Equitable Reforms For Equitable Growth

India 2030 C Rangarajan - April 2, 2018 0

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India has to follow a two'fold path of accelerating growth and addressing the vulnerable groups directly.

1991 is a landmark year in India's history. We faced a severe crisis, triggered by a balance of payments problem. We converted the catastrophe into an opportunity by putting in place a set of policies aimed at stabilisation and structural reform. While the stabilisation policies aimed at correcting economic weaknesses, the structural changes were meant to remove the rigidities that had entered various segments of the economy.

Early Thoughts

The view on development economics during the 1950-60s period was that the government should undertake activities that would compensate for 'market failure.' The literature emphasised the benefit of a coordinated set of investment decisions. This line of reasoning led India to formulate economy-wide plans. However, four decades of development experience have shown that there can be 'government failure' as well.

One of the reasons for the emergence of scepticism regarding the benefits of state intervention has been the growing perception that government failures may exceed market failures. Thus, the lesson to be drawn from the development record of the last four decades is that there can be both 'government failure' and 'market failure,' and that the critical issue is not so much the presence or absence of state intervention, as to the extent and quality of that intervention. This is the premise on which the new policy is built.

REDEFINED ROLE OF THE STATE

There is a common thread running through all the measures introduced since July 1991. The regulatory mechanism involving multitudes of controls reduced competition even in the private sector. The thrust of the new economic policy is towards creating a more competitive environment as a means to improving the efficiency of the system. This is to be achieved by removing the barriers to entry as well as the restrictions on the growth of firms. The new economic policy has not necessarily diminished the role of the state; it has only redefined it, expanding it in some areas and reducing it in others. As has been said, more market does not mean 'less government' but only 'different government.'

The reforms India undertook have been on the right track is vindicated by the performance of the economy. In the post-reform period, the economy has grown at an average rate of 6.8 per cent annually, a significant improvement over the pre-reform period. Annual growth rate between 1952 and 1980 averaged to 3.5 per cent. Economic growth in the ten-year period beginning 2005-06 despite the crisis affected the year of 2008-09 was at an average 7.7 per cent.

Social and Regional Development

Growth is not the only dimension for assessing the performance of an economy. Equally important is the question of who is the beneficiary. The increase in per capita income is reflected in some social performance parameters such as a rise in the literacy rate, availability of medical and health facilities and expansion in education. On the contrary, India ranks low on the Human Development Index, 131 out of a total 188 countries, even though India is included in the Medium Human Development countries with a value of 0.624.

As a country grows at a faster rate, there is a percolation effect due to which all sections of the society benefit, albeit some more than others. But the result may be stronger or weaker depending on the rate and pattern of growth. Also, in a fast-growing economy, more resources are available for the government to provide for social safety nets. Therefore, the ultimate impact depends on the pattern of government expenditures as well.

Balanced regional development is a significant development objective. There has been a concern that disparities among states are growing. However, a study done by my colleagues shows that in the recent period, there is substantial evidence of "catching up" by the lower income states. States with lower per capita income in1993–94 like Assam, Madhya Pradesh, Uttar Pradesh and Bihar have made significant gains in growth rates in the recent period 2004–05 to 2012–13. Notwithstanding these gains, convergence did not happen because some states, notably Maharashtra, Gujarat,
Kerala, Tamil Nadu and Haryana, which had high initial per capita incomes, also posted high growth rates.

Future Reforms

In the first phase, reforms were introduced in the industrial sector, external trade and investment sectors, exchange rate management, fiscal policy, monetary, and financial sector. Later, communications and other critical infrastructure sectors were covered. We need to extract the full potential of the reforms we have already introduced. However, reforms must form part of a continuing agenda.

The objective of reforms is to improve efficiency through enhanced competition. The introduction of GST is a step in the right direction. 'Acquisition' is against the spirit of competition and the scope of any Land Acquisition Act must, therefore, be limited. At the same time, we should avoid fixing the price of land. Farmers have become fully conscious of the value of their land.

They are unlikely to sell them at throwaway prices. There are still some segments of the industry, which are subject to some controls of the pre-1991 type. A typical example is the sugar industry. Molasses are subject to a kind of power which results is subsiding the liquor industry! The fundamental principle of liberalisation of creating competitive markets with minimal barriers to entry should be extended to all sectors. Pricing of natural resources has become an issue. In the absence of competition, transparent mechanisms for fixing the price must be followed which will be fair to producers and end-users.

Among the sectors that have remained untouched by reforms, the most important is agriculture. Even as much remains to be done to improve the productivity of agriculture through scientific research and improved dissemination of knowledge, there are areas like marketing where reforms are badly needed. The present marketing arrangements are archaic. Barriers to movement of trade across the country must end. The other area that demands attention is improvement in the administrative structure. Reform of the government's delivery system not only regarding the distribution of subsidies but also all other services will have the most immediate impact. Cumbersome rules must be removed.

Coming Decade

In many ways, the coming decade will be crucial for India. If India grows at 8 to 9 per cent annually, the per capita GDP will increase from the current level of US$1600 to US$ 8000 by 2030. Then India will transit from being a low income to a genuinely middle-income country. We need to overcome the low growth phase as quickly as possible. In the recent period, we have launched some schemes aimed at broadening the base of growth. These include the employment guarantee scheme, universalisation of education, expansion of rural health, and providing food security. All these programmes have made a substantial demand on public expenditure. It has been possible to fund these programmes only because of the strong growth that we have seen in recent years.

Development has many dimensions. It has to be inclusive, it must be poverty-reducing and it must be environment-friendly. We need to incorporate all these elements in the growth process. A healthy and balanced growth will enable the economy to achieve multiple goals. India has to follow a two'fold path of accelerating growth and addressing the vulnerable and weak groups directly through various schemes.

Reforms are not ends in themselves. Even growth is not an end in itself. Ultimately, growth triggered by reforms must benefit all segments of society. Equity and efficiency must be weaved together to provide an acceptable pattern of development.