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New Economic Policy – A Tentative Evaluation

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I. Introduction

Immediately after coming to power in June 1991, the new government in India undertook a series of far-reaching economic measures as a part of the macro-economic stabilisation and structural adjustment policies (SAP). Starting with two quick devaluations, these measures included reforms in trade policy, in fiscal policy, in monetary policy and in industrial policy. All these measures followed a certain direction that had been articulated by the multilateral agencies like the World Bank (WB) and the International Monetary Fund (IMF). Quite a few third world countries had, during the 1980's, experimented with SAP. The multilateral Agencies made it a condition for India to undertake these structural adjustments before agreeing to salvage it from the foreign exchange crisis in which the country had landed itself because of the profligacy of its policy makers. Those very policy makers who used to swear by the name of Nehru, self-reliance and socialism, overnight started seeing great virtue in free market and competition, in integration of the Indian economy with the world economy, and in Foreign Direct Investment including that by the multinational corporations. Some of them even went to the extent of dubbing the Nehru era as a great blunder and the earlier policies as the main culprit for low growth and continued poverty of the country – because of large-scale distortions introduced into the economy through controls and licenses and through excessive reliance on inefficient public sector. The euphoria was so great that the whole post-independence period was being debunked as 'lost decades', lost due to the myopic vision of policy makers like Nehru, Indira, etc., who had blind faith in the fundamentally irrational self-reliance ideology. The collapse of the Soviet Union was cited as proof of the fact that ideological adherence to dogmas like 'socialism' could only end to a disaster.

Now that the changed policy has been in operation for over two years, it is worthwhile to undertake a critical review of the new economic policy and to see if and to what extent the hopes held by the protagonists of these policies have been fulfilled.

This paper is an attempt to undertake this evaluation. The paper is divided into six parts. After the Introduction in para 1, Part II describes in

general terms, the main constraints generally faced by developing countries in the process of development. It also brings out that quite often one or more of these constraints might result in bringing about a radical change in policy mix. In India, several turns and twists took place in the policy mix when faced with one or more of these interrelated constraints. Some of these are referred to in this section. This is followed in Part III by a brief review of the performance of Indian economy during the last 42 years (1950-51 to 1990-92). The genesis of the crisis of the 1990's is discussed in Part IV, which brings out, how and under what circumstances the foreign exchange constraint became binding and was primarily responsible for radical shift in India's economic policy during 1990-91. Part V gives a brief description of the components of the new economic policy. Part VI critically evaluates the performance of the Indian economy since the adoption of the new policy.

II. The Main Determinants of Development and Emerging Constraints

The process of economic development essentially consists of rapid capital accumulation and its investment in various sectors of the economy, particularly in manufacturing and infrastructual sectors with a view to modernising the economy, upgrading the technology of production and gradually transforming it from an agrarian to an industrial economy. This transition, which consists of bringing about structural changes through diversification of both sectoral income generation and of employment, is a long and arduous process.

Rapid growth in any developing country is contingent upon the following:

1. Availability of large savings for capital formation including development of infrastructure.

2. Availability of sufficient food and growth in food production for feeding the increasing population and for meeting increasing demand not only because of rise in population but also because of increase in per capita income.

3. Availability of sufficient foreign exchange with a view to meeting the import needs of critical inputs for modernisation and upgradation of technology. Particularly important are imports of machinery, raw materials and sometimes essential consumer goods.

4. Availability of sufficient skilled labour that can operate new and modern technologies can adapt these to domestic conditions and can help in development of indigenous R&D.

It may be stressed here that the above four factors are not exhaustive. Nor are these independent of each other. But the fact is that the non-availability of any of these could become a constraint to the development of these countries. Faced with even one of these constraints, developing countries are often forced to bring about necessary changes in policy mix.

In the case of Indian economic development, these factors have, from time to time, made policy makers undertake necessary adjustments. For

example, the two major exogenous shocks – 'The sharp increases in defence expenditure after 1962, and the two monsoon failures in 1965 and 1967. . .'[1] resulted in significant change in policy. While the former shock led to severe cut back in public investment, the latter resulted in large-scale food imports followed by the adoption of Intensive Area Development Programme (IADP) and later to the adoption of 'Green Revolution' technology. Again, faced with a severe balance of payment crisis, the government went in for substantial devaluation of the Rupee in 1966-67 and then went in for a Plan holiday for three years. Once again, the oil shocks in 1973 and 1977-78 made Indian policy-makers make some bold adjustments and to successfully come out of the crisis, particularly after the second oil shock of 1977-78. But all the above policy adjustments in India were within the overall framework of self-reliance.

There is a qualitative difference in the policy response in India to the unprecedented foreign exchange crisis of 1990. In the process of overcoming this constraint, policy makers in India have completely abandoned the earlier policy framework of self-reliance and of the dominant role of the public sector.

The circumstances in which this happened can only be understood in the context of a brief review of economic development in India since Independence, which is undertaken in the following section.

III. Performance of Indian Economy since Independence[2]

For India as a whole, taking the entire period 1950-51 to 1991-92, whereas the gross domestic product (GDP) recorded a growth rate of nearly 4.03 per cent per annum, the per capita income grew at a rate of 1.86 per cent. For analysis, it is convenient to divide the entire period into 3 sub-periods, namely, 1950-51 to 1964-65, 1967-68 to 1979-80 and 1979-80 to 1989-90. The two years of 'nineties can be left out for separate treatment. Taking the first sub-period 1950-51 to 1964-65, the GDP ecorded a growth rate of nearly 3 per cent per annum and per capita income grew at a rate of 1.87 per cent per annum. During this period (1950-51 to 1964-65), agricultural output recorded a growth rate of 3.01 per cent and industrial output a growth rate of nearly 7.5 per cent per annum. (Table 1).

Although the trend growth in agriculture during this period was quite satisfactory, it was characterised by large year to year fluctuations. Because of very rapid growth of population and large inter-year fluctuations in output, food availability emerged as a major constraint to the development process specially during the early 'sixties. Consequently, India had to import large quantities of foodgrains under PL480. These imports were helpful in feeding the population, however, they also had a deleterious effect on domestic production because they tended to lower price thereby eroding the incentive to the farmers to increase agricultural output. These imports also had an adverse effect on the morale of the Indian people as they were being forced

to live from ship to mouth.

During this period, a large part of the growth was due to area expansion consequent to land reforms and increase in irrigation. The technology of agricultural production during this period was mainly traditional and yield levels recorded only small increases. It was during the early 'sixties that serious efforts were made to modernise agriculture by bringing in scientific inputs and introducting new technologies under the Intensive Area Development Programme (IADP). These programmes which were confined to a few well-endowed districts, did have some success in increasing crop yields in these areas but their total impact remained limited.

The mid-fifties also saw the initiation of the Nehru-Mahalanobis strategy of industrial development. Essentially, this strategy underlined the role of a heavy industry and its development under the public sector with a view to establishing, in the long run, a socialistic pattern of society. This was a period when India was able to build a large infrastructure not only in heavy industry and machine building, but also in the areas of power, irrigation, scientific research establishments, roads, transport, and communications etc. It is this infrastructure which became the basis of rapid growth at a later period. It is interesting to note that during the Second and Third plans, that is, 1956-57 to 1965-66, the industrial growth measured in terms of net value added was quite respectable being about 7.1 per cent per annum.

Coming to the period 1967-68 to 1979-80, the overall growth during this period was 3.68 per cent per annum and the per capita income growth 1.24 per cent. India was still traversing what late Raj Krishna had christened as 'the Hindu rate of Growth'. But there were distinct differences in the sectoral growth patterns during this period.

In the area of agriculture, major developments took place because of the introduction of new Borlaug seed-fertiliser technology during the mid- sixties in some north-western states of India. Although the so-called Green Revolution technology was first introduced in Punjab, it soon spread to many other areas like Haryana, Western U.P. etc. To begin with, the new technology was confined to only wheat production. But in the early 'seventies, new varieties of rice were also successfully introduced and the rice revolution spread not only in Punjab and Haryana but also in many other parts of India including the coastal areas in the South. Thus, this period saw dynamic agriculture which grew at a rate of nearly 2.7 per cent per annum. The main source of growth this time was yield increases which contributed nearly 80 per cent to the total growth of agricultural output. (Table 2). This became possible because of large-scale use of modern inputs like assured irrigation, new seeds, fertilisers etc. in the Green Revolution regions of India.

