

Twenty Years of Economic Reforms And Social Implications

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Abstract

India in 1991 was a poor, misgoverned country, derided as a bottomless pit for foreign aid. Today it is called a potential economic superpower, backed for UN Security Council membership by the US, and set to overtake China to become fastest growing country in the world. Far from suffering a lost decade India has become a miracle economy: social and welfare spending are at record levels: and Indian businesses have not only held their own but become multinationals themselves. India has averaged over 8% GDP growth in the last decade. Its savings rate has shot up from 22% to 34-36% in two decades. To everybody's surprise, India instead developed skill-intensive exports — computer software, business services, autos and pharmaceuticals. This skill-intensive path was totally novel, unrelated to any IMF-World Bank model, and arose spontaneously when economic reforms allowed Indians to innovate in unanticipated ways. However, this pattern is now threatened by a serious skill shortage which the highly flawed educational system is struggling to solve.

KEYWORDS : Economic Reforms, Social Implication, Poverty & Growth, Education, Health, Rural Development.

Introduction -

Twenty years ago, on June 21, 1991, Narasimha Rao became head of a weak minority government grappling with a terrible financial crisis. Yet he initiated economic reforms that eventually transformed India, and even the world. India in 1991 was a poor, misgoverned country, derided as a bottomless pit for foreign aid. Today it is called a potential economic superpower, backed for UN Security Council membership by the US, and set to overtake China to become fastest growing country in the world.

When economic reforms began, critics warned that India would suffer a "lost development decade" like African and Latin American countries in the 1980s that supposedly followed IMF-World Bank advice. Critics said fiscal austerity would cause mass unemployment and shatter safety nets, while economic opening up would enable multinationals to thrash and oust Indian business. All three criticisms stand exposed today as nonsense. Far from suffering a lost decade India has become a miracle economy: social and welfare spending are at record levels: and Indian businesses have not only held their own but become multinationals themselves. India has averaged over 8% GDP growth in the last decade. Its savings rate has shot up from 22% to 34-36% in two decades.

So, with just modest foreign capital inflows, India can sustain an investment rate of 36-38% of GDP, which can sustain 8-9% GDP growth. Per capita income has shot up from \$300 to \$1,700 in two decades. Fast growth has created a shortage of not just skills but even casual labour. Salaries have gone through the roof, and casual wages have shot

up by 40% in the last year in Bihar and Orissa. Fast GDP growth has yielded a tremendous revenue bonanza —central revenues are rising by over one lakh crore per year.

This has helped finance record spending on education and health, on welfare schemes (such as NAREGA and Sarva Shiksha Abhiyan), and on Bharat Nirman. However, these areas are still dogged by massive corruption and waste, and badly need reforms (China) based fast growth on labour-intensive exports. This was impossible in India because the very incomplete reform process excluded any labour reform.

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India has become world leader in frugal engineering, a concept that didn't exist a decade ago. Frugal engineering cuts costs by not just 10-15% under western levels but by 50-90%. One example is the Nano, the world's cheapest car. Indian telecom has the cheapest call rate of one rupee per minute. Narayan Hrudalaya and Aravind Netralaya perform heart and eye operations at a tiny fraction of the cost overseas.

Innovation has improved productivity so dramatically that merchandise exports are growing faster than 30% annually despite substantial real appreciation of the rupee. China and some other Asian countries have manipulated exchange rates to create large mercantilist trade surpluses. But the RBI has aimed at a modest current account deficit financed by capital inflows. This is more sustainable than the Chinese approach. Critics claim that fast growth goes. This is simply false.

Poverty has declined from 45.3% in 1993-94 to 32% in 2009-10 according to the NSSO. But NSSO consumption data now capture only 43% of consumption measured by the national accounts, so the actual fall in poverty is probably steeper. We now have politicians offering free TV sets and laptops at election time. If poverty were really deep, such ploys would lead to Marie Antoinette-style derision. Cell phone penetration is approaching 70% of households. These are signs of falling poverty.

