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"Analysis of Economic Crisis and Reforms in India of 1991"

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INTRODUCTION

In post-Independence India, the Central Government pursued a policy of mixed economy which bore no expected results. The economy grew with so slow pace that K.N. Raj coined it with the term "Hindu rate of growth" which was around 3% per annum. With the growth of the population, that of welfare activities of the Government and its conspicuous consumption, the economy of the country was confronted with a deep and alarming economic crisis which warranted immediate economic reforms in 1991. The present article seeks to analyse the crisis and the efforts made by the Government of India to avert the crisis through economic reforms in 1991.

Economic Crisis of 1991

Most economic policy makers and analysts held widely convergent views on the causes of the unprecedented economic crisis faced by India in 1990-91.The root cause of the twin crisis could be traced to macro-economic mismanagement throughout the 1980s as reflected in an unsustainably high fiscal deficit, in particular the revenue deficit and the monetized deficit. The central government's fiscal deficit alone peaked at 7.9 per cent as a percentage of GDP in 1989-90. Thus, growing fiscal profligacy (and irresponsibility) and the unviable financing patterns of the fiscal deficit prevailing in the 1980s made high levels of annual GDP growth (peaking at 5.6 percent in 1989-90) unsustainable.

The twin crises were reflected through an unmanageable balance of payments crisis and a socially intolerably high rate of inflation that were building up in the 1980s and climaxed in 1990-91.

The current account deficit as a percentage of GDP peaked at a high of 3.1percent (compared to an average level of 1.4 percent in the early 1980s). The inflation rate (as measured by point-to-point changes in the Wholesale Price Index) had also climbed to the socially and politically dangerous double-digit level, hitting 12.1 percent in 1990-91.

Table 1: Selected Micro Economic Indicators, 1989-2003

Indicators	1989-90	1994-95	1999-00	2000-01	2001-02	2002-03
A. Growth of GDP%	5.6	6.3	6.1	4.4	5.6	4.4
B. GDP Growth by Sectors (%):						
i. Agriculture & Allied	2.7	4.9	0.3	-0.4	5.7	-3.1
ii. Industry, of Which Manufacturing	6.7	8.3	4.0	7.3	3.4	6.1
iii. Services	6.7	6.0	10.1	5.6	6.8	7.1
C. Inflation Rate (WPI Index (%))	9.1	10.4	4.8	2.5	5.2	3.2
D. Current A/c Balance as % of GDP		-3.1	-1.1	-0.5	-0.5	na
E. Forex Reserves (US $ Bn.)	3.37	19.65	35.06	39.55	51.05	69.89
F. Exchange Rates (Rs/US $)	16.6	31.4	43.33	45.51	47.69	48.44
G. Rate of Growth of :						
i. Exports (%)	18.9	18.4	10.8	21.0	-1.6	20.4
ii. Imports (%)	8.8	22.9	17.2	1.7	1.7	14.5
iii. Exports as % of GDP	6.4	9.6	9.1	10.4	9.9	na
iv. Imports as % of GDP	9.3	10.5	12.4	11.8	11.6	na
H. Fiscal Deficit as % of GDP	7.9	4.7	5.4	5.6	5.9	5.5
I. Revenue Deficit as % of GDP	2.6	3.1	3.5	4.1	4.2	3.9
J. Saving Ratio as % of GDP	22.3	24.9	24.1	23.4	24.0	na
K. Investment as % of GDP	24.9	25.4	25.2	24.0	23.7	na

Source: Ministry of Finance, Government of India, *Economic Survey*, (New Delhi, various years).

