



1991 Reforms & 2021 Crisis

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This article is based on **“From 1991, the lessons for the India of 2021”** which was published in The Hindustan Times on 19/06/2021. It talks about the 30 years of 1991 reforms and lessons that can be learned from it in dealing with the economic crisis induced by Covid-19 pandemic.

Thirty years ago, the **liberalization regime launched in 1991** completed its 30 years in 2021. The 1991 was a landmark moment in India's post-independence history that changed the nature of the economy in fundamental ways.

A severe balance of payments problem triggered an acute economic crisis in 1991. In response, India's economic establishment launched a multipronged reforms agenda to repair India's macroeconomic balance sheet and ignite growth.

Three decades later, the country faces another big test due to the Covid-19 pandemic. While the two crises differ vastly in content and structure, they are completely comparable in their respective severities.

Significance of 1991 Reforms

India's Post-1990 Economic Strategy

- It dismantled the vast network of controls and permits that dominated the economic system.
- It redefined the role of the state as a facilitator of economic transactions and as a neutral regulator rather than the primary provider of goods and services.
- It led to moving away from a regime of import substitution and to integrate fully with the global trading system.

Effect of Reforms

- By the first decade of the 21st century, India began to be seen as one of the fastest growing emerging markets.

- The 1991 reforms unleashed the energies of Indian entrepreneurs, gave untold choice to consumers and changed the face of the Indian economy.
- Far from poverty increasing, for the first time, there was a substantial reduction in it.

Comparing 1991 Crisis With 2021

High Fiscal Deficit

- **1991 Crisis:** 1991 crisis was caused by excess domestic demand sucking in imports and widening the current account deficit (CAD).
A loss of confidence triggered an outflow of funds and financing CAD forced a sharp drawdown in reserves.
- **2021 Crisis:** The pandemic-induced lockdown brought the wheels of economic activity to a grinding halt, triggering a sharp economic contraction.
 - This has resulted in a collapse in production following the disruption caused by the pandemic, which, in turn, has caused a fall in demand.
 - Faced with a collapse in demand, it is appropriate to increase the fiscal deficit. The government allowed the fiscal deficit to expand to 9.6% last year.

Macroeconomic Situation

- **1991 Crisis:** India had to pledge tonnes of gold to stave off a default on sovereign debt. Then, we had almost run out of foreign exchange to pay for critical imports.
- **2021 Crisis:** Today, the economy is shrinking at a rapid pace, with the central government defaulting on its revenue commitments to the states.
Today, we have run out of jobs for our hordes of unemployed; poverty is increasing after decades of decline.

Criticism of the Reform

- **1991 Reforms:** The 1991 reforms package faced heavy criticism as being dictated by the International Monetary Fund (IMF) and World Bank.
Further, some of the reforms were criticized as a sellout to capitalists.
- **2021 Reforms:** Such a centralised approach to reforms may not work now. It can be seen in the protest emanating from **three farm laws**.

Way Forward

- **Sustaining Public Expenditure:** In the short term, sustaining public expenditure is a key to reviving growth.
 - Currently public expenditure is highly desirable for providing more funds for vaccination and to cover expanded demand for the **MGNREGA** which is proving to be a valuable safety net.
 - Also, there is a need to undertake a credible path for deficit reduction over the next three years and revising revenue targets to a more realistic level.

- **Mutually Supportive Reforms:** The 1991 reforms succeeded because they were structured around a core package of mutually supportive reforms.
 - Thus, the need is to move away from a long list of reforms towards a more strategic approach, focussing on the most critical reforms needed immediately.
 - In this context, the power sector, the financial system, governance structures and even agricultural marketing need reforms.
- **Improving Investment Climate:** Investment is a key source of aggregate demand and economic growth. In this context:
 - Perceptions regarding growth prospects are key.
 - The policy framework must be supportive of fresh investments so that entrepreneurs are encouraged to take risks.
 - Non-economic factors such as a peaceful environment and social cohesion are also relevant.
 - The government must begin to act on all these fronts.
- **Maruti Model of Disinvestment:** The government should reduce its ownership to 26% in each undertaking, including banks, to strategic partners, like it did under the Maruti disinvestment following 1991 reforms.
 - In this context, PSUs like Air India, BPCL, and Concor can be sold within the next six months, with the commitment that two dozen PSUs would be divested at the 'Maruti model' every year for the next five years.
 - This will help in generating billions of rupees of investible surplus for the government.
- **Multi-stakeholders Approach:** Today's reforms also require much more discussion and consensus-building. The central government needs to work in tandem with state governments and consult different stakeholders impacted by reform decisions.

Conclusion

The 1991 reforms helped the economy stave off a crisis and then bloom. It is time to outline a credible new reform agenda that will not just bring GDP back to pre-crisis levels, but also ensure growth rates higher than it had when it entered the pandemic.

Drishti Mains Question

1991 reforms energised the Indian economy and lifted millions out of poverty. As India grapples with a post-pandemic economic crisis, there are lessons on what to reform and how. Discuss.
