

Twenty Five Years After

The Statesman

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In the history of independent India, July 1991 was perhaps the most eventful month in terms of significance and profundity of impact. While we had attained our political independence in August 1947, it was only in July 1991 that we could finally make an irrevocable break with the past and took active steps to attain our economic independence from the stifling state controls that had stymied the nation's growth for decades. It was in July 1991 that we had finally buried the disastrous legacy of Nehruvian socialism that had restricted the nation to a Hindu rate of growth since independence and kept its people depressed in endemic and abject poverty while flaunting a socialistic pattern of society whose commanding heights were guarded by the sentinels of a public sector defined by cronyism, patronage, pilferage and inefficiency. As the name of Jairam Ramesh's book "To the Brink and Back: India's 1991 Story" correctly suggests, we came back from the brink of disaster, from being perilously close to becoming a failed state.

Since the mid-eighties, the country had been sinking deeper and deeper into an economic quagmire, primarily because of the continued worsening of its balance of payments position, triggered by an overvalued currency. Gulf War exacerbated the crisis by swelling the import bills and dwindling our scarce forex reserves. Nehruvian economics of deficit financing led to escalating fiscal deficits which rose to 8.4 percent of GDP by 1990-91. Inflation ranged over 12%, and internal debt alone rose to 53 percent of the GDP. India's external debt increased to US\$ 72 billion from only US\$ 20.5 billion in 1980, making India the third largest debtor nation after Brazil and Mexico. By June 1991, with foreign exchange reserves fell to only \$ 600 million, or only two weeks equivalent of imports, and the prospect of defaulting on its external balance of payment obligations was looming ominously over the nation.

To escape the humiliating prospect of sovereign default, a desperate Government had to secure an emergency loan of \$2.2 billion from the IMF by pledging almost its entire stock of 67 tons of gold reserves as collateral. To complete the humiliation, IMF insisted on physical transfer of this gold, and RBI had to airlift 47 tons of gold to the Bank of England and the remaining 20 tons to the Union Bank of Switzerland. While this gold was being transported to the airport, the carrier van broke down, creating widespread panic. As a chartered plane ferried the precious cargo to London during the last 10 days of May 1991, an outraged nation and its hapless leaders were jolted out their deep slumber after 44 years. The Chandra Shekhar government that presided over this crisis collapsed shortly afterwards, and on 21st June 1991, P V Narasimha Rao took over as Prime Minister, with Dr. Manmohan Singh as his Finance Minister. What followed has made the country what it is today. As the New York Times had reported on June 29, 1991, "Mr. Rao, who was sworn in as Prime Minister last week, has already sent a signal to the nation—as well as the IMF—that India faced no "soft options" and must open the door to foreign investment, reduce red tape that often cripples initiative and streamline industrial policy."

It has been revealed that irrespective of the Government that was to assume power, the reforms nevertheless would have been launched then. The then Chief Economic Advisor Mr. Deepak Nayyar, and Mr Singh's predecessor, Mr Yashwant Sinha both had confirmed that any Finance Minister would have read the same Budget speech in June 1991. Dr Singh was fortunate to have his name inscribed in golden letters in the annals of India's destiny. As he had said in his budget speech that year quoting Victor Hugo that "no power on earth can stop an idea whose time has come" and asserting that "the emergence of India as a major economic power in the world happens to be one such idea. Let the whole world hear it loud and clear."

In that momentous month of July of 1991, the rupee was devalued by 7% and again by 11% within the first three days. On 9th July, the Prime Minister addressed the nation, highlighting the need for reforms and promising to remove the cobwebs that hindered the economy. A New Industrial Policy and a path-breaking Budget defining the course of reforms the country was to embrace were presented together on 24th July. In our universal eulogisation of Dr Manmohan Singh as the architect of India's economic reforms and the man who brought the country from the brink, we often forget that it was actually Prime Minister Rao, who was also the Industry Minister was the real architect of liberalisation. It was his industrial policy that had actually freed the economy from the suffocating License and Permit Raj architecture of the Nehruvian socio-economic philosophy and polity, built around a complex labyrinth of licences, permits and controls that dictated every facet of our production and distribution, setting up entry-barriers at every stage, and built a strong bias towards state ownership of the means of production. It viewed all private enterprises with extreme suspicion, and believed in the domination of public sector over every economic activity. It abhorred international trade and erected tariff barriers to prevent India's integration into global economy which in its myopic vision was capitalist and hence repugnant. It had infinite trust in the wisdom of its redoubtable bureaucrats and Planning Commission Members to control and direct the market forces towards India's growth.

The defined objectives of the New Industrial policy were to liberalise industry from all regulatory devices like licenses and controls, enhance support to the small scale sector, increase competitiveness of industries, ensure running of public enterprises on business lines and to ensure rapid industrial development in a competitive environment. The cornerstones of this policy were: (1) abolition of all industrial licensing, irrespective of the level of investment except for certain industries related to security and strategic concerns; (2) De-reservation of Industries for Public Sector and allowing private sector in all areas save three - arms and ammunition, atomic energy and rail transport; till then, public sector had exclusive reservation over as many as seventeen sectors; (3) Disinvestment of public sector and their restructuring by giving them more autonomy, closing sick units and reducing government stake in them to 26% or less; (4) Free Entry to foreign direct investment (FDI) and foreign technology for modernisation, and providing products and services of international standards, through a new FDI policy; and (5) Abolition of MRTP clearance for large industries and liberalising industrial location approvals.

There were many other facets of the reforms process, and each of these contributed to the creation of a competitive industrial climate, built around the private and not the public sector by unleashing their immense energy, innovation and entrepreneurship to create wealth and job for millions, and by attracting financial capital from across the seven seas. The most pronounced and visible impact of the economic

reforms unleashed in July 1991 has been a drastic fall in our poverty ratio, a dramatic improvement in our growth rates and a miraculous increase in the inflow of foreign capital and consequent built up our foreign exchange reserves. \$356 billion of forex reserves in May 2015 was way ahead of \$1.2 billion in June 1991, just as the nearly 9% growth achieved in 2010-11 was far above the Hindu rate of Growth we had been forced to live with for four decades after independence. But far more impressive is the fact that today the poverty rate by any measure would range around 20% compared to nearly 50% in 1991. That means at least 300 million people have escaped poverty because of the reforms. India of 2016 is far more integrated in the global economy and indeed it is an economic force to reckon with in today's world. Stagnation and despair of the 1990s are things of the past, today it is aspiration and growth. We have indeed left our dismal past well behind us, and all political dispensations universally agree that the reform process that was set off in 1991 is irreversible.

Reforms so far had penetrated all key economic areas from industry to fiscal and monetary policies, external trade, foreign investment, finance and capital markets. But there is still a whole lot of unfinished agenda in education, health, labour, employment, land and agriculture. Agriculture employs 55% of our population but generates only 16% of GDP, and nearly 660 million people are thus living on an average per capita income of about Rs 30000 – a meagre Rs 2500 per month, far below the national average. Our Human Development Index is among the lowest in the world, as are our educational standards and health indicators. Delivery of public services remains abysmal in quality and outreach. We need to address these concerns and areas now on a war footing, in order to take advantage of the demographic dividend to avoid a demographic disaster. We can no longer afford gradualism and incrementalism. With prospect for growth accelerating, enacting GST will indicate that we are keen on having a tryst our destiny very soon, but GST will be only a beginning of the second wave of reforms that will truly transform India into a global economic powerhouse.

As the nineteenth century philosopher Pierre Joseph Proudhon had said, “The life of man is a battle, that of society a perpetual reformation.” We have to continue to reform with ever greater commitment.