One of the objectives of the 1985 Export-Import Policy was to facilitate technological up gradation to strengthen export production base. Although the Government has been maintaining that the policy is neither liberal nor restrictive, but the fact of the matter is that the policy led to a wave of indiscriminate liberalisation of imports. In this wave of liberalisation, even in areas where indigenous machinery was produced by BHEL, imports were allowed. These 208 items included micro-processor based equipments, machine-tools, spinning machines, jute machinery, etc. While the MMTC and Department of Electronics were not in favour of this indiscriminate liberalisation of imports, the powerful local and multi-national lobbies were able to persuade the Government to permit liberalisation even in areas where an independent self-reliant indigenous sector was emerging. In the name of technological up gradation, an unfettered drive for import of capital goods, designs and drawings came into being. All studies on technology transfer by multi-nationals indicate that in the name of technology up gradation, the multinationals carry on “technological dumping” of such technologies which have been superseded in developed countries. P.M Rajiv Gandhi himself described in one of his interviews, this triggered off what may be described as “screw driver industrialisation.” The upshot of the entire analysis is that the crisis in the balance of trade and consequently its adverse impact on the balance of payment was the result of the policy of indiscriminate import liberalisation pursued under the pressure from the World Bank/ IMF lobbies. Another disturbing feature of this situation was that export promotion has not been commensurate with the increase in imports. Hence, foreign-exchange reserves dwindled to a low of US$2.2 billion (with less than 15 days’ cover against annual imports). India stared bankruptcy in the face as it struggled to meet external debt obligations.

Besides, the assassination of Prime Minister Indira Gandhi in 1984, and later that of her son Rajiv Gandhi in 1991, crushed international investor confidence on the economy that was eventually pushed to the brink by the early 1990s.

As of 1991, India still had a fixed exchange rate system, where the rupee was pegged to the value of a basket of currencies of major trading partners. India started having balance of payments problems since 1985, and by the end of 1990, it was in a serious economic crisis. The government was close to default, its central bank had refused new credit and foreign exchange reserves had reduced to the point that India could barely finance three weeks’ worth of imports. Most of the economic reforms were hence forced upon India as a part of the IMF bailout.

A Balance of Payments crisis in 1991 pushed the country to near bankruptcy. Consequently, it had to pledge 20 tons of gold to Union Bank of Switzerland and 47 tons to Bank of England as part of a bailout deal with the International Monetary Fund (IMF). In addition, the IMF required India to undertake a series of structural economic reforms. In return for an IMF bailout, gold was transferred to London as collateral, the rupee devalued and economic reforms were forced upon India. That low point was the catalyst required to transform the economy through badly needed reforms to unshackle the economy. Controls started to be dismantled, tariffs, duties and taxes progressively lowered, state monopolies broken, the economy was opened to trade and investment, private sector enterprise and competition were encouraged and globalisation was slowly embraced. The reforms process continues today and is accepted by all political parties, but the speed is often held hostage by coalition politics and vested interests.

Economic Reforms since 1991

The foundation of credible national security is based on the level of economic prosperity and well-being of the population of any country. This is especially so for developing countries like India. The attainment of sustained high economic growth is a necessary condition for improving the national security and the quality of life of the people throughout the country. Many developing countries in the Asia-Pacific region, including China and India where nearly one third of the world’s population live, are currently going through economic transitions. The central objective of transition through economic liberalization is to improve the competitive efficiency of the economy in the global marketplace to sustain accelerated rates of economic growth and thereby continuously improve the security and wellbeing of the people.

India launched its market-oriented economic reforms in 1991. China launched similar reforms from 1978 and is now well ahead of India in integrating its national economy with the global economy. However, India is slowly but surely catching up in this race. The contrast in the experiences of these two countries with economic reforms under radically different political systems is remarkable. While comparisons between China and India are often made by development analysts and are inevitable when we discuss economic transitions in Asia, a more realistic assessment of the experiences of both these major countries of Asia can only be made if we explicitly take into account the stark contrast in their political systems.

In India, post-1991 economic reforms have been evolutionary and incremental in nature. There have been delays and reverses in some areas due to the interplay of democratic politics, coalition governments, and pressure groups with vested interests. However, each of the five successive governments that have held office in India since 1991 have carried on these economic reforms, which have been based on market liberalization and a larger role for private enterprise. As in many developing countries, India also launched its massive economic reforms in 1991 under the pressure of economic crises.

