Chapter 6
Economic Reforms

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ECONOMIC REFORMS

6.1 Introduction

The arena of fiscal federalism in India, which has been a minefield of political disharmony even in the pre-reform era, has been showing signs of becoming a full-fledged battlefield in the wake of the economic reforms programme initiated in 1991.

Viewed against this backdrop, any radical agenda of economic reforms unilaterally introduced by the Central Government. The economic reforms have been initiated there has been a lot of debate and discussion on their likely impact on different spheres of the Indian economy. It one is to understand the ongoing reform process - comprising two broad components, achieving stability in key macroeconomic variables, particularly inflation and external payment defects, and Correcting the inefficiencies in resource allocation to different sectors and sub sectors of economic activity. The constitution assigns the key responsibility of providing social and economic services to the state governments, exclusively or concurrently with the centre.

In India the economic reforms commenced with the rule of the late Prime Minister Rajiv Gandhi. The Finance Minister V. P. Singh had recommended certain fiscal improvements in his budget, in addition to this, a number of regulations were relaxed in the sector of industry and foreign trade. Two bills were introduced towards economic decentralization to strengthen our economic sector with modern and imported technology, the ultimate objective being to fulfill our dreams of the 21st century.

The Narsimha Rao Government from July 1991 has undertaken the speed and proper implementation of the changes. These have been implemented in the industrial, foreign trade, monetary, fiscal and other sector.
The new industrial policy was announced in July 1991, and the various changes were incorporated in the Budget of 1991-92.

A new import-export policy was announced. The Narasimham Committee and the Challiah Committee were appointed to suggest improvements in the monetary sector and in fiscal policy respectively.

Economic structural transformation is essential for achieving higher rate of economic growth. This economic structural transformation is achieved either by natural autonomous process or by planned functional reform process. In under-developed country like India, the economic structural transformation through natural autonomous process may not occur due to some economic and social issues.

6.2 Short History

It is not true that the economic reforms are occurred since 1991. There were many economic reforms in the past since 1951. It includes steps towards rapid industrialization and adoption of concept of socialistic pattern of society during the Nehru-era nationalization programme and other socialists measures during Indira Gandhi-era, application of Gandhian economic model during Morarji Desai and V.P. Singh's rule, starting of liberalization and privatization process during late Rajiv Gandhi's time.

Here we can observe that there is no continuation and similarity in our past reforms programmes. There was change in economic reforms as governments changed. These reforms were not purely and perfectly 'economic' but partially 'Political' and 'partly oriented'. The period of implementation of every past economic reforms during time intervals. Economic reforms should be continuous, rapid, balanced and widespread. Without this, it can do not be successful and fruitful. Economic reforms should be matched with out economy, society, culture and political system. Unfortunately this was not happened in our country.
6.3 Political Intimacy of the reform process

Gopi Arora expressed "The reforms are continuation of a process which began in the early 1980's. When the first efforts were made by the centre to de-regulate the economy".

Shekhawat said that "The whole idea of economic reforms contradicted the view propagated till a few years ago by the ruling party at the centre, that the solution to the country's economic problems lay in socialism".

Rangarajan Kumaramangalam, said that "In the reforms were introduced in 1991 the three clearly stated objectives were fiscal consolidation, de regulation and greater global integration of the Indian Economy".

The discussions focused on the likelihood of aggravation of these imbalances and dis-parties in the wake of the economic reforms, which in turn brought in the issue of the governments at the centre and at the state level should play in order to mitigate such imbalances. The centre should leave it to the states to correct these imbalances by providing suitable incentives, but otherwise confining itself to a regulatory role, or whether it should continue in its course of active participation during the post - reforms era.

The economic reforms has an impressive agenda in terms of doing away with past mistakes, India remained one of the most backward countries in the world as far as basic facilities and quality of living indicators were concerned. The point under debate was not whether reformes were needed or not, but whether reforms under the poor would get more social opportunities through greater access to basic education under health care.