The introduction of new High Yielding Varieties (HYV) seeds was accompanied, in many cases, by the use of labour-saving machinery, particularly pump sets and tubewells for lifting water, and tractors and threshers for harvesting and threshing. However, the output effect of agricultural transformation on labour far outweighed the labour saving

impact and on the whole the new technology proved to be 'labour-esque'.[3] The rapid growth in agriculture led to an even more rapid growth of the manufacturing sector in the Green Revolution region through input, output and consumption likages. Not only was there an increased demand for industrial inputs in modern agriculture, but the agro-processing industry also recorded rapid growth. Much more important was the creation of large consumption demand in the rural areas because of higher incomes originating in the rural sector. This led to large demand for consumer goods from the manufacturing sector and creation of a large market for domestically produced goods. However, the regional spread of the new technology was limited mainly to north-western states and to the coastal areas in the South. The inter-state variations in growth of agricultural output over the years 1962-65 to 1986-89 are presented in Table 3.

Despite the regeneration of agriculture in some regions, the record of industrial growth during this period was rather dismal. As a matter of fact this period is characterised by deceleration in industrial output.

Many reasons have been advanced to explain industrial deceleration in India during this period. The first is that although buoyant agriculture did create a market for manufactured goods, but the extent of the market was quite narrow because of the limited spread of Green Revolution. A large part of Indian agriculture was still traditional giving only low and subsistence income to the multitude of cultivators in general and to small and marginal farmers and landless labour, in particular. The second reason for industrial slow down was deceleration in public investment in general and investment in infrastructure, in particular. For example, non-availability of power became a serious constraint for manufacturing during the mid 'sixties. Poor management of power and other infrastructure further aggravated the situation. Some scholars have tried to point out that a major reason for deceleration was inefficiency in industrial production because of defective industrial policy environment including excessive protection and lack of competition. It is argued that inefficiency of resource use in manufacturing expressed itself in negative growth of total factor productivity during this period.[4] There is one school of thought which believes that the slow growth in manufacturing during this period was because of gradual structural changes taking place in the industrial economy of India. The economy was graduating from agro-pressuring dominated structure to that dominated by heavy industry and petro-chemical industries. This, it was argued, was also reflected in rising capital output ratio which was because of structural reasons and not because of reasons of inefficient operation. Without going into details about the causes of industrial deceleration, one can only note that this period witnessed a significant slow down in industrial production.

This brings us to the third period – the period of 'eighties. It is interesting to note that the Indian economy witnessed a turn around and broke many records during this period. The growth rate of income (GDP) increased to 5.76 per cent compared to 3.59 per cent during the earlier period. For the

first time, per capita income in the country started increasing at nearly 3.6 per cent per annum compared with a paltry figure of about 1.5 per cent during the earlier 30 years. This was a major breakthrough. Both agricultural and industrial output recorded rapid growth. While agricultural output grew at a rate of 3.5 per cent per annum, the industrial growth rate rose to 8 per cent per annum, the highest in the country's history. Services also recorded a creditable growth rate.

It seems rather paradoxical that the decade of the 'eighties which saw unprecedented growth should be soon followed by the severest foreign exchange crisis by 1990. An attempt is made to explain this paradox in the next part.

IV. The Genesis and Causes of the Crisis of 1990

In order to understand this paradox, one has to understand the relationship between internal and external resource generation. Growth depends on the quantum of investment, the technology of production and the efficiency with which capital is used in the economy. The high growth rate during the 80's resulted, among other things, from a much higher rate of investment in the economy and partly from a slightly lower capital output ratio than during the 'seventies.

The rate of investment has to be financed either by domestic savings or by foreign savings. To the extent domestic investment exceeds domestic savings, imports must exceed exports, thus adversely affecting foreign exchange balances.[5]

Table 5 gives details about the saving and investment ratios in Indian economy. It would be noticed that the saving rate in our economy which was hovering around 10-12 per cent during the 'fifties rose to above 20 per cent during the 'eighties. Thus India entered the club of high savers. (It may be noted that the saving rate in China as also in most East Asian countries was much higher). The other important thing to be noted is that during the entire period, except for 3 years during the 50's and 3 years during the 70's, domestic investment exceeded domestic savings resulting in large exchange deficits and foreign borrowings. This gap became especially high during the latter half of the 'eighties. The result was accumulation of large balance of payment deficits which were being financed by foreign borrowings. This led to a large increase in India's external debt – from \$23.5 bn. in 1980-81 to \$37.35 bn. in 1985-86 and to \$63.40 bn. by 1989-90. (With large scale borrowing from the IMF, the World Bank and other multilateral agencies, the debt had further increased to \$71.11 bn. by September 1992). (Table 6).

The failure to raise sufficient savings can be traced to fiscal irresponsibility of the governments both at the Centre and the states. At the Central level, the revenue receipts which used to exceed revenue expenditure till mid-'seventies became less than current expenditure and revenue deficits started mounting. While revenue receipts grew at a rate of 16.6 per cent per annum

during 1980-81 to 1990-91, revenue expenditure recorded a growth rate of 17.1 per cent. The deficit on revenue account kept on increasing over the years. Whereas it was 1.5 per cent of GDP during 80-81, it rose to 3.5 per cent of GDP by 1990-91.

There were several reasons for revenue expenditure to increase disproportionately and for fiscal deficit to mount. First was the fiscal irresponsibility of the Central and state governments to indulge in unnecessary expenditure for political reasons. Populist policies were followed to maintain support from large sections of voters. Further, in many cases ingenious ways were discovered to give generous donations to political parties, to finance elections, and some times to amass private wealth. There was complete laxity in incurring expenditure and in managing finances. State governments often ended up diverting large amount of Plan funds to revenue expenditure thereby hurting investment and growth of the economy.

The second important reason was inefficient functioning of public enterprises both at the state and Central level. Although the public sector made significant contribution in certain areas and helped to create a large industrial base, and many enterprises were running well, but as a whole it failed to generate enough surpluses for re-investment. Except for the petroleum sector, the rates of return were woefully low. The situation was and continues to be much worse in the case of most state public sector undertakings, Electricity Boards, Road Transport Corporations and Irrigation Works. Consequently, large resources invested in public enterprises have failed to generate necessary surpluses for expansion and development. Inefficiency in public enterprises is because of numerous reasons. The most important are: excessive interference by the government in their day-to-day management including making key appointments on political considerations, and tendency to treat public enterprises as milch cows.[6] Protected environment, excessive manpower, absence of competition, assured financing and low administered prices combined with lack of clear-cut objectives often led to laxity in management. The effort to tone up their administration through introduction of Memorendum of Understanding for setting up financial targets and norms were only partially successful. The inability of the public sector, the dominant sector of the economy, to run efficiently was a big drain on national resources.

The third reason was mounting expenditure on subsidies at the Central level. Subsidies on exports, fertilisers and food took away a major chunk of resources and these continued mounting overtime. At the state level, subsidies to power, road transport and irrigation were becoming larger and larger each year resulting in increasing burden on state exchequers. Once again, political populism was the main cause of cumulative increase in subsidy. For example, in spite of a general price rise of about 5.5 per cent a year, fertiliser prices were kept constant for more than 10 years since 1980-81 under pressure of the Kulak lobby. Again the Janata Government in 1989

announced a loan waiver for the farmers and this has cost the exchequer above Rs. 10,000 crores. The increasing subsidies on power and on irrigation were also due to the political clout wielded by the rich farmers specially after the advent of the Green Revolution. The export lobby was equally vocal and was able to maintain increased subsidies on exports. It was only the food subsidies which could be justified as they helped the poor although in this case also there is considerable room for improving the efficiency of the food distribution system.

The fourth reason was the increasing burden of interest payments on mounting internal debt. This was both a cause and effect of excessive public expenditure. Since the current revenue could not finance even the current expenditure, the only way to finance investment was through internal and external borrowings.

Internally, the government was raising resources through borrowings from the commercial banks and other public financial institutions etc. There were captive lenders because they were forced to keep a large proportion of their deposits in the form of cash reserves and in liquid assets like GOI bonds because of high cash reserve ratio (CRR) and statutory liquidity ratio (SLR) prescribed by the RBI. The pre-emption of funds by the government could not be faulted in principle if these were productively employed. However, as discussed earlier, their investment in public sector did not bring in appropriate returns.