The hunger ratio has fallen from 17.5% in 1983 to just 2.5% in 2004-05. Research by Devesh Kapur and others has demonstrated an astonishing improvement in the living standards and social status of dalits in UP since the reforms began. Literacy has improved by 21.8% in the last two decades, against just 13% in the previous two decades. In 2001-11, female literacy has outpaced overall literacy, and both have grown fastest in the poorest states. Bihar recorded an improvement of over 20% and 16% respectively in female and overall literacy. Nutrition indicators, however, remain terrible.

SOCIAL IMPLICATIONS-

The image of an “India Shining” post-1991 is hardly a representative or fully accurate portrayal of a country where over 100,000 villages have never heard a telephone ring. While the economic reforms of the 1990s did much to liberalize and stimulate growth, the direct beneficiaries were more affluent urban dwellers. About a quarter of India's one billion-plus population, who constitute a third of the world's poor, continue to live in poverty. Over 70% of Indians live in deprived rural areas. This is the challenge of

a country heralded as the home of the new Silicon Valley, where oxen and trucks share highways, and where preventable diseases like polio are rampant. In a country run largely by economists, social reform has lagged behind economic reform. The United Nations Development Programme ranked India lower based on its life expectancy, access to education, and standard of living than many countries with comparable, or lower, GDP per capita. India also has the world's largest illiterate and Disinfected populations. The state of Bihar seems to encapsulate all of India's woes – a poverty rate greater than 40%; utter corruption; a deeply rooted caste system which has historically limited opportunities to those born into the lower castes; and 75% of its villages without primary schools, health care, and electricity. In contrast, the state of Kerala is India's success story of social reform, which boasts over 90% literacy; health and mortality measures comparable to developed countries; and a strong commitment to universal education and equity. Still, over 90% of its residents are unable to find employment within the state. If India is to achieve continued economic growth and define herself as a world power, social and economic reform must occur in tandem.

POVERTY AND INEQUALITY-

Although poverty has continued to fall with economic reform, it is evident that growth in and of itself will not eliminate poverty. Over a quarter of the country continues to live in poverty. The widening of regional and interstate disparities during the 1990s, despite overall economic liberalization, highlights the importance of strengthening slow growing states. In China, there are relatively few poor, rural areas, but in India, these are the heartland. Wealth is generally more concentrated in urban rather than rural areas where the majority of Indians live. Economic growth also tends to be higher in wealthier states in the south and west such as Gujarat and Maharashtra than poorer states like Bihar, Orissa, and Uttar Pradesh in the north and east.³⁴ Investment will naturally flock to the more developed regions equipped with infrastructure advantages. Additionally, with mounting pressure from internal migration from depressed states like Bihar, investing in human development and poverty reduction in states left behind may be key to enhancing the national stability that allows liberalization and growth to proceed.

EDUCATION -

“You can say almost anything about India, and be right,” said an economist at the U.S. Embassy in Delhi. This may never be more true than when discussing India's education system, which produces both world-renowned engineers and one-third of the globe's illiterate population; education is perhaps the country's great unequalizer. Those graduating from India's top-notch Indian Institutes of Technology (IITs) and Indian Institutes of Management (IIMs) are poised to compete with the world's best and brightest. But the top accounts for only a tiny tip of a distorted pyramid. At its massive base, 40% of the population is illiterate, a rate worse than several sub-Saharan African countries. In all parts of the economy, the country's human capital presents a constraint, from looming shortages of high-tech workers to labor productivity in manufacturing that is about half that of China. Even within India's celebrated higher education system, few of the 2,000 engineering schools and numerous other institutions meet international standards. While popular media sources, from New York Times columnist Thomas

Friedman to Business Week, depict a vast pool of cheap, well-educated labor eager to snag jobs away from unprepared, complacent Americans, the system is already straining to meet demands for skilled workers. To hire 16,500 employees, Infosys must consider 1.3 million applicants, “which tells you how fast the funnel drops,” according to Mr. Purohit, head of strategic planning at Infosys. More generally, the scarcity of qualified workers is juxtaposed with a growing number of graduates looking for work, many whose skills and educational training bears little resemblance to the market’s needs. In fact, only 17% of India’s students pursue degrees like engineering or medicine. After decades of excessive focus on higher education and severe underinvestment in basic education, India is now making widespread progress on several education measures, as illustrated the chart opposite this discussion. In 2003, a constitutional amendment declared education a citizen’s “fundamental right.”