The role of private investment in agricultural like irrigation, research and development etc assumes vital significance. However, the role of the state cannot be ruled out in this area. The government has to provide the right
incentives in order to induce positive private investment in agriculture in the various states and supplement in the areas of shortfall.

The centre role in providing the essential social services and infrastructure would assume even greater significance in the post-reform era, in order to mitigate the inequality-creating effects of the reforms.

6.4 Federal Finance and Federal Politics:

The discourse on financial federalism has been dominated by the twin issues of vertical inequality in the dispersion of economic and political authority between the states themselves. If adequate future in the post-reforms phase.

The success of the reforms therefore will not only depend on the restoration of sound finances both at the center and the state level, but also on the amicable resolution of the multitude of tensions in the relations between the centre and the states.

In the pre-reforms era, the four advanced states having 40 per cent of India's total population received more than 49 per cent of the total transfers from centre to states, while the five backward states supporting more than 50 per cent of the country's population has a share of only 42 per cent. Institutions like planning commission and finance commission, through which central transfers to the states are mediated have done little to correct this bias.

The burden of adjustment of the fiscal crisis on the states is service oriented. With the one set of the reforms process, only the location of the crisis has changed from the region of the public crisis in Indian federalism has its root in the fiscal crisis, it cannot be resolved by means of any constitutional solution.

The friction between the central and state governments on financial as well as political grounds has also contributed its mite in the undermining of the reforms. While on the one hand, the political legitimacy of the reform
measures is questioned, given the fact that a mandate of the people had never been sought on the issue, on the other, states feel cheated of their reasonable share of legislative, political and financial authority which they claim they require to implement the reforms effectively at the state level.

The total suggested some concrete measures such as simplification of the tax system to preempt tax competition between states, removal of all impediments to unfettered factor mobility, switch-over from segregation of taxation powers between centre and states to administration of concurrent taxation to resolve the problems of vertical inequity. "People living in remote parts of India seem to be little affected by what is happening at the centre involvement of the states in carrying forward the reforms has become essential".

The role of the state has become critically important to the success of the reforms. It is becoming increasingly clear that without the states participation and co-operation, the pace of reforms will enhance, which we cannot afford. Three years after the initiation of the reforms, we are still burdened with shocking poverty levels and an inflation rate that we did not anticipate. People living in remote parts of India seem to be little affected by what is happening at the centre. The introduction of market forces has changed the picture entirely since economic reform demand certain macroeconomic adjustments, which have to be introduced at the centre.

The process involves reduction of fiscal deficit, cutting of taxes, also involves financial sector reforms. Contributing to the new thinking on centre-state relations under the reforms, there will emerge a set of suggestions for review and change.

While economic reforms were introduced by the central government around July 1991, most states have accepted their broad support for reforms only in the last twelve to eighteen months. In fact the first two years of
economic reforms there was strident opposition to the change in the criteria, and even an attempt to whip up popular protests against the new economic policy. That seems to be the past now.

At the centre, the economic reforms encompass a number of ideas and issues. The process started with trade policy, industrial policy and fiscal policy, but in the year 1993, reforms have embraced a wider range of issues. There is greater openness at the centre today in talking about reforming a large number of institutions, changing a number of policies which were considered unchangeable and also questioning a number of assumption, which were so sacred, less than a few years ago.

If economic reforms mean only investment, then more investment must mean more, economic reforms, which is simply not true. There are hundreds of institutions and structures in the states economy, which need to be reformed. This is not a political issue, which affects centre-state relations. It is an issue, which concerns the states themselves.

That economic reforms, the role of states and the future of centre-state relations should not be seen only as the sharing of finances or the balancing of political power in a federal constitution. Life must become a little less intolerable and little more inhabitable for the people. Goods and services must be available to the people, and the quality and availability of these goods and services must become better and better as the years go by and as economic reforms deepen.

