A MACRO ECONOMIC COMPARATIVE STUDY BETWEEN PRE-REFORM AND POST-REFORM INDIA

Dr. Dastageer Alam
Professor
P. G. Department of Business Administration
P.A. College of Engg,
Mangalore-574153

Nadeem Merchant
Asst. Professor,
Allana Institute of Mgnt Studies
Anjuman – I – Islam,
Mumbai – 400 001

ABSTRACT

In the year 1991, India undertook reforms with some objectives in mind. A broad categorization of those objectives will include

a. **Improving the Economic condition of the country (Indicator - NNP / Capita)**
b. **Reigning in the rising prices (Indicator - WPI – All commodities)**
c. **Improving the trade balance, which has an impact on the foreign exchange rates (Indicator – Merchandise trade balance)**
d. **Reducing Debt : GDP ratio (Indicator Debt : GDP ratio)**

The objective behind writing this paper is a comparison of the pre-reform period with the post-reform period. If the above indicators are considered for comparison, which partly reflect the objectives, what was their position in the pre-reform period compared with the post-reform period?

The question is whether we have ushered in the reforms based on correct premises or we have missed out some other alternatives which if considered would have corrected the situation more effectively. The paper expounds on the fact that the reforms have not delivered with respect to all the objectives targeted. In fact, what comes to light is, on some of the parameters the pre reform period had been better than the post reform period.

Keywords – Pre reforms era, Post reform period, Net National Product per capita, Merchandise trade balance, Wholesale price Index, Population below poverty line, Debt GDP ratio, Revenue deficit.

Introduction - It is time to retrospectively look into the effects of the wide ranging reforms of 1991. The reforms were ushered in with a lot of fanfare and optimism. The year 2010-11 completes two decades of the reforms process. Two decades is a substantial time to let the consequences manifest in its entirety. The researchers have taken a few important macro indicators and traced their values over a large span of forty years. Twenty years prior to the reforms of 1991 and another twenty years after that. The important indicators considered are those that encapsulate key performance parameters for any economy. Namely, Net National product per capita, Merchandise trade balance (for gauging competitiveness on external trade front), Wholesale price index (for inflation issue), Population below poverty line (for an all inclusive growth), Debt GDP ratio, Revenue deficit of the Government.

Research Methodology - The researchers have taken secondary data from RBI's website in the month of july 2010. The respective table numbers have been mentioned against the selected macro-indicators for comparison. The time period under consideration is 20 years of pre-reform and 20 years of post-reform India. The indicators are as follows with figures in adjoining tables.

Net National Product per Capita (NNP / Capita) – The Net Income of any country is an ideal indicator of its progress. Combining this with the ever growing population the indicator becomes NNP / Capita. A look at this indicator surprises us, that our growth in NNP / Capita was better in the decade immediately preceding the reform year as compared to the growth rate in the first of the post-reform period. As reforms took roots our NNP / Capita has deteriorated.

Excerpts from RBI -Table 1- Macro economic aggregates (at current prices) Base year 1999-2000 Figures in Rupees				
Year	Popn (million)	NNP (Crores)	NNPper Capita (Rs)	Remarks on growth rate in per capita NNP in a decade.
1970-71	541	40,135	742	
……				1971-81 decade growth rate = 1.404
1980-81	679	1,21,129	1,784	
…….				1981-91 decade growth rate = 2.073
1990-91	839	4,56,409	5,440	
…….				1991 – 01 decade growth rate = 2.067
2000-01	1019	17,00,466	16,688	
……				2001 – 09 eight years growth rate = 1.246
2008-09	1154	43,26,384	37,490	

Growth has to be coupled with its ability to include the growing population. For this NNP / Capita is a significant indicator. As seen in the above table, although our economy has grown in absolute terms post reform but its per capita growth rate as compared to the pre reform period is not very sensational. This table also indicates that the real impulse to reforms had already taken place in the decade between 1981 to 1991.

Merchandise Trade Balance – A country's position in external trade is an example of its productivity and its technological capability vis-a-vis other countries of the world. Unfortunately, on this count also, India's position in the pre-reform era was much better than in the post-reform era. Our merchandise trade balance has gone extensively in the negative by an enormous 841.63 %.

Excerpts from RBI -Table 142- Key Components of India's Balance of Payments Figures in US $ Million				
Year	Merchandise Exports f.o.b (a)	Merchandise Imports c.i.f (b)	Trade Balance (a-b)	Remarks on growth rate in trade balance in a decade.
1970-71	1,890	2,435	-545	
……				1971-81 decade growth rate = 13.438 (-)
1980-81	8,445	16,314	-7,869	
…….				1981-91 decade growth rate = 0.199 (-)
1990-91	18,477	27,914	-9,437	
…….				1991 – 01 decade growth rate = 0.320 (-)
2000-01	45,452	57,912	-12,460	
……				2001 – 09, 9 yrs growth rate = 8.416 (-)
2009-10	1,82,163	2,99,491	-1,17,328	

Here again our competitiveness in external trade which was drastically going down in the decade of 1971-81 was fantastically halted by strategic foreign policy decisions of 1981-91. But alas, the trade openness has been stretched a bit too far resulting in a whopping negative trade balance of 8.4 times.