Significantly increased resources and broad initiatives like providing mid-day meals and targeting educational programs for lower-caste children have helped India implement its free and compulsory education laws. The huge challenge remains of improving the often abysmal quality of India’s government run primary and secondary schools. India has yet to demonstrate commitment to improving its woeful public management and service delivery, particularly at the local level. Inadequate, ill-equipped government schools overflow with children who have no choice, while those whose parents can scrape to afford it rush to private schools. Only a quarter of students who start government schools graduate from the 8th grade, and the term “multigrade schools” merely serves as a euphemism for one teacher and 250 students. Even when schools are structured differently, students share a similar reality: many teachers collect paychecks but simply do not show up for school, a striking example of the toll that petty corruption takes on the poor.

HEALTH -

Although India presents itself as an emerging power, its malnutrition rates – twice those of sub-Saharan Africa – say otherwise. About half of Indian children will forever bear the physical and mental consequences of what the World Bank calls the country’s “silent emergency.” That about 20% of children’s deaths in the world and a quarter of all maternal childbirth mortality occur in India further indicate the depth of India’s neglect of health. Even among similar-income countries, India’s expenditures on health are woefully low, at less than 1% of the country’s GDP and half of China’s per capita spending. And while AIDS is approaching epidemic proportions, it continues to receive relatively scant attention from the government. This utter neglect has also impeded India’s ability to receive foreign assistance to combat the disease. David Mulford, U.S. Ambassador to India, explained that a key reason the U.S. has not designated India a priority country in its global assistance against AIDS is that the Indian government has failed to demonstrate sufficient internal health care. Still, the picture of India’s health is not entirely bleak. Since Independence, the life expectancy of its population has increased astonishingly from about 32 years to almost 65 years, and its infant mortality rate has been halved (although it remains higher than in neighboring Bangladesh). Facilities and care for the minority who can afford it have reached world-class levels. While challenges are vast in addressing the health of the poor, innovative health programs that capitalize on the resources of the local communities offer promise. For example, the Tamil Nadu-based

George Foundation runs a village health clinic that trains villagers as health aids; provides pregnant women with education and clean supplies for inevitable home deliveries; and uses software to guide diagnoses and track local disease patterns in areas where doctors are scarce. Such programs need to be brought to scale by the government. However, similar social programs will not work without improvements to monitoring systems to address the inadequate delivery of public health services and exploitative private practices. Additionally, vulnerable families struggling to rise out of poverty need the protection of insurance so that health problems do not lead to economic devastation. The success of the government in designing and implementing such measures will largely influence how India's prosperity is experienced by the poor.

RURAL EMPLOYMENT -

If economic growth is to continue, employment opportunities must be made available to India's rural poor. Only about a million people or around 0.1% of India's population are benefiting from employment in India's rapidly growing outsourcing, IT, and services industries. The majority of people reside in rural areas. Roughly half of the poor are employed in agriculture, which makes up about a quarter of India's GDP, but its growth waxes and wanes with the monsoons. It also attracts only 7% of public and private investment, limiting its impact on overall economic and employment growth. India must strengthen labor-intensive industries like manufacturing if it is to reduce poverty and increase growth in rural areas. Fewer workers are being employed in the agriculture sector as the use of machinery and labor-reducing cropping techniques have increased. India's surplus of rural workers could be shifted to manufacturing textiles or to the construction sector given India's enormous infrastructure needs. Manufacturing, however, has in fact grown at an annual rate of 7%, but these gains have been due to increased productivity, not job growth. China's manufacturing market, on the other hand, has boomed with job-oriented growth. The labor-intensive textile industry could add an estimated 12 million jobs over the next five years if India would reform its restrictive labor laws and regulations.