The state government shares the income tax levied on individuals of the state, but on the corporate tax front, the central government does not apply the same rule. Along with the restructuring of the relations hold also be properly reviewed. The hanging sword of article 356 should be abolished otherwise the states will always remain under the cloud of uncertainty.
The new economic reforms cannot guarantee the survival of the cottage, handloom and small industries of India. That these reforms will not be able to tackle the problems of unemployment. The big industries can not provide employment to everybody, where as the cottage and small industries in the traditional sector. That is the reason why reforms do not have the symptoms of succeeding. Unless everybody supports them in this country, unless the common man trusts them, they would remain an exercise in futility.

"There is much talk of 'repackaging' economic reforms to highlight their human face. The expression suggests, perhaps unwittingly, an easy in cosmetic. One hopes the real intent is to tackle seriously poverty, unemployment, and hardship".

6.5 Rationale of New Economic Reforms

Rao Government came into power, there were crucial economic issues including vary high inflation, rapidly declining foreign exchange reserves, trade deficit and budget deficit, foreign debt, problem, unemployment and poverty etc., The current account deficit was of $ 4833 million in 1987 to $ 6837 million in 1989-90 and $ 9438 million in 1990-91. In this context Indian Government has started an implementation of fresh heavy does of new economic reforms under heavy pressure and controlled instruction of International Monetary Fund and World Bank. In this context some of the experts have strongly emphasised that this so called new economic reforms are never implemented under heavy pressure of outside force.

These economic reforms are names as a globalization, privatization and liberalization. This process of economic reforms is not limited with single country. It is worldwide or global phenomenon. Most of the nations including communist countries have joined this free market oriented global process.
Privatization and liberalization oriented new economic reforms have reduced government economic functions and interventions. The intervention supported by Keynesianism, Welfarism, Conventional Social Democracy, third world nationalism, modern economic reformist, and nationalist politicians.

Globalization is one of the important features of new economic reforms. Globalization means the process of equalization of the internal price through free and fair unrestricted international trade. Globalization means free economic movement of goods and services among the nation. It also means world competitiveness. ‘Consumer is a King’ in this type of global economy because it can hope to achieve the supreme commodities and services with possible cheapest prices.

6.6 States Reforms

For successive implementation of economic reforms, the state’s positive role is a precondition. States public sector units are in heavy losses due to their inefficiency and low productivity. State governments follow the centre policy in reducing government’s economic role with privatization, liberalization and globalization. Some of the centre’s decisions regarding economic reforms create problems for states governments.

The direction and speed of implementation of economic reform is not similar among states. The impact of reducing government’s economic role would also vary from state to state. The centre proposed economic reforms have neglected agriculture and rural sector. States like Andhra Pradesh, Karnataka, Gujarat, Maharashtra, etc., have implemented cheap food programmes, which is quite irrelevant of economic reform. These types of politically volatile decisions would be harmful for economic reforms. Higher procurement prices of food grains are the decision of same direction. At one hand politicians promise for higher subsidies and reformers take to reduce them.
In this connection, some of the experts have opined that democracy is not suiting with economic reforms, because it has needed to make hard, fast and quick decisions. Popular political economic agenda is a main obstacle in the path of the economic reforms. But in fact that many democratic countries have managed economic reforms very successfully, while it was become very difficult in authoritarian countries. The middle path of economic reforms is the best way for us. P.V. Narasimha Rao also many times emphasised middle path of economic reforms, because it allows for mid course correction.

Mr. Narasimha Rao said, “much more has been provided for employment generation, education, health and other social needs. There is the by-pass model, which takes care of one of the important causes for poverty. Always laid emphasis on the human face from the very beginning and this is now we have made efforts to proceed.

Industrialization was for people’s benefit and was not only poor “the dilemma of politicians everywhere who in absence of genuine consensus on difficult measures tend to accord primacy to measure of immediate benefits. The short term aspects with direct benefits must be harmonized with long term benefits of the community”.

