

### **Book Review**

THE FUTURE OF INDIAN ECONOMY: PAST REFORMS AND CHALLENGES AHEAD

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Indian economy started with economic reforms in 1991 which marked arrival of new era of the Indian economy, which definitely has raised its growth path at higher altitude. It becomes evidently clear if we compare the average GDP growth rate of 6.6 percent per annum for last 25 years (1990-91 – 2014-15) to that of 4.14 percent per annum for the pre-economic reforms 25 years (1964-65 – 1989-90). Such jump in average GDP growth rate of the Indian economy has brought India in quite a formidable position globally as an engine of world GDP growth as well as also a popular destination of global capital. If we look at the data of foreign exchange reserve, which highlights the directional flows of global capital, we find that it has risen from 5.84 billion dollar in 1990-91 to 341.64 billion dollar in 2014-15.<sup>i</sup> The foreign exchange reserves as percentage of GDP increased from 0.84 percent of GDP in 1990-91 to almost 34 percent of GDP in 2014-15.<sup>ii</sup> This clearly points out the degree of openness of the Indian economy to the global capital as well as the Indian economy as an important destination for global capital to extract the profits from India. We have also observed the decrease of inflation rate after the economic reforms period except few exceptional years around 2009-10, which points out an important objective achieved by the inflation targeting monetary policy of the RBI. Such transition of the Indian economy to better path of economic performance and economic stability is an outcome of sustained persuasion of economic policies conceptualised under the Washington Consensus.

Though we observe that Indian economy has performed better on economic growth parameter since the economic reforms but expected outcome of better economic growth performance into certain important developmental parameters has disappointed policy makers who have been engaged into policy formulation.

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Speed of poverty decline has slowed down since economic reforms and India still houses almost 20 percent of the poorest people in the world, while it constitutes only 17.74 percent of world's population. The whole period since economic reforms has been characterized by negligible rise in employment leaving millions of workforce as disguised or underemployed labour. There has been rise in the inter-regional economic disparity. Data on state-wise per capita if compared to the national average of per capita income it has been found that national level per capita income exceeded the poorest state's per capita income by Rs. 16229 per annum in 2004-05. But this gap has increased to the level of Rs. 40891 in 2015-16. Performance of the economy on the employment front has been seriously compromising on the interest of workforce due to jobless economic growth which has been the characteristics of the post-economic liberalization period.

It is under this setting of the post-economic liberalization performance of the Indian economy that current book under review makes an interesting reading. The book has total 18 chapters which have been divided across three sub-themes. Most of the chapters have been written by those who have been at the helm of affairs of managing the economy at policy making level and its execution. This helps the understanding of Indian economy more at the practical realities during different phases which need to be managed without having much concerns for a theoretical framework. After the introductory chapter, which has been written by the editors to highlight the history of economic reforms in India, the first part discusses various issues associated with economic reforms. In a chapter titled 'Are Economic Reforms Accepted in India' Mr. Yashwant Sinha clearly highlights that different political parties have different notions on the issue of economic reforms. He brings a statement made by the former Prime-Minister Dr. Manmohan Singh on 15<sup>th</sup> August 2012 in which Dr. Singh laments the non-existence of political consensus on many policies which ultimately has costed the economic growth in India. This chapter brings out the double standard of political parties as well with respect to issues of economic reforms as when they sit in opposition they oppose any move directed to economic reforms but once they occupy the positions in government they do what they were opposed to. According to Mr. Yashwant Sinha the last 25 years of economic liberalization period has been "an era of stop-go, sometimes no-go" as far as economic reforms is concerned. He further points out few main reasons which have developed insecurity among people from poor sections, rural areas and different marginalized sections and therefore opposition to economic reforms. Such

are the people who constitute majority in the Indian population and therefore the political parties before coming to power often indulge in criticising the contours of economic reforms. The apprehension of the majority of Indian population against the economic reforms is firstly based on the experience with the East India Company that came to India for trade but ended up colonising and deindustrializing the nation. This has developed an unending fear against the foreign companies. Secondly, even after the quarter century of economic reforms in India poverty, misery and deprivation of various kinds are still persisting in the country and this has strengthened the pessimism of people against the economic reforms. Thirdly, the rise of regional and class disparities during the economic reforms has further shaken the model of economic reforms. And further he goes on to elaborate that decline in the share of agriculture in GDP without any reduction in share of population in agriculture sector, democratic institutions, anti-globalization sentiments globally and scams during the economic reforms period are few other reasons which make future possibility of economic reforms a bleak. Subsequent chapters in the first part of the book are very concise and very limited to deal with the issues raised, particularly keeping in mind the in-depth understanding of the respective authors. For example, a chapter titled – “Reforms in Monetary and Banking Sectors: Early Development” by C. Rangarajan speaks only miniscule facts behind the whole logic of financial sector reforms. The chapter by Sanjay Baru, erstwhile media advisor to the former Prime Minister Dr. Manmohan Singh brings interesting anecdotes of the unfolding of economic reforms which came into implementation under the guidance of the then finance minister Dr. Manmohan Singh. But the chapter by Dr. Baru talks more about the role of the then finance minister Dr. Yashwant Sinha who left no stone unturned in managing the economic crisis of 1990-91. His assessment about the making of economic crisis of 1990-91 was not only an outcome of Gulf War but lot more political, social and religious churning which doomed the confidence of domestic and global capital with the state being constrained under the rising fiscal deficits. However, the proponents of economic liberalization in the book under review have not mentioned that the preceding decade before 1990-91 was characterised by the highest decadal growth rate before the economic reforms. The another chapter in the first section attempts to show that the initiatives adopted by the current government under the Prime-ministership of Mr. Naredra Damodar Das Modi will lead to a new India with an attempt to enhancement of transparency by bringing forth the PMO as the centre of

