ISSN PRINT 2319 1775 Online 2320 7876
Research Paper , UGC CARE Listed (Group -I) Journal Volume 11, Iss 11, 2022

THE ECONOMIC REFORMS AND SUSTAINING GROWTH: AN ACCELERATING THE DEVELOPMENT PROCESS

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Abstract: The economic reforms in India submit to the developments and reforms, launched in 1991, of the nation's economic strategies. The objective of liberalization was to loosen any constraints or rules on trade to allow commerce. It facilitates foreign investment and MNCs to cross economic borders. The paper explores the Privatization, Globalization, and Liberalization. It aimed to promote growth, efficiency, and global integration. It brought major reforms in various sectors, including industry, trade, and finance. India experienced vigorous economic growth over the past few decades, averaging over 6% real GDP growth since 2000. The early phase of economic reforms was mainly intended at liberalizing the Indian economy, reducing government control.

Key words: economic, reforms, objective, private, public, growth, development and Investment.

Introduction: The Indian economy experiences numerous positive changes since independence. It is growing at a good pace. Economic reforms in India consist of two interrelated components namely 1) Macro-economic stabilization and 2) Structural adjustment. Stabilization has the immediate as well as short run objective of price stability (controlling inflation) and stability in the balance of payments (controlling external deficit). The other component, structural adjustment has the medium term objective or restoring as well as accelerating the growth process. Broadly speaking, structural adjustment refers to the changes in the organization and management of trade, industry and finance and other sectors, from the standpoint of improving economic efficiency. 80th macroeconomic stabilization and structural adjustment reinforce each other and hence they have been undertaken simultaneously.

Justification for economic reforms can be accounted for several factors.

(1) Macro-economic imbalances failed to sustain the economic growth. These imbalances refer to mounting fiscal deficit, rise in the rate of general price level and unmanageable current account deficit in the balance of payments.

(2) Weaknesses and limitations of the regulatory model of development pursued during the period 19504990. Although the regulatory model of economic development (i.e., control regime accompanying Mahalanobis - heavy industry strategy and import substitution/inward orientation strategy) failed to produce rapid growth, self-reliance and eradicate poverty, it also failed to

sustain the high growth rate achieved in the context of macro-economic imbalance. The control regime instituted by the state to manage the problems of supply shortages, balance of payments deficit and inflation gave way to rent-seeking and directly unproductive activities and to the emergence of black economy, black culture. Because these controls on investment, production, trade, price and distribution resulted in the growth of parallel/black-markets. Only pressure groups like affluent farmers organized labour class and employees and industrialists grabbed the benefits from the government and efficiency in private as well as public sector activities had been damaged by the control regime.

(3) Factors such as the transformation of communist economies into market economies to achieve efficiency, growth of multilateralism, reduction of protectionism and the dismantling of trade barriers, excellent growth performance of East Asian countries and China with liberalization measures -all these changes in international economic environment necessitated adjustment in India's economic policy also.

Economic reforms represent ‘a market-friendly approach’ to achieve the objectives we have set forth before independence that is, to achieve rapid economic development, to improve the living standards of our people and to eliminate poverty. Concerns for human development which ensures active participation of hitherto bypassed groups and protection of environment are other objectives of our economy. Since the control regime/regulatory model of development did not deliver the results up to our expectations liberal and market oriented instruments have come to be employed to achieve the declared objectives.