With increasing recourse to borrowings, the internal debt increased at a rapid rate and interest payments started claiming a large proportion of revenues. By 1990-91, internal liabilities had increased to 53.3 per cent of GDP compared with 35.6 per cent of GDP in 1980-81. Further, gross interest payments accounted for as much as 23.7 per cent of total expenditure compared with 11.6 per cent in 1980-81. While interest payment constituted 1.9 per cent of GDP in 1980-81, the proportion rose to 4 per cent by 1990-91. In fact, grants to states constituted much a smaller proportion than the interest payments. The interest payment burden could not be decreased unless steps were taken to reduce the internal debt.

The progressive increase in the levels of statutory liquidity ratio (SLR) and cash resource ratio (CRR) over the years with a view to pre-empting the bank resources for government expenditure and investment also put the banks in great difficulty. While the SLR and CRR funds were being invested in the government's low income earning assets thereby reducing bank profitability, the banks were forced to charge high interests rates on their commercial sector advances. This in turn raised the cost of borrowings for the private sector thereby adversely affecting new investments and reducing their competitiveness.

Another item which took away a large part of the government revenue was expenditure on defence which though necessary adversely affected resource position and resulted in diversion of scarce funds from development.

Thus it was the mounting revenue expenditure by the Central and state

governments that was responsible for increasing the fiscal deficit of the government. The deficits meant larger recourse to borrowing from the RBI and hence an increase in money supply and inflationary pressure. Deficits also resulted in balance of payment difficulties. These also pre-empted funds for the government and raised the cost of borrowing by the private sector for investment.

In addition to internal borrowings, the need to finance large capital expenditure and import of machinery and equipment and raw materials including oil, necessitated large borrowings from abroad. This became necessary as exports were not growing rapidly enough to pay for increasing imports and payment of interest and principal on foreign debt. Thus foreign borrowings were being used as a substitute for internal savings. This naturally led to a gradual increase in foreign debt and aggravated the debt burden on the economy.

The source of foreign borrowings also underwent some important changes. Till the beginning of the 'eighties, foreign borrowings were primarily on government to government basis or through IDA soft loans. These loans carried low interest rates. However, during the 'eighties, the government increasingly resorted to commercial borrowing from the banks which charged much higher interest thereby increasing interest and repayment liability. So long as India's credibility was good, this went on quite merrily although the payment on account of interest and capital became quite onerous. By 1990-91, nearly 28 per cent of total exports were required to service the payment of interest and re-payment. Further, the total external debt as a percentage of GDP had increased from 13.7 per cent in 1980-81 to 27.3 per cent by 1990-91.

In addition to the foreign banks, another source of financing external deficit was borrowings from the NRIs. Relatively high interest rates were given to attract NRI deposits thereby increasing the interest liability. So long as the international credibility of India was high, these loans were easily forthcoming and the country could go on living merrily on foreign borrowings.[7]

However, things started happening in quick succession in 1990 which brought India to the edge of a precipice. The main developments were: Gulf war in the second half of 1990 which led to sharp rise in oil prices and increase in oil imports; the drying up of remittances from workers in the gulf, and disruption of trade and drastic reduction in exports to Middle East. The political situation also became unstable with the coming to power of a minority government in November, 1990. This was accompanied by loss of confidence in the governments'ability to manage the situation. The result was drying up of short term credit along with a net outflow of NRI deposits. The downgrading of India's credit rating by Moody further aggravated the situation. Thus, in spite of borrowings from the IMF, the foreign exchange reserves declined from Rs. 5,480 crore in August 1990 to only Rs.1,666 crore on January 16, 1991. There was a real danger of the government defaulting

and for the first time, the Government of India had to mortgage gold physically to finance its necessary foreign exchange transactions.

It was in this background that the new economic policy was introduced. The multilateral agencies like the IMF and the World Bank had, for a long time, been advocating a radical change in India's policy and a programme of structural adjustment for the Indian economy. This time they insisted that the policy makers undertake such reforms before they agreed to salvage the country from the foreign exchange crisis. To what an extent these reforms were actually helpful to the economy will now be discussed after briefly describing the main components of the macro-economic stabilisation and structural reforms programme as applied in India.

V. The Main Components of Structural Reforms and Stabilisation Policy in India initiated in 1991

The new economic policy introduced in India in June 1991 consisted of a package of measures for stabilisation and structural adjustment of the economy with the avowed aim of restoring macro-economic balance, increasing the efficiency of resource use and creating conditions for sustainable growth. The measures which were initiated in June 1991 have been announced by the government in Parliament and outside and well articulated by the Finance Ministry in its various documents. The annual budgets presented by the Finance Minister contain a comprehensive description of these measures.

Essentially the new policy package consisted of short term immediate measures like devaluation of the rupee, restraint in public expenditure and reduction of fiscal deficit, and dismantling of barriers to free flow of foreign capital. The short term stabilisation measures were combined with undertaking a medium term structural adjustment programme (SAP) in the foreign exchange and payments regimes, tax system, industrial policy and financial and other sectors. A brief description of fiscal reforms, trade policy reforms, industrial reforms, reforms in foreign investment policy and public sector reforms already introduced are given below. This also includes the highlights and main points of the reforms agenda of the Finance Ministry for the next three years.[8]

(a) *Fiscal Reforms*

Since mounting fiscal deficit was identified as the major cause of balance of payment crisis of 1990, the new economic policy gave top priority to reduce it and eliminate it over time. The first budget, introduced by the new government in 1991 aimed to reduce the fiscal deficit from 8.5 per cent of GDP in 1990-91 to 6.5 per cent by 1993-94. The current account deficit was also to be reduced from 3.5 per cent in 1990-91 to less than 1 per cent by 1995-96. In order to reduce excessive reliance on borrowings, a series of steps were initiated and a Tax Reform Committee (Chelliaha Committee)

constituted to give a comprehensive plan for tax reforms. The Committee has now given its final report on reforms in the area of direct taxes, excise and customs duties. The government intends to undertake these reforms over a period of time.

In continuation of the steps already taken, the Ministry of Finance, in its recent Discussion Paper, laid down the following agenda for fiscal correction for the next three years:

(i) To reduce current account deficit in balance of payment from 2.2 per cent of GDP in 1992-93 to below 1 per cent by 1996-97.

(ii) To reduce fiscal deficit of Centre and states together from 7 per cent of GDP in 1993-94 to 5 per cent and of Central Government from 5.0 per cent in 1992 to 3 per cent of GDP by 1996-97.

The reduction would be brought by: reducing fertiliser subsidy considerably and limiting it to only small farmers; increasingly targeting food subsidy to the vulnerable groups; reducing petroleum produce subsidy; fixing higher administered prices for utilities like power, irrigation, public transport; charging higher prices for services like higher education and health facilities; encouraging competition from private producers to ensure efficiency; reducing budgetary support to public sector undertakings; and by taking steps for containing government expenditure.

Tax reforms would include extension of MODAVAT and gradual move towards value added tax in the area of domestic indirect taxes. Custom duties are to be further reduced from a maximum of 85 per cent to 50 per cent and reduction of average tariff level to 25 per cent. Under direct taxes, moderate rates have to be introduced with fewer tax reductions. The agenda also includes greater stress on human resource development, particularly primary health and primary education. Higher education and non-basic facilities would have reduced subsidisation. The anti-poverty and employment programmes and rural development programmes are to be strengthened to help the poor.

(b) *Exchange Rate and Trade Policy Reforms*

The first step in exchange rate reform was devaluation of the Rupee by 22 per cent in two phases in June, 1991 itself. The aim was to give a boost to exports and dis-incentive to imports. Devaluation of the Rupee was followed by first the introduction of Exim Scrips and later by the introduction of the Liberalised Exchange Rate Management System (LERMS) through which licensing controls were eliminated to a large extent and partial convertibility of the Rupee introduced. Finally, the present unified exchange rate system was introduced which has brought full convertibility on trade account. The ultimate aim is to introduce convertibility on both current and capital accounts with a view to allowing the exchange rate to reflect the scarcity of foreign exchange.

The exchange reforms were accompanied by radical changes in export-import policy. The import licences were done away with except for consumer

goods and a short negative list. Imports of capital goods and of raw materials were freely allowed. The very high customs wall that had been created to protect indigenous industries was to be gradually demolished. Import duties were drastically reduced from 150 per cent maximum duty in July 1991 to 110 per cent in Feb. 1992 and 85 per cent in Feb. 1993. Duties on capital goods were reduced to 25 per cent generally. Other measures taken were: free import of gold and silver.

