16 Economic Reforms

Macroeconomic Situation of India in 1980's

- In the year 1980, just after the national emergency, the government of India had launched its ambitious sixth five year (1980-85) plan with a view to stabilise the macroeconomic situation of India.
- It focussed on increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment, controlling population explosion, etc.
- The plan recorded an economic growth of 5.7 % against the growth target of 5.2%.
- In 1985, many parts of the country faced severe famine conditions as agricultural output was less than the record output of the previous year.
- Addressing the agrarian issues, the government launched the seventh five year plan (1985-90). It aimed at accelerating food grain production, increasing employment opportunities & raising productivity with a focus on 'food, work & productivity'.
- It was also a very successful plan as the economy recorded 6% growth rate against the targeted 5%.
- Although, the Indian economy grew more swiftly during the 1980s than it had during previous decades but with the cost of high fiscal deficit, high inflation, deteriorating balance of payment accounts, etc.
- During this period, the public sector continued to absorb much of the country's investment capital without contributing to the economy proportionately.
- Iraq's invasion of Kuwait in August 1990 and the ensuing Gulf War also strained economic conditions of India as oil prices escalated to peak.
- Due to the Gulf war, India further lost its remittance earnings and export profits.
- This led to a situation when India found itself with foreign exchange reserves adequate to finance only two weeks of necessary imports.
- However, lowered investment rating also made additional loans costlier, and the prospect of defaulting on its international debt payments.
- The immediate task of the government was to re-establish macroeconomic stability, prevent a default on debt payments, and bring down inflation.

Washington Consensus

- It refers to a set of free market economic policies supported by prominent financial institutions such as the International Monetary Fund (IMF), the World Bank, and the U.S. Treasury.
- A British economist named John Williamson coined the term "Washington Consensus" in 1989.
- The idea was intended to help developing countries that faced economic crises.
- The Washington Consensus recommended structural reforms that increased the role of market forces in exchange for immediate financial help.
- Some examples include free floating exchange rates and free trades
- Ten Specific Principles set out by John Williamson in 1989
  - Low government borrowings to discourage developing economies from having high fiscal deficits relative to their GDP.
  - Diversion of public spending from subsidies to important long-term growth supporting sectors like primary education, health care, and infrastructure.
  - Implementing tax reform policies to broaden the tax base and adopting moderate marginal tax rates.
  - Revising the interest rates as per determined by the market. These interest rates should be positive after taking inflation into account (real interest rate).
  - Encouraging competitive exchange rates through freely-floating currency exchange.

- India is the 3rd largest economy at Market Exchange Rates (Purchasing Power Parity) and 5th largest by nominal GDP. Yet, significant development is not visible.
- Low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities, etc., are the problems for the nation.
- However, Corruption is one of the ills that also prevent inclusive growth in India.
- According to the Corruption Perception Index 2019, released by Transparency International, India ranked 80th while it was 78 in the previous years rankings.

- Accomplishment of higher GDP growth for the country is one of the boosting factors which give the importance to the inclusive growth in India.

Inclusive Growth in India

- The agenda for inclusive growth was envisaged in the eleventh five year plan (2007-2012).
- It was intended to achieve not only faster growth, but a growth process which ensured broad-based improvement in the quality of life of the people.
- The growth process included the poor, SCs/STs, other backward castes (OBCs), minorities and women to provide equality of opportunity to all.
- Reducing poverty is a key element in India's inclusive growth strategy and there was also some progress in that regard.
- However, the pace of poverty reduction has accelerated in recent years, though it may still be short of the target.
- The special impetus has also been given to several programmes aimed at building rural and urban infrastructure and providing basic services with the objective of increasing inclusiveness and reducing poverty.
- For growth to be inclusive, it must create adequate livelihood and job opportunities.
- Such job opportunities should come from a faster expansion in agro-processing, supply chains and the increased demand for technical personnel for inputs into various aspects of farming that is undergoing steady modernisation.
- The service sector too has to continue to be a place for the creation of decent jobs/livelihood opportunities, in both rural and urban areas.

Major Causes for Disruptive Inclusive Growth in India

- Jobless growth and the decline in employment growth rate with respect to the levels of economic growth.
- Uneven economic growth across several sectors of the economy.
- Casualization of the labour force due to the rapid globalisation and rise in competitiveness.
- Lack of structural and large scale employment opportunities.
- There is a need to create jobs large-scale otherwise growth would be ineffective in its true sense.
- Miserable growth rate of agriculture.
- Lack in inclusiveness of SCs, STs, and weaker sections in the growth process.
- Gender inequality is also a major problem.