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30 Years of Economic Liberalisation

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Why in News

Recently, on the 30th anniversary of the **economic liberalisation reforms**, former Prime Minister of India, Manmohan Singh, raised concerns over the macro-economic stability of the country.

According to him, the current **economic crisis triggered by the Covid-19 pandemic** is more challenging than during the 1991 economic crisis and the nation would need to recalibrate its priorities to ensure a dignified life for all Indians.

Key Points

1991 Crisis & Reforms:

- **1991 Crisis:** In 1990-91, India faced a severe **Balance of Payments (BOP) crisis**, where its foreign exchange reserves were just adequate to finance 15 days of imports. There were many factors that led to the BOP crisis:
 - **Fiscal Deficit:** The fiscal deficit during 1990-91 was around 8.4% of GDP.
 - **Gulf War I:** In 1990-91, the situation was aggravated by the rise in the price of oil due to Iraq's invasion of Kuwait.
 - **Rise in Prices:** The inflation rate increased from 6.7% to 16.7% due to a rapid increase in money supply and the country's economic position became worse.
- **Nature and Scope of 1991 Reforms:** In order to get out of the macro-economic crisis in 1991, India launched a New Economic Policy, which was based on LPG or **Liberalisation, Privatisation and Globalisation model**.
 - Then Finance Minister, Manmohan Singh, was the prime architect of the historic 1991 liberalisation.
 - The broad range of reforms under the LPG model included:
 - **Liberalising Industrial Policy:** Abolition of industrial license permit raj, Reduction in import tariffs, etc.
 - **Beginning of Privatisation:** Deregulation of markets, Banking reforms, etc.
 - **Globalisation:** Exchange rate correction, liberalising foreign direct investment and trade policies, Removal of mandatory convertibility cause, etc.
 - These reforms are credited and applauded for the high economic growth seen from 1991 to 2011 and substantial reduction of poverty from 2005 to 2015.

10 REFORMS THAT CHANGED INDIA

GST did change the tax regime. But there are other key steps that form the bedrock of India's market-led economy & helped achieve higher growth...

1 NEW INDUSTRIAL POLICY

> Industrial licensing was abolished and 18 PSU industries were gradually liberalised



> Monopolies And Restrictive Trade Practices Act, 1969, was abolished

2 FDI & TRADE POLICY

> Import licensing was abolished for capital goods & intermediates, which became freely importable in 1993, simultaneously with the switch to a flexible exchange rate regime



> India joined the World Trade Organization and Trade-Related Aspects of Intellectual Property Rights agreement

> Quantitative restrictions on imports of manufactured consumer goods and agricultural products removed in 2001. The policy now allows 100% foreign ownership in many industries and majority ownership in all except banking, insurance, telecommunications and airlines

> Current account convertibility introduced in 1994

3 NEW INSTITUTIONS

> Securities and Exchange Board of India established



> Insurance Regulatory & Development Authority and Pension Fund Regulatory & Development Authority set up

> Union Budget created 'development finance institutions' and 'bad banks' to fund infrastructure and resolve stressed assets

> GST Council established

4 GOVERNMENT BORROWING

> Domestic bond markets created and Clearing Corporation of India is set up

5 INTEREST RATE LIBERALISATION

> Interest rate controls were dismantled and savings interest rates were deregulated

6 BASEL ACCORDS

> Basel Accords, a series of 3 international banking regulation agreements, adopted



7 NFSA & MGNREGS

NFSA legally entitled up to 75% of the rural and 50% of the urban

population to receive subsidised food grain under the Targeted Public Distribution System

> MGNREGS guaranteed 100 days of wage-employment per year in rural areas



8 AADHAAR

> Aadhaar system provided a single-source offline/online identity verification, boosting the inclusion of programmes like PMJDY, Ayushman Bharat and Ujjwala

9 INSOLVENCY & BANKRUPTCY CODE

> A comprehensive law, IBC consolidated both consequential aspects of an economic collapse of a debtor – rehabilitation as well as liquidation



10 MONETARY POLICY COMMITTEE

> MPC was set up with basic objective to maintain price stability and accelerate the economy's growth rate. It has brought monetary policy decision-making in line with global best practices



2021 Crisis:

- The **World Economic Outlook Report 2021**, states that the Indian economy is expected to grow by 12.5% in 2021 and 6.9% in 2022.
However, the pandemic has massive unemployment in the informal sector and poverty is increasing after decades of decline.
- The **social sectors of health and education have lagged behind** and not kept pace with our economic progress.
Too many lives and livelihoods have been lost that should not have been, during the pandemic.
- Inspector Raj is set to make a comeback through the **policy for e-commerce** entities.
- India is back to the old habits of borrowing excessively or **extracting money (in form of dividends) from the RBI** to finance the fiscal deficit.
- The **migrant labour crisis** has laid bare the gaps in the growth model.
- India foreign trade policy is again suspecting trade liberalisation, as India has already decided to opt-out of the 16-nation **Regional Comprehensive Economic Partnership (RCEP)** trade deal.

Way Forward

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.

Source: IE