The avowed aim of trade reforms was to integrate the Indian economy with the world economy, expose domestic protected industries to international competition, eliminate high cost industries and remove discrimination against labour intensive agriculture and small scale manufacturing.

The Ministry's agenda for the next three years envisages further liberalisation of trade policy and infrastructural investment with a view to encouraging growth of exports for bringing external stability. Special steps are proposed to be taken to improve the performance of the petroleum sector which is crucial to reforms. This would also involve a rise in petroleum prices. Further, urgent steps are proposed to be taken for promoting tourism and encouragement of FDI.

(c) *Industrial Policy Reforms*

A major change was brought about through the new industrial policy of July 24,1991 with a view to deregulating and almost completely freeing industry from controls and licences.

The aim was to promote the growth of a more efficient and competitive industrial economy. The new measures included: (i) abolition of industrial licensing in all but 18 strategic areas; (ii) amendment of MRTP Act and freedom to large houses to expand and diversify; (iii) drastic narrowing down of the area for the public sector by reducing the reserved areas for it from 17 to 8; (iv) creation of a National Renewal Fund with a corpus of Rs. 200 crores with the objective of re-training workers and to providing a 'safety net' to retrenched workers.

(d) *Foreign Investment Policy*

An attempt was also made to facilitate the inflow of foreign direct investment (FDI), as the new policy unlike the old one placed great emphasis on FDI. It was argued that like China where annual FDI flow as nearly $10 bn. to $15 bn., India could also tap this vast potential.

The following steps were taken to attract FDI:

(i) The limit of foreign equity was raised from 40 to 51 per cent in a wide range of (34) priority areas, subject only to registration procedures with the RBI.

(ii) The Foreign Exchange Regulation Act (FERA) was duly amended to remove constraints on foreign companies as also Indian companies to operate abroad.

(iii) India signed the Multilateral Investment Guarantee Agency (MIFA)

Convention to promote foreign investment.

The policy makers have tried to allay the fear that FDI may swamp India's economic independence. The Finance Ministry paper argues that with a total investment in industrial sector of Rs. 66,000 crores (about $22 bn.) which is likely to record an annual growth of 8 per cent per annum, even a $1 bn. FDI by 1995-96 would constitute less than 4 per cent of total industrial investment in India. (But what happens if FDI reaches $5 bn. a year?).

(e) *Public Sector Reforms*

In addition, significant reforms were proposed for reform of the public sector. These were: (i) disinvestment of public sector equity up to 49 per cent in profit making public enterprises, (ii) withdrawal of support to loss making public enterprises after 1994-95, (iii) jurisdiction of BIFR to be extended and applied to sick public enterprises also, and (iv) more freedom in fixing prices.

(f) *Financial Sector Reforms*

Financial sector reforms constituted another important component of the new economic policy. The government set up a committee called the Committee on Financial Reforms under the chairmanship of Mr. Narsimham which submitteed its report in 1991. The proposals given in this report have been widely discussed and some of these have already been implemented.

The financial sector reforms envisaged reducing the SLR from 38.5 per cent in 1991-92 to 25 per cent over the next three years and reducing the CRR over a four year period to a level of 10 per cent. The first step was taken in April 1992 when SLR on incremental demand and time liabilities was reduced from 38.5 per cent to 30 per cent. Steps were also taken to reduce the incremental Cash Reserve Ratio.

Another area of reform related to income recognition provisioning and capital adequacy in line with accepted international standards. A provision of Rs. 5,700 crores was made in the budget for 1993-94 for the capitalisation of capital of banks which was bound to get eroded because of implementation of new norms.

Finally, much greater freedom was proposed to be given to the private banks and foreign banks to operate in the money market.

(g) *Capital Market Reforms*

Some important reforms were also initiated in the capital market. The need for these was brought home because of the financial and the security scam that took place in India during 1992. These reforms include (1) setting up of an independent authority called the Securities and Exchange Board of India (SEBI) in 1988 as a statutory body and the abolition of the office of the Controller of Capital Issues. The SEBI is in the process of preparing comprehensive rules and regulations governing various aspects of stock

market and operations with a view to improving trading practices rules for disclosures and other measures, (2) private sectors mutal funds have been allowed to operate, (3) a national stock exchange is proposed to be set up, and (4) financial institutional investors such as pension funds, mutual funds, etc. have been allowed to invest in the capital market subject to SEBI guidelines.

VI. Critical Appraisal of the New Economic Policy

The new economic policy was adopted when India was facing the severest economic crisis combined with rapidly declining foreign exchange reserves. The multilateral institutions like the IMF and the World Bank had been for a long time wanting India to undertake a structural adjustment programme already implemented under their direction by most of the developing countries during the 1980's. Certain steps were also taken in India during the 'eighties, to liberalise the economy and to ease the inflow of foreign investment and modernise a part of the industrial sector. A great deal of success was also achieved in areas like cement, steel and heavy engineering. However, those policies fell far short of abandonment of self-reliance and full integration of Indian economy with world economy through a complete overhaul of its tariff policy and structural adjustments. The new economic policy introduced in a crisis situation sought to seek a complete break with its past policies through the adoption of a comprehensive programme of structural reforms. This policy was aimed at liberalising the economy by abolishing controls and licences, by undertaking drastic reductions in the public sector and by integrating the Indian economy with the world economy. The multilateral agencies made it a condition for India to restructure its economy before they agreed to salvage it from its most serious foreign exchange crisis. Whatsoever may be the contention of the present government, the fact of the matter is that the reforms were undertaken under duress.

What are the likely consequences and what have been the gains and losses of the liberalisation undertaken recently? A critical appraisal of the new economic policy can be done at two levels. At one level, the question to be asked is to what extent SAP can be mechanically applied to all countries and to what extent can it help these countries to raise their growth rates and make them more efficient. At another level, the evaluation should be based on the analysis of economic development since the reforms were introduced.

Many scholars have expressed serious doubts about the efficacy of SAP and its universal applicability. This is because of several reasons. First, SAP is based on the assumption that a reduction of fiscal deficit through cutting public expenditure would ultimately lead to reduction of inflationary pressures in the economy and would thereby achieve macro-economic stability in the short run. However, quite often the achievement of stability is at the cost of investment and long term growth of the economy. The second

assumption made under SAP is that the correct exchange rate achieved through devaluation would end discrimination against tradeables and would encourage these countries to develop and specialise in those areas in which they have a comparative advantage. This, in turn, would encourage the export of labour intensive agricultural and other agro-processing products. Consequently, this would also result in higher employment generation in the medium period. Simultaneously, the devaluation of overvalued currency would expose protected industries to competition and make them efficient. It is recognised that in the short run, fiscal compression would lead to deflation and loss of employment. However, SAP envisages an appropriate framework of safety nets for taking care of the workers and other poorer sections who would be adversely affected.

There are several flaws in the arguments. The deflationary impact of reduced public expenditure generally effects investment and social sectors thereby having an adverse impact on long term growth and welfare of people. The belief that specialisation in labour intensive agriculture and manufacturing would provide a long term solution to the developing countries is also misplaced. It is true that initially labour intensive exports did play an important role in many South-East Asian countries. But their potential got exhausted quite soon. The experience of South Korea and Taiwan is that the developing countries have to specialise in high technology and capital intensive exports if the tempo of growth is to be maintained. Hence, the solution is not low technology labour intensive agriculture and small scale manufacturing, but specialisation in sophisticated high technology industries. This in turn, makes it imperative that much larger investment be undertaken in R&D and in new technologies. Further, it is pointed out that the hope that FDI and multinational corporations would bring in superior technology may not be always fulfilled. Multinationals have evolved systems where they keep the more sophisticated technologies to themselves and are prepared to parcel out the well known lower level of technologies to the collaborating countries. The East Asian experience also suggests that the purchase of technology and its adaptation to local conditions through 'learning by doing' is a much more efficient method of graduation to better production technologies.

Finally, there is always a danger that SAP might ultimately land the countries in a serious debt trap. The experience of Latin American countries shows that this is a realistic danger. In their case special measures had to be taken to soften the impact of excessively larger repayments. These included the sale of equity to foreign banks, special multilateral financing, etc. etc.