6.7 Strategies of Economic Reforms

Good and efficient strategy is a precondition of victory in achieving goals. Economic reforms have an economic nature. The strategy should also on economic base. We should applied three dimensional strategy of this economic reforms namely:

Maximizing return, Minimizing the cost and Maximum social welfare. The following are the steps for the implementation of this three dimensional strategies of new economic reforms:

We should concentrate in those products which possess comparative cost advantage, higher social investment of the government with high and quick returns, higher infrastructural development for industrial and economic
growth of the country, higher internal and international investment in most
growth potential sectors, regions people-participating and labour-participation
in management through large share offering to the employees and public in
profit making enterprises application of latest / modern higher labour oriented
higher technology, common economic national agenda for economic reforms
efforts for human resources development, development of co-operation in all
sphere, land reforms and faster agrarian reforms, Renewal of remaining
controls on investment exports etc., encouragement to Panchayati Raj
Institutions, better management of subsidies enlargement through aid,
incentives to dedicated Non-Gazted Officers and people organisations,
check on unplanned, uneconomic and undeveloped government expenditure,
denationalization of public sector undertakings.

6.8 The Fiscal Reforms

The Classical economists did not accept the fiscal policy but when
they were unsuccessful in solving the economic issues after the Great World
Depression, the economic ideas of Keynes in their new form brought about a
revolution.

Fiscal policy simply means a policy of government's financial
dealings, its objectives, issues and solutions and incorporates, Government's
income, expenditure and all related issues. The policy related to Government's
income, expenditure and its treasury is the fiscal policy. This policy has four
main pillars. Taxation, Public Expenditure, Deficit Finance, Public debt.

These are termed as the basic objectives of Government's fiscal
policy. The fiscal policy objectives of U.S.A., Japan, Canada, Britain and
other developed countries are totally different from those of India, Sri Lanka
and Pakistan. The main objectives of the fiscal policy in India, are economic
development, economic stability, economic equality, and reduction of
unfavorable debt structure, increased savings and maintenance of regional balances.

The implementation of fiscal policy in India has created many serious issues instead of achieving its basic objectives. There is hardly any economic development, inflation has become a regular feature in place of economic stability. Economic inequalities are increasing, the poor become poorer and the rich become richer, foreign debts are mounting. This has led to the utter failure of the Government's fiscal policy. The improper implementations of the fiscal policy are the real reason for its failure in India.

6.8 Financial Sector Reforms

In assessing India's financial sector reform, we bear in mind both recent developments in the theory of finance and the experiences of financial liberalization in other countries. In the early 1970's the writings of Mokinson and Shaw challenged the wisdom of government intervention in the financial sector. They argued that financial repression (high reserve requirements, interest rate controls, and direction of credit to favoured sectors) is harmful for resource mobilization and resource allocation.

An assessment of India's financial sector reforms must surely be positive. Major changes have taken place in the banking sector. Banks have been re-capitalized and are healthy than they were. Compulsory capture of bank deposits by the government has been reduced and there has been a significant among of interest rate deregulation. Further progress on this front now depends on the success of fiscal consolidation. There has been a move towards greater competition. A beginning has been made with respect to setting up systems for regulation and supervision, through the difficulties in achieving independence, professionalism, and honesty of the regulators has still to be faced. Various other problems remain. Non-performing assets continue to drag down bank profitability. These has not been much progress in speeding up debt recovery. There has been virtually no reforms in the area
of directed credit. The time has come to impose hard budget constraints on institutions lending to agriculture and small-scale industry, and to eliminate most concessional credit to these sectors. But the government lacks a coherent plan for phasing out directed credit, Indian banks continue to have high spreads and are still massively overstaffed, but bank unions are holding up rapid computerization. We do not believe that the appropriate changes can be brought about without privatization.

The non-bank financial sector is also undergoing rapid changes as attested by the large increase in the range and variety of products on offer. In the capital market, a regulatory authority has been set up but is not yet found its feet. The pace of changes has been very slow in improving the trading and settlements systems in the stock market, but there have been some important recent advances, such as the introduction of screen-based trading and the acceptance of the principle of setting up depositories. So far, there has been no progress in opening up the insurance sector. There has been some liberalization of international capital movements, but of a justifiably cautious variety.

India has made a good start with financial sector reform. But there is still a long way to go in creating an efficient financial sector for a sophisticated modern economy.