As Hanumantha Rao has commented, “The opening up of the economy & the significant reduction in protection to domestic industry did result in an improvement in the terms of trade for agriculture which led to a significant rise in private investment. But because of continued decline in real public investment in irrigation research and extension and other rural infrastructure owing to reform induced erosion of tax revenues and compression in public expenditures, agriculture could not derive full benefit from macroeconomic reforms and globalization especially because, there was hardly any slack in the pre-reforms period”(Pulapre Balakrishnan)

Economic reforms in India are market-friendly/market-oriented. They aim at strengthening domestic and external competition and offer necessary incentives for the growth of economic activities and for their management in efficient manner. Most importantly, economic reforms have not reduced the role of the state in the development process. Instead, state's role has come to be redefined in the present context, state as a producer of goods and services has retreated. But state as a regulator, facilitator and welfare provider has gained prominence. Presently state has focused attention on the development of infrastructure and on social sector to support the growth process, to promote the welfare of the vulnerable sections and also to protect environment. Another thing to be noted is that economic reforms introduced in July 1991 and thereof indicate continuity of economic policy of liberalization undertaken in a piecemeal as well as stealthy manner in the 1980's. The present economic reforms have been undertaken openly and in an integrated manner.

In the opinion of Hanumantha Rao, "Decline in public involvement, inefficiency in the management of available infrastructure and degradation of natural resources are attributable, in a significant measure, to the steep rise in subsidies on water supplied from public irrigation systems, electricity for pumping water and chemical fertilizers".(Pulapre Balakrishnan)

Economic reforms have covered industry, finance, trade and public sectors and fiscal system, the contents of economic reforms may be summed up as follows:

1) Reforms in the industrial and public sector include (a) de-reservation of industries for the public sector and expanding the scope for the private sector. (b) Abolition of industrial licensing, (c) removal of investment controls on big businesses, (d) encouragement to foreign technology and investment, (e) introduction of MOU system in respect of public sector enterprises to provide operational autonomy and thereby to achieve prescribed targets, (f) disinvestrnent of PSEs, etc.

2) Reforms in the finance sector include: (a) reduction in statutory liquidity ratio and cash reserve ratio in a phased manner, (h) deregulation of interest rate, (c) introduction of capital adequacy norms on par with international standard and measures to reduce nonperforming assets in banks, (1) entry of private and foreign institutions in the private sector, (e) capital market reforms. All these aim at improving the operational flexibility and functional autonomy of the financial service industry and desire to enhance its productivity\ efficiency and profitability.

3) Reforms in the external sector refer to trade sector and exchange rate management. Refrain: in this sector include: (a) removed of quantitative restrictions, (b) tariffication and rationalization of tariff structure, (c) strengthening of export sector. ((1) introduction of market determined exchange rate system. and (e) currency convertibility on current and capital account. These measures are intended to enhance international competitiveness of India's exports and to make use of foreign trade as an engine of growth.

4) Reforms in the fiscal system include elements such as (a) instituting a moderately progressive tax structure with strong enforcement to improve tax compliance, (b) reduction of tax rates. Exemptions and concessions widening of the tax base, (c) rationalization of direct and indirect taxes, (1) expenditure management to reduce revenue expenditure and to dispose of surplus staff. All these measures are intended to reduce fiscal deficit, public debt burden and to improve tax-GDP ratio.

The success of economic reforms is to be judged by making a comparison of the macro-economic indicators between the pre-reform period (1980-81 to 1990-91) and the post-reform period (1992-93 to 2003-2004). Firstly, the annual average growth rate has jumped up, from 5.6% in the pro-reform period to 6.2% in the post-reform period and this is the highest growth rate in India's recorded history. But in the intervening years, growth rate has decelerated due to fall in agricultural and industrial growth rates. Secondly, savings and investment have favorably responded to reform initiatives. Their annual average growth rates have increased from 19% and 22% of the GDP in the pro-reform period to 28% and 25% respectively in the post reform period. For the year 2003-04, gross domestic savings is 28% while gross domestic investment is 23% of GDP. There has been improvement in public savings also. Thirdly, inflation (or rather its absence) is an indicator of macro-economic stability.