policy execution and replacement of the Planning Commission by the NITI Aayog. The rationality of such attempt to make India emerge as powerful nation needs to be seen in time to come. A very important issue has been raised by Mr. Mani Shankar Aiyar in his chapter in the book titled – “From Raj to Panchayati Raj: Inclusive Governance for Empowerment of the Poor” that in spite of rise of spending on direct and indirect poverty alleviation programs the India’s HDI has stagnated at 130 as per the Human Development Report of 2015. He shows the dichotomy that exists in India in the forms of 47% malnourished children and nine out of ten anaemic mothers even though India has become one of the fastest growing countries in the world since the economic reforms. Food and Agriculture Organization of the United Nations has highlighted that India has added largest number of newly hungry millions than the rest of the world put together during the five years leading to the turn of the century. Mr. Aiyar squarely blames the economics and the practice of economics which eulogises GDP growth rate rather than poverty alleviation and also the faulty delivery mechanism which is infested by corruption.

The second section elaborates on fiscal, budgetary and capital market reforms undertaken since 1990-91. It consists of seven chapters written by people who have served the positions in these areas in different capacity. Four chapters written by N.K. Singh, D.K. Srivastava, Subhash Chandra Pandey and B.P. Mathur elaborate the virtue of fiscal consolidation through squeeze of government expenditure under the conditionalities of the IMF. Fiscal Responsibility and Budget Management Act (FRBM Act) has been hailed by all these authors as a milestone initiative in the economic history of India. However, they point out the solution towards making the public spending, whatever quantity, more accountable to the expected results. Other two chapters by U.K. Sinha and S.K. Srivastava attempt to sketch the evolution of securities market which has witnessed many scams since the economic reforms. They point out the significance of capital market in India as it has emerged as the dominant financial entity to influence the direction of monetary and fiscal policies’ formulation. But they lack to complement their academic writing by not bringing the fact that the emergence of stock market has created regional imbalances as far as accessibility to funds through the stock market is concerned. It is merely economically advance states who have gained from finances available from stock market channels. The second section is absolutely an enquiry and elaboration of triumph of the economic policies without having emphasised the effects of economic reforms on the welfare of people at large such as farmers and workers. And this is

what indirectly has been pointed out by a chapter titled – “Fiscal Reforms and Agriculture” by Yoginder K. Alagh. He has pointed out that constraint on fiscal deficit has led to decline of public investment in agriculture sector which has further disincentivized the private investment and all of that has led to stagnation of agricultural productivity.

The last section attempts to investigate another very important policy dimension of the post-economic liberalization era, which is disinvestment of public sector enterprises. There are total 5 chapters in this section which deals with the notion about the role of public sector and actual Indian experience. Right after the independence the 2<sup>nd</sup> Five years plan emphasized the role of public sector in building the industrial base of the country but that significant role of public sector in the Indian economy has not been brought out while making the assessment of the new economic policies in the book under review. There is elaborate description of disinvestment procedures and programs along with underlying reasons. It has been shown that emergence of the private sector in the provisions of infrastructure has facilitated a better outcome. The article titled – “Competition in the Provision of Infrastructure” rightly argues that better infrastructure brings better business environment which is conducive for economic growth. While comparing India and China, where China has better competitiveness index due to better quality of infrastructure, the author fails to highlight the role of public sector which has been at the front to improve the infrastructure in China. With argument in favour of greater role of the private sector in infrastructure the author proposes the regulatory authority in every sphere of infrastructure so that grievances of public can be handled and also the monopolization in the infrastructure can be checked. A chapter on India’s international trade points out that India has been sluggish in gaining from the opening up of the economy as the share of India’s exports increased only from 0.5 percent of global exports in 1991 to 1.62 percent in 2015; while China on the other hand contributes almost 15 percent of the global exports today. The last chapter points out a very important point with specific reference to financial provisions to small scale industries to widen the benefits from the export opportunities available in the international market in time to come.

It must be pointed out that the book has collections of good number of articles and some of them overlap the ideas and discussions. Some of the chapters are very shallow and brief to be identified as good contribution in the in depth debate on the future of Indian economy. With given fact that 70 percent of population still remain

in the rural areas and dependent directly and indirectly on agriculture, the book under review lacks the rigorous and more chapters on agricultural and related issues. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been identified as very important step to address the employment opportunities in rural areas for rural poor. But this book has not given a detail discussion on this national level comprehensive program. Farmers' suicide is a burning issue in the Indian economy today but the book has not addressed any concern in this context. Health and education are very important dimensions of an economy as they help in building better human capital, but the absence of any article on Indian health and education, only highlights that the book is slightly lopsided in its approach to evaluate the human face of economic reforms that started in 1991 to make the future of India brighter. However, anyone who is interested to understand certain important dimensions of economic reforms in India and its evolution cannot neglect the presence of the book at this juncture where Indian economy is passing through so called another reform process to reduce the corruption.

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<sup>i</sup> Author's own calculation based on the data from Handbook of Statistics on Indian Economy (2011 and 2015) RBI.

<sup>ii</sup> Author's own calculation from data from the Handbook of Statistics on Indian Economy (2016), RBI.