6.10 Economic Reforms and Budget

The fiscal effects of economic reform have put the government in a state of paralysis with respect to triggering growth and reducing poverty, even though the current circumstances offer an opportunity for major advances in these areas.

Economic reform has had damaging consequences for the fiscal position of the central government nothing reveals this more than the fact that, through the 1990’s while capital expenditure as a proportion of Gross Domestic
Product have fallen sharply and revenue expenditure net of interest payment have stagnated the government efforts to hold down the fiscal deficit has been completely unsuccessful. As table below shows.

Table: 6.1 Expenditure to Gross Domestic Product Ratios (per cent)

<table>
<thead>
<tr>
<th>Years</th>
<th>RE/GDP</th>
<th>IP/GDP</th>
<th>CE/GDP</th>
<th>Net RE/GDP</th>
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<tbody>
<tr>
<td>1989-1990</td>
<td>13.3</td>
<td>3.7</td>
<td>5.9</td>
<td>9.6</td>
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<td>1990-1991</td>
<td>13.0</td>
<td>3.8</td>
<td>5.6</td>
<td>9.2</td>
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<tr>
<td>1991-1992</td>
<td>12.6</td>
<td>4.1</td>
<td>4.5</td>
<td>8.5</td>
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<tr>
<td>1992-1993</td>
<td>12.4</td>
<td>4.2</td>
<td>4.0</td>
<td>8.3</td>
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<tr>
<td>1993-1994</td>
<td>12.6</td>
<td>4.3</td>
<td>3.9</td>
<td>8.3</td>
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<tr>
<td>1994-1995</td>
<td>12.1</td>
<td>4.4</td>
<td>3.8</td>
<td>7.7</td>
</tr>
<tr>
<td>1995-1996</td>
<td>11.8</td>
<td>4.2</td>
<td>3.3</td>
<td>7.6</td>
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<td>1996-1997</td>
<td>11.7</td>
<td>4.4</td>
<td>3.1</td>
<td>7.3</td>
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<td>1997-1998</td>
<td>11.9</td>
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<td>1998-1999</td>
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<td>4.4</td>
<td>3.5</td>
<td>7.9</td>
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<td>13.1</td>
<td>4.7</td>
<td>2.6</td>
<td>8.4</td>
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<td>2000-2001</td>
<td>13.0</td>
<td>4.7</td>
<td>2.6</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Note: RE = Revenue Expenditure  
IP = Interest Payments  
CE = Capital Expenditure  
Net RE = RE - IP

The ratio of capital expenditures Gross Domestic Product has fallen from 5.9 in 1989-90 to 2.6 currently and, though the ratio of net revenue expenditure, which fell sharply between 1989-90 and 1996-97 has regained its recent times. It is still at gets 1993-94 level and well below the 1985-90 figure despite this the fiscal deficit is proving uncontrollable. If we the older definition of the fiscal deficit which included small savings transferred to the states, the fiscal deficit to Gross Domestic Product ratio which fell from 7.9 per cent in 1990-91 to 4.9 per cent in 1996-97 has since risen to 7.03 per
cent in 1999-2000 and is expected to remain at around 6.8 per cent in 2000-2001 even granting the finance minister optimistic estimates with regard to revenues and expenditure.

Table: 6.2 Revenue to Gross Domestic Product Ratio

<table>
<thead>
<tr>
<th>Years</th>
<th>Cova/GDP</th>
<th>Exc/GDP</th>
<th>NTR/GDP</th>
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<tr>
<td>1989-90</td>
<td>3.7</td>
<td>4.6</td>
<td>7.9</td>
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<tr>
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<td>2.5</td>
<td>2.9</td>
<td>6.5</td>
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</table>

Source: Reserve bank of India annual report on finance of the government of India April 2000

Note: GDP= gross Domestic Product; COUS = customs duties; EXC = Excise duties NTR=Net tax revenue

Table Explanation

An examination of trends in the ratio of customs duties to GDP indicates that it declined from 3.7 per cent in 1989-90 to 2.5 per cent in 1999-2000 and is expected to remain at that level in the next financial year.