During the pre/ reform period (1981-82 to 1990-91) the annual average rate of inflation was 7.2%. While it is 7% (1992-93 to 2000-01), Average annual inflation rate (WPI) has decelerated from 10.6% in the first half of 19903 to 4.1% during 2001-02 to 2003-04. Fourthly, tax reforms and expenditure management aimed at fiscal consolidation have not yielded desired results. Fiscal consolidation can be seen from the trends in fiscal deficit, (indicator of fiscal health). Fiscal deficit started declining from 6.6% of GDP in 1990-91 to 4.1% in 1996-97. But, it has again continuously risen to reach the level of 6.2% of GDP in 2001-02. Thereafter it has started declining to I level of 4.6% of GDP in 2003-04. Revenue deficit also shows a similar trend. The fiscal heath of the states is worrisome. Tax-GDP ratio of the centre has been consistently lower than the level of 10.3% achieved in 1991-92. On fiscal front, there has been frequent slippage and the objective of fiscal consolidation has remained as yet unaccomplished. Fifthly, the performance of the external Meta shows a marked improvement in the post reform period. The current account deficit has declined markedly from 3.1% of GDP in 1990-91 to 0.3% of GDP in 2002-03. But it has again increased to 1.8% it. 2003-04. however, external debt and debt service payments have declined. Foreign exchange cover for imports has increased substantially. Sixthly financial sector reforms new to be strengthened, Factors such as weak financial position of development banks, high level of non-performing assets, lack of freedom to bank managements in matters of recruitment. Promotion, etc. opposition to merger and consolidation of banking structure these are indicators suggesting the need for Speedy reforms in the financial sector. Seventhly, reforms in agricultural sector and labour reforms have not been done in large measure.

“Another opportunity for ‘crisis driven’ reform is in privatization. In the long run, the GST will help India’s government raise more revenue; and, as growth recovers, personal and corporate income taxes will also become more buoyant. But, for now, a series of well-structured, transparent privatizations, in areas such as the financial sector, telecom, and air transport, has the potential to raise revenue that the government needs to avoid a different (more traditional) kind of economic crisis. Privatization will also have large long-run benefits as money-losing public sector enterprises are removed from the government’s broader fiscal responsibility basket, and are forced to become more efficient and competitive. This kind of privatization has to be whole-hearted, not just the sale of minority stakes that do nothing to force greater efficiency of operations. Again, experts who can design the mechanisms for structuring these privatizations, are needed, and the biggest challenge is whether the government is willing to recruit them from a global pool”(Nirvikar Singh)

Economic reforms went in for a rapid globalization of the Indian economy by reducing and/ or abolishing quantitative restrictions and also reducing tariff barriers which hindered trade. The reform measures were mainly directed toward boosting exports as well as to facilitate developments imports (mainly capital and intermediate goods) as also imports of some basic raw materials which were so vital for increasing industrial production.

"Unfortunately, the government has not seemed open to ideas and expertise from outside. A welcome trend of involving academics of Indian origin with stellar reputations has been reversed over the past few years. Even the warm glow of Abhijit Banerjee's Nobel Prize only lasted a few days, as he became subject to ugly personal attacks by prominent ruling party members, annoyed by his gloomy, if realistic, assessment of the Indian economy. Right now, India needs more experts like him, who will speak their minds and provide unbiased analysis, as well as specialists who can manage, and accelerate, the process of financial restructuring" (Nirvikar Singh)

In a democratic as well as complex economy like India, economic reforms have to be brought about through dialogue and consent of different political parties and population groups. Therefore, in spite of general agreement about economic reforms, there are many unavoidable slippages. However, the determination of the political authority to pursue economic reforms is unquestionable.

Conclusion: India's economic reforms began in 1991 after facing severe balance of payments crisis. New economic reforms in India refer to the neo-liberal polices introduced by the government in 1991 and in the later years. The achievement of India's economic reforms in accelerates growth and reducing poverty has been well-documented. The reform programme in India initiated with the policy of restricting of the public sector supported by greater public participation. Economic reforms Policy changes were initiated with admiration to industrial licensing, technology up-gradation, removal of restrictions on the private sector, foreign investments, and foreign trade.

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