The very assumption that integration of the economy with the world economy would always be beneficial has been questioned on the ground that the main beneficiaries in such integration are generally the developed countries. For instance, the developing countries succumbed to the pressure of the developed countries and had to sign the Dunkell draft. Some of its provisions, particularly those relating to Trade Related Property Rights

(TRIPS) are highly detrimental to the interests of developing countries. In any case, the benefits of integration, if any, get eroded if the growth rate in developed countries decelerates as is the case now. A recessionary world economy hardly confers any benefits to the integrating economies – instead it can only make them bear some of the costs of recession.

Finally, SAP by putting too much reliance on integration with the world economy quite often fails to recognise the peculiarities of different countries. For example, its assumption that through integration with the world economy exports would become the main engine of growth is perhaps correct for small and scarcely populated countries. However, for large countries like China and India where agriculture constitutes the dominant sector of the economy, it is growth in agriculture which generates the necessary impulses for agriculture-based industrialisation through the generation of input, output and consumption linkages. It is the creation of a large domestic market consequent to rapid agricultural growth that becomes the basis of industriali-sation in these countries. This in turn requires a great emphasis on develop-ment of rural infrastructure including irrigation, markets, agricultural research and development. SAP fails to emphasise this aspect and generally concentrates on exports being the sole engine of growth.

At the second level, the new economic policy can be evaluated by critically examining the outcome of reforms. It may be stated at the outset that a long enough period has not passed so as to enable us to realistically evaluate a policy change of this magnitude. However, it is possible to draw some tentative conclusions.

One can start with agreeing to the proposition that in India lots of fiscal distortion had crept in over a period of time. For example, the fiscal irresponsibility and populism of various governments led to very serious domestic fiscal crisis which spilled over to the foreign sector. The ad hoc measures taken to meet the crisis often ended in further aggravating it over time.

It is notable that the brewing crisis in Indian public finance was extensively discussed by the economists. However, the political authorities chose to ignore the warnings of impending crisis. In fact, various political parties vied with each other in advocating populist measures. It is rather pathetic that the political authorities agreed to take corrective measures only under duress, when these were made a part of the IMF-World Bank conditionalities. Hence, certain aspects of the new economic policy which make political authorities aware of these distortions (the sins of populism) in the fiscal system should be welcome.

However, even while recognising the need for reform, the government has not found it politically expedient to fully pass on the burden of fiscal correction to the better off sections of society. For example, after fertiliser prices were raised by 30 per cent during 1991, it has not been possible for the government to further reduce the fertiliser subsidy because of opposition from the Kulak lobby. Consequently, the fertiliser subsidy is likely to cost the

governent about Rs. 6200 crores during the current year. The withdrawal of subsidies on power, irrigation and transport is also being vigorously opposed by the Kulak lobby. Nor has the government been able to curtail many of its wasteful expenditures. Instead, it has not hesitated to indulge in new populist measures like increasing the perks of Members of Parliament and giving each of them Rs. 5 crores for initiating development schemes in their constituency. It is no wonder that after crossing the target of reduction in fiscal deficit and having brought it down to 5.5 per cent in 1992-93, the fiscal deficit is likely to rise to 6 per cent of GDP during 1993-94. Significant concessions had to made in a period when four important states went to the polls!

The result is that during the last two years, fiscal deficit in India has been reduced not through reduction of subsidies or through curtailing the unnecessary expenditure particularly in government administration, but the axe has fallen on investment in crucial areas like power, irrigation and other infrastructures and on human and social capital formation. Even Bhagawati and Srinivasan, the great supporters of the Indian reforms, have pointed out that 'the reduction in developmental expenditure appears to be taking the brunt of the successful effect to cut budget deficit: this could create difficulties down the road.'[9] The fiscal compression undertaken by the Government has adversely affected investment and is bound to constrain long term growth. Although, an attempt was made to redress the imbalance to some extent in the 1993-94 budget, nevertheless in real terms, total Central and state investment in both physical and social infrastructure has registered a significant decline specially when Central and state outlays are taken together.

Specially serious has been the slow down of investment in agriculture as is now admitted even by the Finance Ministry. Investment in irrigation, rural electrification and in agriculture has been neglected for the past 7-8 years. It is fortunate that because of good monsoons during the last five years – a record period, agricultural production has been satisfactory. However, its growth has not been anywhere as high as is needed. Keeping in view the long gestation period for the fruitition of major power and irrigation projects, the present slow down in their investment is likely to constrain and reduce the potential for future growth. The current attempt to invite foreign investment in the power sector by ensuring them a return of 16 per cent on their capital is a desperate and highly costly move to solve the problem. This has been criticised widely including even by many supporters of liberalisation as being detrimental to the national interest.[10] Adequate infrastructure being a necessary precondition for accelerating growth and for export promotion, one is not sure how the economy is going to grow at a faster rate during the coming period.

The other consequence of excessive fiscal compression has been the emergence of a deflationary situation and a near recession in the Indian economy. It was expected that the growth rate of the economy would

accelerate over a period of 2-3 years. However, the actual experience in this regard has been rather dismal. The growth rate fell considerably during the first year from 5.2 per cent for 1990-91 over 1989-90 to only 1.4 per cent during the next year. This was expected, but in spite of good performance by the agricultural sector, the second year also did not see much growth. The policy makers face a dilemma – they have to undertake fiscal compression in order to bring about structural changes and also to reduce the rate of inflation. This policy succeeded in so far as the inflation rate came down from a high of nearly 16 per cent during June 1991 to a low of 6.1 per cent in June-July, 1993. (The inflation rate during December, 1993 has already climbed up to 8.1 percent per annum). However, this was because of reduced government investment, large import surplus and deflationary conditions prevailing in the economy. The moment the government expenditure increased and the economy started recovering and exports became buoyant, the inflation pressures started re-asserting. By December, 1993, the inflation rate had already climbed up to 8.1 per cent and the same is likely to touch a double digit figure by the end of the financial year. How to come out of this recession and accelerate growth without confronting inflation is a major challenge. For this there is no other alternative but the classical method of increasing domestic savings and employing these for creating larger production capacities in infrastructure and in various production sectors.

Another serious impact of fiscal compression has been drastic reduction in investment in education and health. In India, large planned investment in the secondary and higher education enabled the country to build a reasonably large stock of educated and trained population. The farsighted policy under Pt. Nehru resulted in the creation of a large number of engineering colleges, medical colleges, IITs, agricultural universities and universities and other centers of higher learning. As a result, India can today boast of having the fifth largest pool of scientists in the world who are comparable with the best in any part of the world. However, recently there is a direct attack on higher education where expenditure is being reduced in the name of giving priority to primary education. Further, merit is being pushed to the background and repugnant practices like capitation fee are finding favour with some policy makers in the name of privatisation. Under these circumstances, reduction in investment in higher education is bound to erode India's comparative advantage in this important area.

One of the most serious problems with the new policy is that in spite of all the trade policy reforms, the exports growth did not show much expected buoyancy and acceleration. During 1991-92, the rate of growth of exports was negative (–1.5) per cent and did not rise much in 1992-93. The alibi during 1991-92 was collapse of trade with the erstwhile Soviet Union – the new alibi in 1992-93 was post-Ayodhya riots – but these are hardly convincing.

During the current year, initially there was a spurt in exports when these registered a rise in dollar terms of 25 per cent during the first six months of

1993-94 compared with the same period in the previous year. This had given high hopes of a real breakthrough on the trade front. But the performance during the subsequent period was much less bright and the whole year is now likely to end up with export growth of about 12-15 per cent. On the face of it, it seems a creditable performance, but in actual practice it is not so as the comparative base during 1992-93 was much depressed. Secondly, the export growth is not accompanied by rise in imports – the latter actually have shown a negative growth rate of 2.2 per cent. As a real recovery in the economy including a major breakthrough in exports is contingent upon increased imports of machinery and raw materials, the export rise experience so far should not become the basis of excessive optimism.

India has been able to maintain its international credibility because of its high rate of borrowing from the IMF and other agencies. However, although this has made the foreign currency reserve position comfortable, foreign debt has been mounting because of these borrowings. During the last few years, the debt has been increasing at a rate of nearly $4 billion a year, having increased from $63.4 bn. in 1990-91 to $71 bn. by September, 1992. By now it must be approaching a figure of $75 billion, since at the moment the current account deficit amounts to about $4 to $5 billion a year. In 1992, international debt constituted 27.3 per cent of GDP (Table 6). The debt service has already touched of a figure of 23 per cent of current receipts and 28 per cent of export earnings. (Table 6). India seems to be fast getting into a debt trap.