The next result has been that the ratio of Union excise duties to Gross Domestic Product has also fallen from 4.6 per cent in 1989-90 to 3.2 per cent in 1999-2000, and is expected to total further to 2.9 percent next year. Finally
with the liberalization driven objective of improving private incentives to save and invest, the Government has been providing a range of direct tax concessions as well.

The Net tax to Gross Domestic Product ratio at the center has fluctuated around a declining trend and fallen from 7.9 per cent of Gross Domestic Product in 1989-90 to 6.5 per cent of Gross Domestic Product in 1999-2000. If that decline had not occurred, the fiscal deficit would have been automatically lower and would have stood at 5.43 per cent as opposed to 7.03 per cent in 1999-2000.

Economic reforms have also great change in the way the government’s deficit in financed. Till the early 1990’s a considerable part of the deficit on the government's budget was financed with borrowing from central bank.

The decade of the Eighties registered on average growth of 5.8% in the annual Gross Domestic Product. Related to this the Gross Domestic Product growth in 1991-92 was 1.1%, 4% in 1992-93 and the achievement for 1993-94 was 3.8%. It was 5.5% in 1994-95 as and estimated 5.5% to 6.0% in 1995-96. Growth rate in different fields indicated negative tendency for 1991-92, in the field of agriculture whereas in 1992-93 4.9%, in 1993-94 2% and in 1994-95, 4.5%, growth has been estimated.

The rate of inflation in 1991-92 was 13.6%, which reduced to 7% in 1992-93 10.2% in 1993-94 and is assumed it will remain at 8% in 1994-95. It was 7.5% in July 1995. The export percentage in 1993-94 was 25.4%. In May 1995 exports was 26.97% more compared to May 1994. It was increased 27.2% in first quarter of 1995-96. The trade deficit for 1992-93 was 3.6 billion dollars which has reduced to 0.8 billion dollars in 1993-94.

There was fast progress in record public issues during 1995. There were 1425 public issues aggregation Rs. 14,390.17 crores net of firm reservations. This was a 28per cent increase in number of issues compared to the previous year and a 56per cent increase by amount. There was 1130 public
issues with amount raised Rs. 9192.93 crore in 1994, 667 issues and amount of Rs.11159.87 in 1993, 405 issues and amount of Rs. 5476.55 crore in 1992 and 166 public issues and Rs. 1539.37 crore in 1991. Private sector banks as a group recorded a gain 209.82 per cent growth in net profit during 1994-95 over their previous year's level. The net profit of 26 private sector banks have more than doubled from the 1993-94 level of Rs. 172 crore to Rs. 237 crore in 1994-95.

Since 1991, the government has received 24,000 investment proposals with proposed investment of Rs. 500 thousand crore. These proposals have the potential for providing employment opportunities to over 45 lakh persons directly in the manufacturing sector. Nearly 40 per cent of these investment intentions were at different stages of implementation.

According to the 44th Business Outlook Survey conducted by Confederation of Indian Industry, 22 per cent of the respondents expected employment to increase by more than 10 per cent, 31 per cent respondents expected a growth of between 5 to 10 per cent and 47 per cent respondents anticipated 0 to 5 per cent growth. Majorities were optimistic in industrial growth, Capital Expenditure, value of output and rate of return of capital employed.

There was good performance in basic industrial sector in 1995-96. The production of cement was 11.0 per cent high in Apr-Sept. 1994-95. This was 10.2 per cent high in saleable steel, 16.2 per cent in Crude Petrol, 8.9 per cent in Coal, 10.9 per cent in Electricity, 22.2 per cent in fertilizers.

The average industrial growth rate was 6.00 per cent in 1993-94 and rose to 8.2 per cent in 1994-95, more than 10.00 per cent in 1995-96. Industrial production was registered in growth of 17.5 per cent in the first four months of the 1995-96. According to CSO, the capital goods industry has
grown by 12 per cent in April – July against 27.6 per cent in the same period in 1994-95.

