

theirview

SUDIPTO MUNDLE

is emeritus professor at the National Institute of Public Finance and Policy and was a member of the Fourteenth Finance Commission.

Taking stock: 25 years of economic reforms

A new book offers a holistic view of the ripple effects of liberalization—and points to its unfinished business

India's transformative economic reforms were introduced a quarter-century ago, in 1991. It is a good time to take stock of what has been achieved. Several recent articles and books attempt to do this. But *India Transformed: 25 Years Of Economic Reforms*—a collection of papers edited by Rakesh Mohan—is different. Contrary to expectations, it is not just a collection of papers by economists. But there are also papers by diplomats, journalists, other keen observers of the reforms and business leaders.

Some of the contributors, like C. Rangarajan, Montek Singh Ahluwalia, Venugopal Reddy, N.K. Singh and Mohan himself, were among the key technocrats who designed and implemented the reforms. Other contributors are leading entrepreneurs like Baba Kalyani, Deepak Parekh, Kiran Majumdar-Shaw, Mukesh Ambani, N.R. Narayana Murthy, R. Gopalakrishnan and Sunil Mittal. These entrepreneurs seized the opportunity of a new liberalized environment to transform their businesses into leading enterprises in their respective industries, in some cases on a global scale. Together with the policy technocrats, they give the reader a rounded picture of what was done, how it was done and how it changed Indian industry and the economy.

When India sought International Monetary Fund (IMF) assistance to deal with the crisis, that assistance came with reform conditions attached, as is usual for Fund programmes. This led to the belief that the liberalization reforms were imposed by the IMF and other multilateral institutions. Certainly, in the absence of the crisis, the rush to reform may not have played out the way it did, supported by an IMF adjustment programme.

However, the papers by Mohan, Ahluwalia and others chronicle how the dysfunction of the controlled "licence-permit" regime had already become apparent by the late 1960s. These controls, incidentally, did not originate with the introduction of planning in the 1950s but were introduced much earlier by the colonial government as measures for a war economy during World War II. This was the control regime that was finally dismantled almost 50 years later in 1991. Several committees had analysed different aspects of the Kafkaesque maze of controls and given reform proposals through the 1970s and early 1980s.

Thus the main components of reform were already on the table well before the 1991 crisis. Some partial reforms were even initiated during the 1980s, which saw a spurt in growth. But the reforms were then politically derailed, and it was only under P.V. Narasimha Rao that the full package of stabilization plus structural reforms was put back on the rails in 1991. Some of these reforms were implemented immediately following their announcement in the 1991 budget. Others were

implemented during the next one or two years. Yet other reforms were stretched over several years.

Different chapters in the volume discuss most of the major reforms announced in the 1991 budget, i.e., comprehensive liberalization of the industrial policy regime, trade and exchange rate policy, public enterprise reform, financial sector reform, reforms in energy and infrastructure and other policy reforms that followed. Fiscal policy is the only major reform that got excluded, for reasons beyond the editor's control, as he explained in a personal conversation.

One aspect of the economic reforms, coming as it did at the same time as the end of the Cold War, is its link to a complete transformation of India's foreign policy and its security doctrine. Three papers by Shivshankar Menon, Shyam Saran and Sanjaya Baru discuss this issue and a new security doctrine linked to economic power rather than just defence capability. However, while hoping that India will emerge as a major global power, Martin Wolf also cautions that India is still rising; it has not already risen.

An interesting theme running through the volume is a comparison of India's performance with the East Asian benchmark, especially China. But none of the papers asks why the broad sectoral composition and sequencing of reforms in India have been so different from those in East Asia. Ashok Gulati and Shweta Saini point out that agriculture was the starting point of reforms in China, but it has been largely neglected in India. This is despite the fact that agriculture is still the main livelihood for more than half of the Indian population and just the collateral benefits of trade and

exchange rate policy reform have made it a major net exporting sector. Similarly, the public provision of basic education and healthcare were key components of the East Asian experience but both are neglected in India, as pointed out by Devesh Kapur and Nachiket Mor, Diva Dhar and Sandhya Venkateswaran.

Another neglected reform highlighted by Sarwar Lateef is that of our governance institutions. Though these reform deficits are recognized, it is not clear why they were not prioritized despite the lessons of the East Asian experience. T.N. Ninan and others point out that reforms in India were designed to be non-disruptive, i.e., without losers. But that does not explain why reforms in agriculture, education and healthcare were ignored. These would have mattered the most for the large majority of Indians, most of whom are still relatively poor. Whereas our political institutions may be inclusive, economic institutions are not. The poor vote but they have little voice in policy reform.

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