Prime Minister Narasimha Rao converted the prevailing economic crisis into an opportunity to launch massive economic reforms. First, he introduced an economist (rather than a politician) into the Cabinet as Finance

Minister and gave the new Minister his full support, allowing him to evolve and implement path-breaking economic reforms. The new economic policies radically departed from the economic policies and regulatory framework pursued in India during the previous forty years.

The Rao government recognized in 1991 that the time had come to reshape India's economic policies by drawing appropriate lessons from the 'East Asian Miracle' based on more export-oriented and more globally connected strategies of development, as successfully practiced earlier by Japan and South Korea and also by the South East Asian tigers Malaysia, Singapore, Indonesia and Thailand. The East Asian development model had been remarkably successful in achieving sustained high growth rates accompanied by rapid growth in the living standards of the people in just two decades. India had missed on both these fronts by relentlessly pursing import substitution and a relatively closed economy model of development.

The Rao government, after launching the relatively aggressive (by past Indian standards) reforms, was soon confronted with the political constraints of 'competitive populism' during elections held at the state level in 1993.Therefore, the government adopted a 'middle path', furthering the economic reforms in an 'incremental' fashion in order to continue to extending their width and depth during the remainder of the government's term. The government took two years to get over the immediate macro-economic crisis, initially with the help of a balance of payments loan facility from the International Monetary Fund. The government came out with a clear enunciation of its vision and the objectives of its economic reforms only after regaining macro-economic stability. This was contained in the *Discussion Paper on Economic Reforms* brought out by the Ministry of Finance in July1993. To quote from this *Discussion Paper*:

The fundamental objective of economic reforms is to bring about rapid and sustained improvement in the quality of the people of India. Central to this goal is the rapid growth in incomes and productive employment… The only durable solution to the curse of poverty is sustained growth of incomes and employment…. Such growth requires investment: in farms, in roads, in irrigation, in industry, in power and, above all, in people. And this investment must be productive. Successful and sustained development depends on continuing increases in the productivity of our capital, our land and our labour.

Within a generation, the countries of East Asia have transformed themselves. China, Indonesia, Korea, Thailand and Malaysia today have living standards much above ours…. What they have achieved, we must strive for.

Major Economic Reforms

Naturally, the attention of the new government that took office in June1991 was primarily focused on crisis management dealing with the balance of payments. It was of the utmost importance to restore India's international credibility by meeting its scheduled external debt liabilities and through maintaining a more realistic exchange rate consistent with market obligations.

Achieving macro-economic stabilization was also an urgent priority, necessitating control of intolerably high inflation. It was recognized that macro-economic stabilization would provide a sound foundation for medium and long-term structural economic reforms and accelerate the rate of economic growth in a sustained manner. This would be possible by removing distortions created by controls and by improving the competitive edge for Indian goods and services in global markets as well as in the markets of major regional trading blocs.

Macro-economic Management Reforms

Macro-economic management reforms have focused on controlling the politically difficult problems of reducing the fiscal and (even more so) revenue deficits. The capital account deficit does not pose long-term problems as investment in productive capital made in the present, if prudently carried out, will generate an adequate income stream to pay for capital costs incurred and generate positive returns in the future.

India's problem is primarily in the area of revenue deficits. From 1950 to1980 the national budget was usually characterized by revenue surpluses and capital account deficits. However, after 1980, all (democratic) governments for political reasons had willingly allowed the revenue deficit to rise over the years to dangerously high levels, and had found it increasingly difficult to reduce. The revenue deficits reflected an excess of annual consumption expenditure by the government over its annual income. The deficit was caused by excessive employment in the government sectors, uneconomical pricing of goods and services by public sector enterprises, a growing interest burden, mounting subsidies, and rising defence expenditures. Downsizing the government (through the bureaucracy or public sector enterprises and banks) was also difficult and met with tough staff resistance from the organized employees.