The foodgrain production was 19 crore tonnes which was 4.7 per cent high compared to previous year. After the years of green revolution foodgrain production has increased at the average rate of 2.79 per cent. The foodgrain buffer stock of the government was 31.69 million tonnes in May 1994 which rose up to 37.45 million tonnes in May, 1995. During 1995 agricultural exports has considerably increased. There were Rs. 39000 crore amount of proposals have received for food processing sector in which Rs. 2500 crore amount of proposals of direct foreign investment. From 1991 to 1994, the investment of 19 main countries, N.R.I and other countries in India was Rs. 98,807.9 million from January 1993 to April 1995, ten states of India have received 1382 proposals of 211.56 billion dollar investment of foreign countries.

The fiscal deficit in 1990-91 was 8.4per cent of Gross Domestic Product, reduced to 5.1 per cent in 1991-92, 5.2per cent in 1992-93 but some difficulties were experienced to control this fiscal deficit in 1993-94 and as a result it increased to 7.3per cent.

Imbalances, inequalities and contradictions are also noticeable in the economic changes. These changes have been rapid in the beginning but subsequently have slowed down. The investment, both domestic and foreign, is restricted to certain areas. It appears new issues will cope up following the fiscal and monetary changes. The issues in our country are not only of savings or investment but real wealth, production, employment and creation of income. These questions cannot be solved simply by increasing investments. The Economic transformation calls for a lot of human and social involvement.

There is no arrangement to tackle poverty, unemployment, inequality, exploitation and the trails and tribulations, which will magnify as a result of
the economic reforms. Some of the limitations of the functioning of economic reforms are as under:

It has been observed that most of the infrastructural sectors has not able to meet targets in November, 1995. This has affected an overall industrial growth of the country. According to information of Department of Programme Implementation of the Central Government, Power generation fell short of the target by 4.2 per cent, coal by 8.4 per cent, Saleable steel by 1 per cent, Cement production by 6.4 per cent, Railways income earning traffic was 4.8 per cent less than the target. Cement was 4 per cent, Crude production was fell by 6.8 per cent and telephone connection added to the system was 53.4 per cent less than the target.

Our per capital income is varies to state by state. There are wide disparities of per capita income. All Indian average per capita income was Rs. 6929 in 1993-94. Delhi tops the list with Rs. 14,714 more than double of national average income. Punjab ranked second with Rs. 12,319, Maharashtra ranked third with Rs. 10984, Haryana ranked fourth with Rs. 10354 per capital income. Among lowest per capita income Bihar was topmost with Rs. 3454, and then J & K of Rs. 4244, Orissa of Rs. 4726, U.P. of Rs. 744. If these trends would remain continue income disparities among states would increase due to new economic reforms.

Government has failed in monetary and fiscal discipline. According to R.B.I. Data adhoc F-Bills outstanding on March 31, 1995, totalled Rs. 23480 crore. On October 1995 these had rise to Rs. 33920.00 crore an increase of Rs. 10440 crore.

The Centre’s main anti-poverty schemes, which linked public distribution system like Jawahar Rozgar Yojana (JRY), appears to have fallen flat. During 1994-95, a total of 257000 tones of PDS rice and wheat were distributed under schemes such as JRY. During the April-September, 1995,
only 60000 tonnes of PDS wheat and rice were distributed under the employment schemes.

The target of average annual employment generation was 2.6 per cent to 2.8 per cent during 1992 to 1995. The average annual economic growth rate was 5.6 per cent during the 1981 to 1991. This was 4.6 per cent during first three years of economic reforms. The target of average annual production of manufacturing sector in Eighth Five Year Plan was 7.3 per cent but it was only 4.7 per cent in first three years of economic reforms.

World Economic Forum had conducted a study of 41 developed and developing countries, which are implementing economic reforms. India ranked 34th in advantages of economic reforms. U.S.A., Singapore, Japan and Hongkong are most beneficial countries.

There is a mismanagement of forex. We have earlier noted that forex reserve had declined in 1995. We had only received 20 billion-dollar forex, but it was 100 billion dollar in Korea, 50 billion dollar in Singapore, and 36 billion dollar in China has achieved 12-13 per cent annual growth rate by economic reforms. There was hyperinflation in Russia, after implementation of new economic reforms. Mexico also became a victim of economic reform.