There are three ways in which any country can finance its current account deficit. (a) rise in exports, (b) foreign direct investment; and (c) loans from private or from multilateral institutions. It is estimated that in order to bring down the current account deficit to a reasonable level of 1 per cent of GDP, compared with the present (1992-93) level of 2.2 per cent, exports must record a growth rate of at least 15 per cent per annum in dollar terms.[11] This is quite an ambitious target.

Regarding foreign direct investment, till recently there was no real breakthrough in this regard. The recent paper issued by the Finance Ministry points out that so far 3 bn. worth of FDI proposals have been cleared. However, it immediately admits that this does not mean that the same amount will actually be invested. In fact, the total amount that had come through FDI is only half a billion dollar, till the end of March, 1992, although it is claimed that recently there has been spurt in FDI and another $1.2 bn have recently come through FDI. Further, another estimated $1.5bn is estimated to have been invested in old shares and in new ventures by the Foreign Financial Institutions (FFI's). Although the mood in some circles is upbeat, but as yet data are not available.

Coming now to the third source, that is loans from the multilateral agencies and from private sources, a few points need to be made. First, the proportion of concessional IDA type of loans has now become very small and most of the borrowings carry much higher interest. The soft IDA loans are

now being increasingly diverted to former East European countries. The loans from IMF and the World Bank are now much more costly than these used to be. Even more costly are the loans taken from either the NRI's or from financial institutions like private foreign banks. It is estimated that the highly volatile and high interest earning deposits by the NRI's amounted to nearly $10 bn. In fact, it was these loans which were an important element in the foreign exchange crisis faced by India during 1990-91. Hence, India has landed itself in a situation where in order to be solvent, more and more reliance has to be placed on foreign borrowings. It is a pity that the latest Finance Ministry paper only makes a passing reference to this extreme danger, and Bhagwati and Srinivasan, who were commissioned to review the reform policy have tried to side-step the issue by providing a sophisticated rationalisation for foreign loans and by emphasising the need to quicken the pace of reforms.[12]

To sum up, it is certainly premature to make a final judgement on the consequences of the new economic policy initiated in India in June 1991. This is because first, two years is too short a period to make a proper assessment. Secondly, the economic conditions are undergoing a change in such a rapid manner that many short term developments tend to get reversed quickly and this makes evaluation of this policy quite difficult. An attempt has been made in this paper to bring out both the positive achievements as well as negative impact of the new policy. The achievements consist of bringing down the rate of inflation from a high of 16 per cent to less than half that rate within two years, reversing the trend in foreign exchange crisis by building a creditable foreign exchange balance of $ 9.9. billion compared with less than $ 1 billion in 1991 and thereby imparting credibility to the viability of the Indian economy and bringing down the deficit from 6.5 per cent of GDP in 1991 to 4.5 per cent in 1993.

Further, with the removal of industrial controls and radical change in FERA, foreign direct investment and investment by FII's has been made easier. It is estimated that by December 1993 $1 billion each has been received from these two sources. The trade policy reforms have started yielding dividends as exports are expected to have registered an increase of 25 per cent during the first 6 months of 1993-94 over the same period in 1992-93. This would certainly alleviate the debt repayment burden to some extent, but might bring in some more problems in their wake, these being excessive rise in share prices and gradual take over of Indian enterprises by foreign companies. Fearing large foreign direct investment, Indian industrialists have already started talking about level playing field.

Despite these achievements there have been some significant weaknesses of the new policy. First, most of the positive indicators are quite deceptive based as they are on consequences of short term policy measures. For example, the reduction in inflation is largely because of fiscal compression, persistent import surpluses till recently and overall stagnation in the economy. The inflationary pressures are likely to reappear once public

expenditure increases, exports rise sharply and the economy starts recording higher growth. To some extent this has already happened. Secondly, the building up of foreign exchange reserves is primarily on account of much larger borrowings from abroad. This has increased India's indebtedness and is tending to make the debt burden quite heavy. Thirdly, while the reduction of fiscal deficit was welcome the axe of fiscal compression has largely fallen on investment in physical infrastructure and social sectors like health and education. The policy makers have been unable to resist the pressure of the vested interests be it government administration, Parliamentarians, rich farmers or other elite groups. It is the poorer sections who have to bear the burden of inflation and it is they who are being made to pay higher prices for essential goods, including a hefty rise in issue prices of foodgrains. Whatsoever may be the claims of the policy makers for providing safety nets for the poor, the fact remains that the burden of structural reforms is being entirely shifted to the rural and urban poor including the marginal farmers, the landless labour, and the unorganised rural and urban workers in the non-formal sectors of the economy. Finally, the economy has not been able to come out of the recession that took place as a result of fiscal compression. The reduction in investment in infrastructure is likely to adversely effect the future growth of the economy as well.

NOTES AND REFERENCES

1. Sukhmoy Chakravarty, *Development Planning – the Indian Experience* (Oxford: Clarendon, 1987), p. 22. See chapter 3 for a stimulating discussion on the issue.
2. For an exhaustive analysis of Indian growth experience, see: (i) Chakaravarty, *op. cit.*
   (ii) J. Bhagwati and S. Chakaravarti, 'Contribution to Indian Economic Analysis', *American Economic Review, Supplement,* 5 (1969).
   (iii) V.K.R.V.Rao, *India's National Income 1950-80 – An Analysis of Economic Growth and Change* (Delhi, 1983.)
   (iv) K.N. Raj, 'Some Reflections on Economic Growth in India over the Period 1952-53 to 1982-1983', *Economic and Political Weekly,* 19, 13th Oct. 1984.
3. For employment implications of new technology see: A. Bhaduri, G.S. Bhalla and Y.K. Alagh, 'Labour absorption in Indian Agriculture' in S. Ishikawa, *Labour Use in Indian Agriculture* (Bangkok: ARTEP, ILO, 1979).
4. Isher J. Ahluwalia, *Industrial Growth in India – Stagnation Since the Mid 'Sixties* (Delhi: Oxford University Press, 1989). Some scholars have contested Ahluwalia's result on total factor productivity.
5. The following simple Keynesian equation brings out this relationship
   $Y = C + I + E - M$, where Y is income, C is both private and public consumption, I is private and public investment, E is exports and M is imports.

   Hence

   $Y - C - I = E - M$

   or

$$S - I = E - M$$

or

$$I - S = M - E$$

i.e. excess of investment over savings is equal to excess of imports over exports. For Indian data see Table 4.

6. It is not uncommon for Secretaries to Govt. of India as these enterprises proposed lavish parties for certain ministerial guests or delegates to meetings. Government rules do not permit Secretaries to indulge in such lavishness.
7. It is mainly the powerful and the rich countries which are able to do so because of their international credibility and political clout. Thus, for the last several years, the USA has been incurring each year a balance of payment deficit that runs into billions of dollars. This deficit is financed through capital inflows, foreign direct investments and international borrowings without landing the country in any foreign exchange crisis. Developing countries like India, on the other hand, have been subjected to harsh conditionalities when faced with much smaller deficits.
8. 'Economic Reforms – Two Years After and the Tasks Ahead – A Discussion Paper' (New Delhi, 1993).
9. Jagdish Bhagwati and T.N. Srinivasan, *India's Economic Reforms* (New Delhi: 1993), p. 17.
10. Kirit. S. Parikh, 'Modified Enron Deal: Digging Deeper.' *The Economic Times,* 27 Dec., 1993.
11. C. Rangarajan, 'India's Balance of Payments – The Emerging Dimensions.' Govind Vallabh Pant Memorial Lecture. N. Delhi, as reported in *The Economic Times,* 19 Jan. 1994.
12. Ministry of Finance *op.cit.*, pp. 22-25 and J. Bhagwati and T.N. Srinivasan, *op.cit.*, pp. 22-25.

TABLE 1

Gross Domestic Product at Factor Cost by Sectors of Origin and Growth Rates 1950-51 to 1991-92(1980-81 Prices)

in Rs. Crores.