Reducing the Fiscal Deficit

Faced with the necessity of reducing the fiscal deficit in the crisis year of1991-92, Finance Minister Manmohan Singh attempted to reduce fertilizer and food subsidies in 1991-

92 and to some extent in 1992-93. Simultaneously, he (and several subsequent finance ministers) resorted to the softer options of reducing public investment expenditure and reducing public expenditure on social welfare services from 1991 to 1995. These measures did help reduce the fiscal deficit of the central government to 4.8 percent of GDP at the end of1992-93.

However, further cuts in fertilizer and food subsidies could not be carried out as these measures were opposed in Parliament and proved suicidal for the ruling Congress Party, which lost power in state elections in 1993-94.Meanwhile, the fiscal position of the state governments also started deteriorating. The combined fiscal deficit of the central government and the states climbed to the unacceptably high level of 10-11 percent of GDP in2002-03. Some state governments have begun to address their fiscal deficit problems. The central government has recently started linking further transfers of resources to the states to the progress of state-specific economic reforms aimed at reducing deficits.

The good news for macro-economic management reforms is that the pre-1990 pattern of ‘deficit financing’ (that is, the printing of currency) to meet the fiscal deficit has now been effectively curbed. The autonomy of the central bank (the Reserve Bank of India) in regulating the money supply to control inflation has been assured within the limits of monetary policy. This has led the government to resort to larger and larger domestic borrowing.

The bad news is that government borrowings have risen so high that the economy is moving towards an ‘internal debt trap’. Further growth of internal debt needs to be curbed but the government is in no mood to close off this easy way of financing its rising fiscal deficit. The finances of most state governments are in even poorer shape and some have occasionally resorted to market borrowings to meet their payrolls.

Tax Reforms

Since 1991 several efforts have been made through the annual budget process to achieve tax reforms. These have focused on: (i) expanding the tax base by including services (not previously taxed); (ii) reducing rates of direct taxes for individuals and corporations; (iii) abolishing most export subsidies,(iv) lowering import duties (covered below by us under structural reforms relating to trade policies/external sector); (v) rationalizing sales tax and reducing the cascading effect of central indirect taxes by introducing a Modified Value Added Tax; (vi) rationalizing both direct and indirect taxes by removing unnecessary exemptions; (vii) providing for tax incentives for infrastructure and export-oriented sectors, including setting up special (Export) Economic Zones; and (viii) simplification of procedures and efforts for improving the efficiency of the tax administration system especially through computerization.

Resource Generation through Divestment

The governments of India, both at the central and state government levels, have initiated divestment programs to sell government equity in several public-sector enterprises. Unfortunately, the sales proceeds have mostly been used to finance fiscal deficits rather than for fresh public investment, social sectors pending, or reducing the interest burden on ballooning public debt.

Structural Economic Reforms

Structural reforms since 1991 have been sector-specific. The sectors subjected to reform have been carefully selected and the coverage of sectors under structural reforms has been extended over time. The major structural economic reforms carried out since 1991 have been primarily in the following areas: Trade Policy/External Sector; Industrial Policy; Infrastructural Sector Policies; Divestment/Privatization Policies; the Financial Sector; and in Policies for Attracting Foreign Direct Investment.

The thrust of the reforms in all areas has been to open India’s markets to international competition, remove exchange rate controls, encourage private investment and participation in industry and, in the finance markets, to liberalise access to foreign capital and to ensure that foreign investment is not penalized merely for being foreign.

Reorientation of Planning

Consistent with the spirit of the market-oriented and private sector-led economic reforms launched since 1991, the government has reoriented the role of planning in India. It has been recognized that market forces and the state should be given roles that play to their comparative advantages and that they should work together as partners in the economic development of the nation. While private initiative should be encouraged in most areas of business activities, the state should increasingly play a pro-active role in areas in which the private sector is either unwilling to act or is incapable of regulating itself in the social interest.