GENDER -

One of the starkest indicators of India's gender disparities is the phenomenon of its "missing women". As experts consider it natural for the number of women in a population to outnumber men (due to "hardier" girl children and longer life expectancies), India's female-to-male ratio of only 93 to 100 suggests that poorer health and nutritional care of girl children has led to millions of premature deaths. Better education and economic empowerment generally reduce fertility rates and improve the health and nourishment of all children, in turn restoring more natural gender ratios. Once again, Kerala provides an example of what is possible – its female-to-male ratio is comparable to Western nations and its fertility rate at 1.3 is even lower than that of the United States, which hovers just around 2.1. One counteracting factor in improving gender ratios, however, is that educated Indian women continue to profess a strong preference for sons and are more likely to seek sex selective abortions. In fact, son-preference is so deeply ingrained throughout the population that Dr. Shelly Batra, M.D., a prominent Delhi gynecologist commented, "When a child is born, we don't say whether it is a boy or girl because the woman will go into shock." The country has made sex-

selective abortion a crime and has initiated a national campaign against the practice. Yet, despite an increasing percentage of women in the overall Indian population, the 2001 census showed a notable decline in sex ratios in the 0-6 age range – a decline that was most dramatic in wealthier states.

CASTE -

While caste is often portrayed as a feature of Indian life of fading importance, and one concentrated in rural areas, the caste system continues to assert itself through social inequalities and voting patterns. Efforts to address caste inequalities by affirmative action have been mixed and are consigned to the shrinking public sector. While Gucharan Das, author of *India Unbound*, argues that the increased competition of economic liberalization has worked to further undermine caste privilege in business circles by creating the need to hire based on merit rather than shared caste, this is irrelevant to the many floundering at the bottom without access even to clean water. Politically, while the divisions and identity politics run deep, recent elections offer a sliver of hope that India's politics is beginning to move away from a destabilizing emphasis on communities and caste and toward a focus on development and governance.

ENVIRONMENTAL CONCERNS -

With increasing industrialization, India has become the world's sixth largest energy consumer and home to some of the most polluted cities. India's energy needs have only exacerbated poor air quality. Over half of its energy generation comes from coal and its production of carbon emissions is expected to grow 3% annually until 2025, surpassing the U.S. rate of 1.5%. With an eye on growth, India did not sign the 2002 Kyoto Protocol, which set emissions caps. But India has recognized its need to address environmental issues, as signaled by its decision to join the six-country Asia-Pacific Partnership on Clean Development and Climate in July 2005 and its renewable energy initiatives. Overuse of energy and water are also environmental threats in rural areas. For example, poorly priced and heavily subsidized irrigation pumping has resulted in substantial waste of energy and water. The overuse of water sources has depleted groundwater levels in some areas by 1 to 3 meters per year, requiring the use of larger, power-eating and pollutant emitting pumps. Land degradation, deforestation, soil erosion, and water pollution also continue to complicate conservation and development in rural areas. Environmental concerns, however, are often secondary to growth. Removing subsidies and allowing market forces to dictate prices is politically difficult. And, even if programs are adopted, their success is often frustrated by the division of power between levels of government.

CONCLUSION -

India's next wave of reform must focus on improving the provision of education, health, and other social services in order to achieve higher growth rates. This will require higher levels of public investments through tax-increasing or subsidy-reducing legislation. Yet, India's governments continue to be saddled with large deficits, with funds spent largely on repaying debt. Even if more funding is allocated toward social programs, India must tackle corruption, power conflicts between central, state, and local governments, and the poor management and distribution of resources. Efforts must be

made to improve delegation of authority to local levels and to increase accountability and transparency. Only then will continued growth be sustainable and the social livelihood of millions of Indians be improved.

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