Wholesale Price Index (WPI – All commodities) – A major plank on the reform agenda was to reign in the rising prices. But on this count also the change process of reforms has failed. A little back of the envelope calculation will tell us that absolute increase in prices has been more in the 20 years of post-reform than the 20 years preceding it. As bases have changed in 1981-82 and then in 1993-94 comparison is difficult. The figures for current base has been converted back to previous bases for the sake of comparison.

Excerpts from RBI -Table 39 – Wholesale Price Index – Annual Average – All Commodities Base Year 1970-71 = 100				
Year	(A) Uniform base of 1970-71 as 100	Base year 1981-82 = 100	Base Year 1993-94 = 100	Remarks on growth of WPI Index in a decade.
1970-71	100 (a)	---	---	For uniformity sake later bases have been converted back to 1970-71 base.
……				1971-81 decadal increase in WPI = 157.3 (b-a)
1980-81	257.3 (b)	---	---	
…….				1981-91 decadal inc. in WPI = 256.63 (c-b)
1990-91	513.93*(c)	182.7	---	
…….				1991 – 01 decadal inc. in WPI = 571.38 (d-c)
2000-01	1085.31**(d)	385.82*	155.7	
……				2001 – 09, 9 yrs inc. in WPI = 606.45 (e-d)
2009-10	1691.76**(e)	601.41*	242.7	
*- Single conversion and ** implies double conversion				

Population below poverty line - This is one of the parameters where the post-reform period has shown some improvement over the pre-reform period. But in terms of percentage to total population, it works out to be a small improvement given the amount of debt that the country has accumulated over the years (as indicated in the next point).

Excerpts from RBI Table No. 162 – Number and percentage of population below poverty line – Rural and urban combined		
Year	Number in Lakhs	% of persons
1973-74	3,213	54.88
……		
1983-84	3,229	44.48
…….		
1993-94	3,204	35.97
…….		
2004-05	3,017	27.50

Even on this parameter if further segregation for rural and urban poverty is studied it shows that a decrease in rural poverty number is coupled with an increase in urban poverty figures. If Head count ratio figure is to be believed for the year 2001 it is 34.7 %.[1]

[1] D.M.Nachane,"Overview-Two Decades of Structural reforms: A Balance Sheet",IDR 2011, Oxford University Press New Delhi.p-12.

Revenue Deficit – This is another parameter where the pre-reform period was a solace. The revenue deficit (i.e. Govts expenditure over its income) has risen at an exponential rate after the reforms.

Excerpts from RBI Table No. 100 – Revenue Deficit of Central Government (All figures in Rs Crores)		
Year	Number in Lakhs	Remarks
1970-71	(+) 163	
……		1971-81 : Decadal increase in rev. def = (-) 2200
1980-81	(-) 2037	
…….		1981-91 : Decadal increase in rev. def = (-) 16,525
1990-91	(-) 18,562	
…….		1991-01 : Decadal increase in rev. def = (-) 66,672
2000-01	(-) 85,234	
……		2011-01 : Decadal increase in rev. def = (-) 1,91,278
2010-11	(-) 2,76,512	

The rising revenue deficit was due to the seeping corruption in the corridors of power. Obliterating the root cause i.e. corruption would have set things right rather than dismantling controls over every lever.

Debt as percentage of GDP – India's progress has been debt ridden throughout. Its debt has grown and continues to do so unabatedly. The brighter side to it is, that the growth in debt is more pronounced in the pre-reform period than its post-reform counterpart. Perhaps the rising debt of the pre-reform era must have been the major reason for ushering in the reforms.

The figures in the table have been calculated from two different columns of separate tables appearing on the RBI website.

<table>
<tr><td colspan="3">Excerpts from RBI Table No. 1 (for GDP FC) and – Total debt(internal and external) and GDP</td></tr>
<tr><td>Year</td><td>Total debt / GDP ratio</td><td>Remarks</td></tr>
<tr><td>1980-81</td><td>52.48</td><td rowspan="7">In 2007, India was the fifth most indebted country in the world, in terms of stock of external debt.[1]</td></tr>
<tr><td>……</td><td></td></tr>
<tr><td>1990-91</td><td>71.61</td></tr>
<tr><td>…….</td><td></td></tr>
<tr><td>2000-01</td><td>77.09</td></tr>
<tr><td>…….</td><td></td></tr>
<tr><td>2008-09</td><td>80.91</td></tr>
</table>

Today India is in a pitiable state as far as its debt position is concerned.