The new role assigned to planning, consistent with market-based economic liberalization, can perhaps best be illustrated with the goals and the strategies incorporated in India’s Tenth Five-Year Plan (2002-07). The Plan has targeted an annual growth rate of eight percent. Along with this growth target, the government has laid down targets for human and social development.

Timely corrective actions will be required to ensure that growth is accompanied by social justice, i.e. inclusive development. The key indicators of human and social development targeted under this Plan include: a reduction of the poverty rate by five percentage points by 2007; providing gainful employment to at least those who join the labour force during 2002-07; education for all children in schools by 2003; and an increase in the literacy rate to 75 percent by March 2007.

The development strategy adopted for the Tenth plan envisages redefining the role of Government in the context of the emergence of a strong and vibrant private sector, the need for provision of infrastructure and the need for imparting greater flexibility in fiscal and monetary policies. With a view to emphasizing the importance of balanced development of all states, the Tenth plan includes a state-wise break-up of broad developmental targets including targets for growth rates and social development consistent with national targets. The Tenth Plan has emphasized the need to ensure equity and social justice, taking into account the fact that rigidities in the economy can make the poverty-reducing effects of growth less effective. The strategy for equity and social justice consists of making agricultural development a core element of the Plan, ensuring rapid growth of those sectors which are most likely to create gainful employment opportunities and supplementing the impact of growth with special programmes aimed at target groups.

Politco-economic Dimensions of the Reforms

Building a political consensus on economic reforms across the various political parties with their vastly different ideologies has been a very difficult process. This has been especially true under coalition governments but also even when a single party has held a majority. Consensus building and reform implementation is complicated further when the central government and the states are in the hands of different parties (or coalitions).

The rapidly increasing frequency of elections at the central and state levels during the post-1990 period of economic reforms has led the incumbent governments and the contesting opposition parties to resort to ‘vote-bank’ politics or ‘competitive populism’. The vested interests of groups such as trade unions, producers with licenses and holding monopoly interests, and bureaucrats with ‘rent seeking’ capabilities have often scuttled or delayed further market-based economic reforms. These factors explain well India’s ‘stalled’ reforms in certain areas directly hurting vested interests of selected lobby groups. The growth of regional parties and their assumption of power in many Indian states have further delayed the percolation of central-level economic reforms down to the state level. Weiner has recommended the need for a change in the mind-sets of state policy makers:

The pursuit of market-friendly policies by state governments requires a change in the mind-sets of state politicians, new skills within the state bureaucracies, and a different kind of politics. More fundamentally, it requires rethinking on the part of state politicians, activists in non-governmental organizations, journalists and politically engaged citizens as to what is the proper role of government, and how and to what end limited resources should be used.

Considering the compulsions arising from the above political factors,Montek S. Ahluwalia explains the rationale for adopting the ‘gradualist’ approach in implementing of economic reforms and the resultant ‘frustratingly slow’ pace of reforms (compared to East Asian standards):

The compulsions of democratic politics in a pluralist society made it necessary to evolve a sufficient consensus across disparate (and often very vocal) interests before policy change could be implemented and this meant that the pace of reforms was often frustratingly slow. Daniel Yergin (1998) captures the mood of frustration when he wonders whether the Hindu rate of growth has been replaced by the Hindu rate of change!

Economic Reforms in Indian States

The maladies afflicting the finances of the state governments are similar in nature to those afflicting the central finances described earlier. According to the Reserve Bank of India, the Gross Fiscal Deficit of all the states of India(including the Union Territories) was estimated at 3.3 percent in 1991-92. Throughout the 1990s the state governments also experienced a rapid rise in their revenue expenditures mainly through salaries, pensions, interest payment and subsidies (including free power to farmers in some states out of political considerations). This trend has ‘severely constrained the states’ ability to undertake development activities’ and to devote more funds to provide social services such as primary education. The situation worsened after the states were forced to follow the centre to implement generous pay increases for government employees recommended by the Fifth Central Pay Commission in1997-98.