Year	GDP	Agriculture	Secondary	Transport	Banking etc.	Services
1950-51	42871.00	24204.00	6451.00	4718.00	3870.00	3628.00
1951-52	42871.00	24204.00	6719.00	4742.00	3959.00	3737.00
1952-53	45117.00	25387.00	6790.00	5001.00	4125.00	3814.00
1953-54	47863.00	27309.00	7250.00	5188.00	4184.00	3932.00
1954-55	49895.00	28119.00	7839.00	5527.00	4337.00	4073.00
1955-56	51173.00	27890.00	8642.00	5931.00	4511.00	4199.00
1956-57	54086.00	29404.00	9372.00	6365.00	4585.00	4360.00
1957-58	53432.00	28149.00	9408.00	6560.00	4758.00	4557.00
1958-59	57487.00	30941.00	10025.00	6884.00	4893.00	4244.00
1959-60	58745.00	30670.00	10732.00	7315.00	5080.00	4948.00
1960-61	62904.00	32793.00	11790.00	7945.00	5185.00	5191.00
1961-62	64856.00	32866.00	12685.00	8462.00	5408.00	5435.00
1962-63	66228.00	32329.00	13532.00	8956.00	5590.00	5821.00
1963-64	69581.00	33091.00	14932.00	9592.00	5763.00	6203.00

1964-65	74858.00	36068.00	16013.00	10244.00	5921.00	6612.00
1965-66	72122.00	32310.00	16418.00	10420.00	6100.00	6874.00
1966-67	72856.00	31892.00	16874.00	10692.00	6207.00	7191.00
1967-68	78785.00	36501.00	17288.00	11146.00	6376.00	7474.00
1968-69	80841.00	36478.00	18219.00	11650.00	6687.00	7807.00
1969-70	86109.00	38805.00	19821.00	12280.00	6965.00	8238.00
1970-71	90462.00	41385.00	20209.00	12884.00	7256.00	8692.00
1971-72	91339.00	40661.00	20793.00	13175.00	7630.00	9080.00
1972-73	91048.00	38752.00	21545.00	13449.00	7925.00	9377.00
1973-74	95192.00	41468.00	21966.00	14014.00	8119.00	9625.00
1974-75	96297.00	40919.00	22361.00	14843.00	8093.00	10081.00
1975-76	104968.00	46183.00	23507.00	16190.00	8651.00	10437.00
1976-77	106280.00	43656.00	25658.00	16902.00	9337.00	10727.00
1977-78	114219.00	47929.00	27437.00	18044.00	9794.00	11015.00
1978-79	120504.00	49039.00	29959.00	19529.00	10486.00	11491.00
1979-80	114236.00	43005.00	28963.00	19349.00	10588.00	12331.00
1980-81	122427.00	48536.00	29828.00	20437.00	10791.00	12835.00
1981-82	129889.00	51547.00	32092.00	21684.00	11284.00	13282.00
1982-83	133915.00	51190.00	33471.00	22826.00	12114.00	14314.00
1983-84	144865.00	56531.00	36541.00	24109.00	12859.00	14825.00
1984-85	150433.00	56547.00	38844.00	25475.00	13714.00	15853.00

Year	GDP	Agriculture	Secondary	Transport	Banking etc.	Services
1985-86	156566.00	56841.00	40602.00	27600.00	14708.00	16815.00
1986-87	163271.00	56259.00	43404.00	29335.00	15916.00	18357.00
1987-88	170322.00	56559.00	46287.00	31028.00	16871.00	19577.00
1988-89	188943.00	65756.00	50803.00	33189.00	18415.00	20780.00
1989-90	199503.00	67065.00	54437.00	34995.00	20404.00	22602.00
1990-91	209791.00	70282.00	58249.00	36930.00	20985.00	23345.00
1991-92	212316.00	69529.00	58068.00	38178.00	22668.00	23873.00

GROWTH RATES

	G.D.P.	GDP.Agr.	SECONDARY	TRANSPT	BANKING etc.	SERVICE
1950-51 to 1991-92	4.03	2.80	5.56	5.25	4.43	4.72
1950-1951 to 1964-65	4.09	2.97	6.75	5.71	3.09	4.39
1967-68 to 1979-80	3.59	2.60	4.30	4.70	4.22	4.24
1980-81 to 1989-90	5.76	4.71	6.53	6.11	6.81	6.26
1990-91 to 1991-92	3.18	1.86	3.35	4.45	5.43	2.77

Source: Central Statistical Organisation.

TABLE 2

All-India Growth Rates of Areas, Production and Yield of Principal Crops

(Per cent per annum)

Crop	1949-50 to 1989-90			1949-50 to 1964-65			1967-68 to 1989-90		
	A	P	Y	A	P	Y	A	P	Y
Rice	0.83	2.58	1.73	1.33	3.49	2.13	0.57	2.74	2.19
Wheat	2.53	5.82	3.21	2.68	3.99	1.27	1.91	5.12	3.14
Jowar	-0.27	1.21	1.49	0.99	2.50	1.50	0.68	1.31	2.00
Bajra	0.09	1.66	1.57	1.08	2.34	1.24	0.81	0.26	1.08
Maize	1.46	2.40	0.92	2.66	3.87	1.16	0.10	1.15	1.26
Ragi	0.08	1.57	1.49	0.84	3.08	2.22	0.07	1.52	1.59
Small Millets	-1.32	1.38	-0.06	-0.30	0.20	0.09	2.77	-2.37	0.41
Barley	-2.74	1.25	1.53	-0.64	0.28	0.36	5.03	-0.07	2.06
Coarse Cereals	-0.19	1.23	1.42	0.90	2.23	1.32	0.98	0.57	1.57
Total Cereals	0.68	2.99	2.30	1.30	3.24	1.87	0.18	2.95	2.77
Gram	-0.69	0.12	0.57	1.64	2.66	1.00	0.75	-0.52	0.21
Tur	0.86	0.78	-0.08	0.57	1.34	-1.90	1.52	2.08	0.55
Other Pulses	0.70	0.76	0.06	2.07	1.28	-0.77	0.59	1.44	0.85
Total Pulses	0.26	0.40	0.14	1.90	1.39	-0.50	0.28	0.78	0.50
Total Food Grains	0.59	2.67	2.07	1.14	2.93	1.52	0.20	2.74	2.53
Sugarcane	1.76	2.97	1.19	3.27	4.26	0.95	1.34	2.78	1.43

Groundnut	1.17	1.85	0.67	4.01	4.33	0.31	0.29	1.45	1.15
Sesamum	-0.03	0.71	0.74	0.14	0.32	-0.46	-0.35	1.53	1.89
Rapeseed and Mustard	1.77	3.63	1.83	2.97	3.36	0.37	1.63	4.27	2.60
Seven Oil Seeds	0.96	2.18	1.21	2.64	3.34	0.68	0.44	2.31	1.86
Total Oil Seeds	0.82	2.11	1.28	2.69	3.11	0.48	0.16	2.15	1.99
Cotton	0.22	2.33	2.11	2.47	4.56	2.04	0.34	2.18	2.53
Jute	0.62	1.55	0.92	3.00	3.51	0.49	0.11	2.21	2.10
Mesta	0.71	1.07	0.36	6.21	7.97	1.66	0.96	0.11	1.07
Jute & Mesta	0.63	1.47	0.83	3.86	4.20	0.33	0.05	1.89	1.84
Total Fibers	0.22	2.08	1.86	2.57	4.45	1.84	0.31	2.07	2.39
Potato	3.84	6.01	2.09	4.37	4.27	-0.11	3.56	6.64	2.97
Tobacco	0.47	1.95	1.48	1.66	2.79	1.11	0.32	1.59	1.92
Non Food Grains*	0.99	2.65	1.65	2.52	3.54	0.99	0.48	2.72	2.23
All Crops*	0.67	2.66	1.98	1.61	3.13	1.50	0.26	2.74	2.47

* Provisional.

Seven Oilseeds include groundnut, castorseed, sesamum, rapeseed & mustard, linseed, nigerseed & safflower.

Total Oilseeds include Seven Oilseeds, cottonseed and coconut.

Source: Directorate of Economics and Statistics, *Area and Production of Principal Crops in India 1989-90* (New Delhi: Government of India, 1992).

