present government has also emphasized the importance of skill development. This has to be given priority to take advantage of demographic dividend.

(d) Slow social sector development

Though there have been achievements in the social sector during the reform period, the movement has been very slow. India has succeeded in the growth but there is a failure in progress of social indicators. India is not only behind china but the growth is slower than many other Asian countries. It is identified that India's rank of Human Development Index (HDI) is lower compared to many other developing countries. Basically the argument is that compared to economic development, reduction in inequality, hunger, and malnutrition is much slower. Improvement in health and quality of education is slower. There is disconnection between economic growth and malnutrition. Slow reduction in malnutrition is one among the failures within the post-reform stage. We know that the solutions belongs improving agriculture, health, women empowerment and nutrition programs. Also, regional disparities are high in human development. Southern states have done better than Northern and Eastern states. There are five issues in social sector: (a) low levels of social indicators (b) slow progress (c) important regional, social and gender disparities (d) low level and slow growth in expenses of the public particularly on health and (e) poor quality delivery systems. Social region must be one of the focus areas for sustainability of financial growth and equity.

	Female			Male		
	1999-00	2004-05	2011-12	1999-00	2004-05	2011-12
	Rural					
Not literate	73.9	66.4	56.3	39.6	33.8	28.0
Literate& upto primary	15.5	18.4	21.8	27.3	29.4	27.6
Middle	6.2	8.7	10.8	16.3	18.1	19.0
Secondary	2.8	3.6	5.9	9.3	9.3	12.9
Higher secondary	0.9	1.4	2.6	4.2	4.6	6.6
Diploma/certificate	--	0.5	0.5	--	1.0	1.1
Graduate & above	0.6	0.9	2.1	3.3	3.8	5.0
All	100.0	100.0	100.0	100.0	100.0	100.0
Urban						
Not literate	43.9	37.3	27.9	16.0	13.1	11.2
Literate& upto primary	17.6	20.3	19.5	21.9	22.7	18.8
Middle	10.3	11.9	12.3	18.8	19.4	17.5
Secondary	8.8	7.3	9.1	16.9	15.0	16.5
Higher secondary	5.5	5.1	7.1	9.4	9.2	10.9

Diploma/certificate	--	3.4	2.3	--	3.7	2.9
Graduate & above	13.9	14.7	21.8	16.8	16.9	22.2
All	100.0	100.0	100.0	100.0	100.0	100.0

Last and fifth one is governance. Reforms were estimated to develop governance at various levels. On the other hand, there are new issues in the governance and persistence of old problems including corruption.

Other than many achievements, the post-reform period also witnessed various scams in the financial and real sectors. These scams in the last 25 years could have been avoided with better governance. There has been a nexus between political parties, business people and bureaucracy. Crony capitalism is one of the factors for corruption. Jalan (2006) said the interface between political, economical and governance, and their combined results on the functioning of our democracy, which will largely determine India's future.

A study on presentation of Karanataka's Lokayukta proposes that without overhaul of the country's administrative structure, ex-post prosecution of corruption or withdrawal from economic activities can not reduce corruption (Babu et al, 2013). Presently the plan of anti-corruption ombudsman leaves a lot to the personality of Lokayukta. The analysis suggests that the overloaded legal system requires legal reforms. Many people feel that governance problem is the biggest constraint for achieving our development goals in the country.

CONCLUDING OBSERVATIONS

The focus of reforms can now be shifted to more efficient delivery systems of public services. It has been recognized that better governance is very important for inclusive development. This is important for better implementation of sectoral policies and poverty alleviation programmes. Social mobilization, community participation and decentralized approach are needed. The present government is talking regarding 'minimum government and maximum governance". Fixing governance problem is important for success of the above five areas also.

Concluding on economic reforms, India has done very fine in many indicators on economy in the post-reform period. It has to spotlight now on unfinished reforms and the over five failures. On economic reforms, commenting on the analysis of Tendulkar and Bhavani (2007, 2012) says that this work could be supplemented with two other areas of study. First is the impact of global financial disaster on the destination of economic reforms. Second is the critical role of states in the future of reforms. This is important because the increasing role of state governments in providing economic and social infrastructure.

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