Despite initial resistance in the Communist Party-ruled state of West Bengal, all state governments (including West Bengal), in their own ways and catering to their own conditions, implemented economic reforms in the 1990s and are continuing these reforms broadly in line with the ongoing national economic reforms excepting a few. This owes in part to enlightened self-interest combined with a healthy competitive spirit designed to improve their position and ranking among the states. There is also the states' desire to avail themselves of larger transfers of development funds from the centre, which the central government linked to economic reforms at the state level. Every state has recognized the need to attract private investment flows from both domestic and foreign investors. State governments have therefore progressively liberalized their policies and procedures on a competitive basis. Several of them have also explicitly recognized the need to improve human resource development and have progressively expanded activities to provide a better quality of life to the population of their states.

Performance Evaluation

Despite pursuing gradualist approach in implementation of the economic reforms and certain hiccups and delays caused primarily by the compulsions of democratic politics, the performance of the Indian economy under the reforms carried out so far shows a mixed picture of notable achievements and weaknesses. The performance has been impressive on some fronts, satisfactory on several other fronts, and inadequate in certain respects. India has still to launch deeper (so-called 'second-generation') reforms in various areas to get the best results.

Impressive Performance Areas

Through prudent macro-economic stabilization policies including devolution of the rupee and other structural economic reforms the balance of payments crisis was clearly over by the end of March 1994. Foreign exchange reserves had risen to the more than adequate level of US$15.07 billion and the current account deficit as a percentage of GDP was nearly eliminated. Export growth rate at 20.0 percent in 1993-94 over the previous year was quite encouraging.

India's economy under the reforms has made rapid strides in selected industrial areas and knowledge- and skill-intensive services. These specific growth areas have experienced significant restructuring under more competitive conditions in the marketplace through mergers and acquisitions and technological and managerial innovations. This has led to the achievement of recognizable increases in international competitiveness in a number of sectors including auto components, telecommunications, software, pharmaceuticals, biotechnology, research and development, and professional services provided by scientists, technologists, doctors, nurses, teachers, management professionals and similar professions. The spill over effects of India's increasing international competitiveness have helped in improving the rate of growth of export earnings. They have also directly benefited Indian consumers by making better quality, lower-priced goods available.

Areas of Weakness

The most notable weakness of the reform process has been in fiscal consolidation. Governments in India at both the central and state levels have failed miserably to reign in growing revenue deficits and reduce the overall fiscal deficit. India's record on social development expenditure has been poor considering Indian requirements and poor. The abysmally low ranking of India on the Human Development Indices, computed by the United Nations, bears testimony to this assertion. Dreze and Sen remarked in 1995 that India's social development indicators in1991 (when reforms were launched) were lower than in several East and Southeast Asian countries three decades ago.

India must bridge this social development gap by significantly increasing its public expenditure on social services. As Ahluwalia has remarked, larger investment in the social sectors is 'necessary not only because social development is an end in itself, but also as a precondition of accelerating growth'.

Another major weakness of the Indian economic reforms is the economy's experience with 'jobless growth' in the post-1990 period'. Rigid labour laws relating to retrenchments have constricted growth in the organized manufacturing sector. As a labour surplus country, there already exists a huge backlog of both 'open' and 'disguised' unemployment.

Global Arena and Second Generation Reforms

The Medium-Term Export Strategy (MTES) for 2002-07envisages the achievement of India's target of one percent of global trade by 2007 and provides sector-wise targets for niche products and targets for selected niche markets.

The following are ten recommended areas of special focus in the second generation of economic reforms:

1. Political Reforms for Good Governance;
2. Re-engineering the Role of the government;
3. Administrative and Legal Reforms;
4. Strategic Management of the Economy with a focus on knowledge-based HRD Activities;
5. Fiscal Prudence;

6. Agricultural Sector Reforms;
7. Industrial Restructuring;
8. Labour Sector Reforms;
9. Foreign Trade and Outward Investment Policies;
10. Financial Sector Reforms.