TABLE 3

Statewise growth rates of area, output and yield of 41 crops during 1962-65, 1970-73, 1980-98 and 1986-89

State	% ANN. COMP GROWTH OF AREA					% ANN.COMP.GROWTH OF VAL.OF OUTPUT					%ANN COMP. GROWTH OF VALUE TIELD				
	62-65 to 70-73	70-73 to 80-83	80--83 to 86-89	70-73 to 86-89	62-65 to 86-89	62-65 to 70-73	70-73 to 80-83	80-83 to 86-89	70-73 to 86-89	62-65 to 86-89	62-65 to 70-73	70-73 to 80-83	80-83 to 86-89	70-73 to 86-89	62-65 to 86-89
Haryana	1.19	0.96	-0.67	0.34	06.2	5.18	3.20	3.58	3.35	3.95	3.94	2.23	4.28	2.99	3.31
Himachal Pradesh	0.74	0.47	0.17	0.36	0.49	-3.36	0.95	-0.40	0.44	1.40	2.60	0.48	-0.58	0.08	0.91
Jammu & Kashmir	0.16	0.91	0.84	0.88	0.64	5.45	3.57	-1.42	1.67	2.91	5.28	2.63	-2.24	0.78	2.26
Punjab	2.38	2.04	1.13	1.70	1.92	7.10	5.05	4.47	4.83	5.58	4.62	2.95	3.31	3.08	3.59
Uttar Pradesh	0.70	0.33	-0.97	-0.16	0.13	2.78	2.69	3.01	2.81	2.80	2.07	2.35	4.02	2.97	2.67
N. Western Reg.	**0.96**	**0.68**	**-0.52**	**0.23**	**0.47**	**3.89**	**3.26**	**3.31**	**3.28**	**3.48**	**2.90**	**2.56**	**3.85**	**3.04**	**3.00**
Assam	0.77	1.77	0.84	1.42	1.20	2.06	2.88	2.05	2.57	2.40	1.28	1.09	1.21	1.13	1.18
Bihar	0.04	-0.50	-0.06	-0.34	-0.21	1.00	-0.30	3.52	1.12	1.08	0.96	0.21	5.59	1.46	1.29
Orissa	1.15	1.91	0.96	1.55	1.42	0.80	2.48	2.97	2.66	2.04	-0.34	0.56	1.98	1.09	0.61
West Bengal	1.08	0.10	1.34	0.57	0.74	2.18	0.82	7.36	3.22	2.87	1.08	0.72	5.93	2.64	2.12
Eastern Reg.	**0.64**	**0.52**	**0.68**	**0.58**	**0.60**	**1.51**	**1.22**	**4.40**	**2.40**	**2.10**	**0.86**	**0.70**	**3.69**	**1.81**	**1.49**
Gujarat	-0.27	0.32	-3.80	-1.25	-0.92	2.10	3.09	-3.78	0.46	1.00	2.38	2.77	0.02	1.73	1.94
Madhya Pradesh	0.90	0.27	0.17	0.11	0.37	1.97	0.96	2.73	1.62	1.74	1.06	0.68	2.91	1.51	1.36

Maharashtra	-1.04	1.50	0.08	0.96	0.29	-3.34	6.67	-0.21	4.03	1.52	-2.33	5.09	-0.29	3.04	1.22
Rajasthan	1.13	0.67	0.81	0.11	.45	4.23	1.24	2.71	1.78	2.59	3.07	.56	3.55	1.67	2.14
Central Reg.	**0.22**	**0.72**	**-0.73**	**0.18**	**0.19**	**0.93**	**3.01**	**0.49**	**2.06**	**1.68**	**0.71**	**2.27**	**1.22**	**1.88**	**1.49**
Andhra Pradesh	0.07	-0.10	-0.87	-0.39	-0.24	0.32	3.62	1.81	2.94	2.06	0.25	3.72	2.71	3.34	2.30
Karnataka	0.88	0.61	0.71	0.65	0.14	3.40	2.31	3.10	2.61	2.87	4.32	1.69	2.37	1.95	2.73
Kerala	2.46	-0.56	-0.56	-0.56	0.44	4.15	-0.45	-1.72	-0.93	0.74	1.64	0.11	-1.17	-0.37	0.30
Tamil Nadu	0.55	-1.63	0.40	-0.87	-0.40	2.83	-0.49	3.50	0.98	1.60	2.28	1.16	3.08	1.87	2.01
Southern Reg.	**0.06**	**-0.24**	**-0.06**	**-0.17**	**-0.10**	**2.38**	**1.57**	**2.15**	**1.79**	**1.98**	**2.32**	**1.81**	**2.22**	**1.96**	**2.08**
Total States	**0.43**	**0.49**	**-0.30**	**0.19**	**0.27**	**2.20**	**2.33**	**2.55**	**2.41**	**2.34**	**1.77**	**1.83**	**2.86**	**2.21**	**2.06**

TABLE 4

Gross Domestic Product and Expenditure
(in Rs. Crores)

(at current prices)

		1980-81	1985-86	1987-88
1.1	net domestic product at factor cost	110139.0	207920.0	260532.0
1.2	consumption of fixed capital	12087.0	26239.0	33876.0
1.3	Indirect taxes	16746.0	36987.0	49962.0
1.4	less subsidies	3160.0	8543.0	11817.0
1.5	gross domestic product	135812.0	262603.0	332553.0
1.6	government final consumption expenditure	13084.0	29174.0	41034.0
1.7	private final consumption expenditure	97919.0	175146.0	221017.0
1.8	gross fixed capital formation	26276.0	53568.0	67451.0
1.9	change in stocks	4740.0	13161.0	8689.0
1.10	exports of goods & services	9029.0	14951.0	20348.0
1.11	less imports of goods & services	13596.0	21754.0	25414.0
1.12	discrepencies	–1640.0	–1643.0	–572.0
1.13	expenditure on gross domestic product	135812.0	262603.0	332553.0

Source: Central Statistical Organisation, National Accounts various years.

TABLE 5

Savings-Investment as a Percentage of GDP

Year	Savings(s)	Invest(I)	Difference (I-S)
1950-51	10.40	10.20	ŏ.20
1951-52	10.10	11.90	1.80
1952-53	8.20	7.90	ŏ.30
1953-54	6.80	6.70	ŏ.10
1954-55	10.50	10.60	0.10
1955-56	13.90	14.30	0.40
1956-57	13.10	16.00	2.90
1957-58	10.90	14.60	3.70
1958-59	10.00	12.70	2.70
1959-60	11.90	13.50	1.60
1960-61	12.70	15.70	3.00
1961-62	12.20	14.20	2.00
1962-63	13.40	15.80	2.40
1963-64	13.30	15.40	2.10
1964-65	12.70	15.10	2.40
1965-66	14.50	16.80	2.30
1966-67	15.30	18.40	3.10
1967-68	13.00	15.40	2.40
1968-69	12.80	13.90	1.10
1969-70	15.00	15.60	0.60
1970-71	15.70	16.60	0.90
1971-72	16.20	17.30	1.10
1972-73	15.40	15.90	0.50
1973-74	18.40	19.10	0.70
1974-75	17.40	18.30	0.90
1975-76	19.00	18.80	-0.20
1976-77	21.20	19.70	-1.50
1977-78	21.10	19.50	-1.60
1978-79	23.20	23.30	0.10
1980-81	21.20	22.70	2.50
1981-82	21.00	22.60	1.60
1982-83	19.10	20.60	1.50
1983-84	18.80	20.00	1.20
1984-85	18.20	19.60	1.40
1985-86	18.90	21.30	2.40
1986-87	19.50	21.60	2.10
1987-88	21.50	23.60	2.10
1988-89	21.90	25.00	3.10
1989-90	24.60	27.30	2.70
1990-91	23.60	26.30	2.70
1991-92	24.30	25.50	1.20

GOI, *Economic Survey, 1992-93.*

TABLE 6

External Debt and Debt Servicing: Key Indicators

	1980-81	1985-86	1988-89	1989-90	1990-91	1991-92	Sept. 92
Year-end external debt US $ billion	23.50	37.35	53.90	58.63	63.4	67.58	71.11
Rs.hundred crore	194.70	459.61	844.92	1003.8	1229.5	1989.67	2029.72
Debt service payments							
US $ billion	1.41	2.61	5.65	6.02	6.43	6.44	
Rs. hundred crore	11.16	31.89	81.77	100.22	115.41	159.28	
Total Debt as per cent of GDP	1.37	17.4	19.7	21.5	21.4	27.3	
Debt Service as per cent of current receipts	9.03	16.7	26.5	25.2	24.7	24.6	

Note: Data on short-term debt and estimated interest payments on NRI deposits are not available prior to 1988-89, hence the series from 1988-89 onwards is not strictly comparable with that prior to 1988-89. The external debt data conform to the reclassification suggested by the Report of the Task Force and the Policy Group on External Debt Statistics of India, 1992 from 1988-89.

Source: GOI, Economic Survey, 1992-93.