Drastic steps are required for the country to come out of its debt position. The negative trade balance is also a cause for worry.

[1] S.Chnadrasekhar, "Macroeconomic Overview", India Development report 2011, Oxford University press New Delhi, p-37.

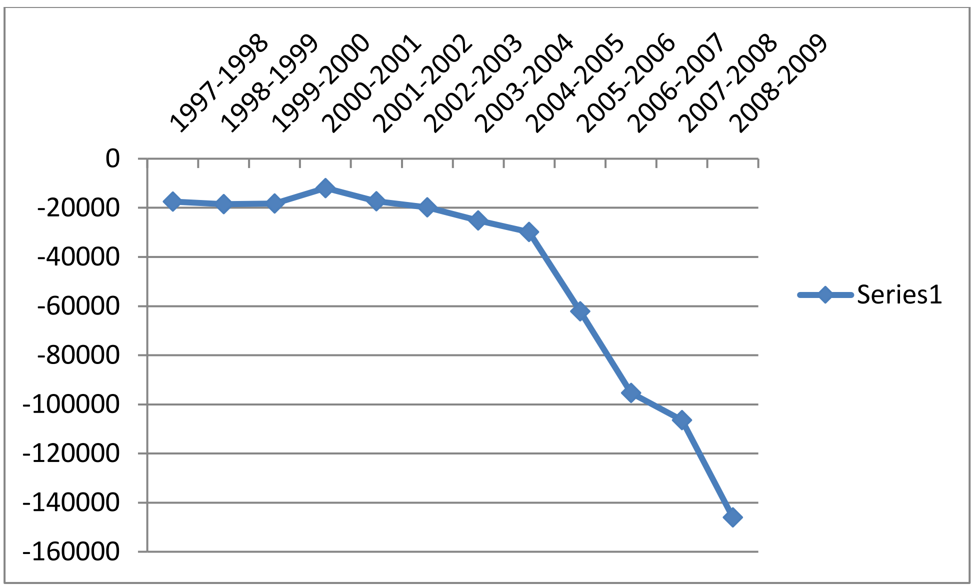
In Depth Analysis of Foreign Trade balance - An analysis of India's foreign trade also throws interesting insights as seen in the table below. Many trade items which were foreign exchange earners for the country in the earlier part of 1996-97 to 2008-09 period (comprising of thirteen years) have turned into foreign exchange losers. The items are enumerated below in the second column. The few items which were foreign exchange losers in the said period and have become foreign exchange earners belong to primary agricultural products or are low technology items . Rest all the items in which the country trades with the outside world have maintained their status quo. That is, if they were foreign exchange earners in 1996-97 they have remained so till 2008-09. Similar is the case with foreign exchange losers.

	1996-97 ---------------→2008-09 Earners …………then ……..Losers ????	1996-97 ----------------→ 2008-09 Losers…………..then ……….Earners !!!!
ITEMS -→	Beverages, Spirits and Alcohol	Sugar and Sugar confectionery
	Rubber and Articles thereof	Albuminoidal substances, Modified starches and Glues
	Aluminium and Articles thereof	Copper and Articles thereof
	Furniture and Beddings	
	Toys and Games	
	Silk	
	Knitted or Crocheted Fabric	
	Ceramic Products	

in the context of International Trade, the government is painting a one sided picture. A recent news article in The Hindu, dated 5th March 2011, Mangalore edition the following figures were provided. " Engineering exports grew by 61% to 38.80 billion $ in the April-December period this fiscal from 24.08 billion $ in the same period last fiscal". It further goes on to state that "India's Engineering exports will touch a massive 108 billion $ by 2013-14". If this trade is compared to the expenditure incurred by the country for imports of engineering goods, a proper picture will emerge as shown in the table on the next page.

Sl no	Year	TB in CR
1	1997-1998	-17413.6998
2	1998-1999	-18499.2798
3	1999-2000	-18181.5677
4	2000-2001	-11929.6284
5	2001-2002	-17323.705
6	2002-2003	-19805.1615
7	2003-2004	-25176.3466
8	2004-2005	-29862.3112
9	2005-2006	-62148.9563
10	2006-2007	-95376.5381
11	2007-2008	-106442.4678
12	2008-2009	-146011.0275

Import-Export Trade Deficit of the Engineering Sector in the last 12 Years[1]



Graph Showing Balance of Trade – Current Account of the Engineering Sector from the year 1997 to 2009[1]

A country's capacity to import is also an indicator of its trade potential, but its position in the global arena is due to its strength in manufacturing. In this perspective all that India is achieving, is its position as good exporters of raw material and importers of finished goods as in the pre independence days.

Conclusion - If the objectives of reforms are considered, India is off the mark. A proper balance of controls in the right place has to be incorporated in the system where Government has the power to root out corruption and at the same time provide a free and a level playing field to Private Enterprise. Instead of attacking corruption at its roots, Government is portraying a rosy future for the country.

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