Impact of Economic Reforms in 21th Century

The new neo-liberal policies included opening for international trade and investment, deregulation, initiation of privatization, tax reforms, and inflation-controlling measures. The overall direction of liberalisation has since remained the same, irrespective of the ruling party, although no party has yet tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labour laws and reducing agricultural subsidies.

India became the fastest growing free-market democracy in the world by clocking 8.2% GDP growth in the year ended March 31, 2004.Agriculture grew by 9.1% in the year, after notching up 16.5%and 10.5% in the 3rd and the 4th quarters, respectively. Manufacturing, which had posted a healthy 6.7% rise in 2002-03, grew by 7.3% in 2003-04.

In between 2004-05 and 2012-13, the GDP growth rate in India moves like the play of snakes and ladders. In 2004-05 the GDP growth rate was 7%, which rose to 9.6% in 2005-06; but in 2008-09 it slowed down to 6.7%. Again in 2010-11 it rose to 9.3%, but in 2012-13 it dipped to 5%. However, the Chairman of the Prime Minister's Economic Advisory Council, C. Rangarajan observes that now the economy appears to have bottomed out, and he projects the GDP growth rising in 2013-14 to 6.4%. As per his projection for 2013-14, he estimated 3.5% farm sector growth, up from 1.8% in 2012-13; estimated 4.9% growth of industry up from 3.1% in 2012-13. He estimated 7.7% service sector growth in 2013-14, up from 6.6% in 2012-13. He also expresses his optimism by saying, "If India grows at 8% to 9% per annum, we will graduate to the level of a middle income country by 2025."

CONCLUSIONS

Two paradigm shifts in the reforms, backed up by the effective fulfilment of the promises made, will help to garner the support of the Indian people. First, these reforms must aim at raising the productivity of Indian labour and improving the work culture and, over time, providing significant rewards to the people of India by spurring growth, providing a higher level of real wages, and generating wider avenues for employment and re-employment. Growth with employment is the most effective strategy for eliminating poverty and improving the quality of life of the people.

Second, the reforms must aim at directly benefiting Indian consumers. Over a reasonable time span, the reforms must reduce prices of goods and services(including public goods), improve their quality, and allow much more freedom of choice by maximizing the benefits of healthy competition. This will further expand the size of the market—both domestic and international—and provide incentives to entrepreneurs to raise their investment, output, and employment.

A combination of more productive labour and pro-consumer economic reforms will be a win-win, proving to be both good economics and good politics. Visionary political statesmanship will be required for this. It should not be slogan-oriented but more result-oriented since it will be likely perceived and experienced as 'pro-people'. The reforms must aim at improving social sector, alleviating poverty and adopting inclusive and sustainable development programmes.

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It may be pointed out that in the vital areas of macro-economic policy including fiscal policy, monetary policy and exchange rate policy, there is an overlap between macro-economic stabilization policies and structural reforms. The long-term growth inducing roles of all macro-economic policies can be considered under structural reforms. Here sector specific reforms are focused, although overlaps exist with agro-economic policies. For an annual overview of structural reforms carried out in India, see Government of India *Economic Survey* for the relevant year.

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There are of course, lessons to be learnt by India from the ‘East Asian debacle’ of 1997-98 (the so-called ‘East Asian Financial Crisis) but these need not detract us here as most South Asian and Southeast Asian countries had overcome this crisis by 1999.

Thus the claim that India had clearly transcended the so-called ‘Hindu rate of growth’ of GDP at 3.5 percent per annum (trend annual growth rate) achieved for the two decades of 1960s and 1970s and had moved over to higher annual average growth rate of 5.5 percent in the 1980s could not be accepted since the latter jump proved to be financially unsustainable.

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