Agricultural labourer’s price index number was 10.8 per cent and 12.4 per cent respectively. The price of lower quality wheat in Delhi was Rs. 265 per Quintal in 1993. It was rose by Rs. 428 in 1995. The price of rice was Rs. 390 and went up to Rs. 625 during the same time period.

The speed of green revolution has reduced. Public investment in farm sector has declined. Total capital formation in farm sector is low compared to 1980. Farm sector has neglected in economic reforms.

During the time of economic reform industrial production had not increased subsequently. An annual average compound rate of industrial
manufacturing production was 8.8 per cent during 1984-85 to 1988-90 and it was only 3.9 per cent during 1990-91 to 1994-95. Ration of poverty was 37.94 in rural area and 32.41 in urban area. It was 46.07 and 33.87 respectively in 1992.

The gross fiscal deficit was 10.1 per cent of Gross Domestic Product in 1990-91, which was declined 7.5 in 1991-92 and 7.6 in 1992-93. But it went back to 9.00 per cent in 1993-94 and 8.4 per cent in 1994-95.

"But these fundamentals do not tell the entire story. In most of these economies, in one form or another, the Government intervened systematically and through multiple channels - to further development and in some cases the development of specific industries."

6.11 Financial Reforms for Economic Development

Financial Sector is a engine of economy. Financial Institutions are act as Oxygen-cell for economic development. The studies of the Raymond Goldsmith, Ronald Mekinnon and Edward Show were concluded that financial sector is one of the important component to economic development. Without saving, an investment, and capital formation, production, employment and income generation is not become possible. Its is necessary of "Big Push" of investment for removal of vicious circle of poverty in underdeveloped countries.

Financial reforms have been started since 1969. Capital markets have extended its field after 1980's and developed fast after 1991. The flow of capital is coming from investment companies, merchant banking, non-banking financial companies, Foreign financial institutions, Private banks, Stockmarkets etc.

The Committee on the "Reform of the Financial System" under the Chairmanship of M. Narasimham had recommended for reforms in the
financial sector. The committee recommended for a reduced Cash Reserve Ratio and the Statutory Liquidity Ratio for more funds with banks for more credit. It was also recommended the organization of a Assets Reconstruction Fund.

The Committee recommended for profitability and professional approach in credit-policy for this, the system of directed credit programme should gradually be phased out and also gradual phasing out of concessional rate of interest. The committee has emphasized that the general rate of interest should be deregulated and in future the rate of interest be determined by market forces.

The committee strongly emphasized for fundamental contribution of Reserve bank of India in financial sector and for this giving it full autonomy and control over the financial system. The committee stressed on changes in structural pattern of banks and other credit agencies. The committee emphasized for government security market development. The recommendations have been implemented in a phased manner.

6.12 Key to Reforms

With substantial central transfers, growing at the rate of growth of nominal Gross Domestic Product of the country, if most of the states could not settle their finances over period, and still crisis has been avoided, except what is reflected in limited overdrafts, it is because opportunities for reforms have been repeatedly missed which expose the real rut. The mismatch between the high cost of public utilities, services and income from them, and the inability to fund new projects, with due pricing and taxation reveals the scope for reforms around. Both mobilization and utilization of resources leave much to be desired.

The reforms initiated at the Centre in public sector many States have looked at the SLB’s performance and the possibilities of disinvestment / privatisation and at changes in the investment and pricing policies. The Tenth
Finance Commission, to the States efforts for disinvestment of equities of their enterprises has linked the debt relief to the States. Disinvestment/privatisation is a means to signal efficiency requirements and is not the end in itself.

6.13 The Future of Reform

Even in the unlikely event that the Congress Party can form a majority government or a very strong minority government after the national elections of 2004, it cannot be presumed that there would be rapid progress towards the model of the economy that we have espoused. The Congress is not a party of liberal reform, and some features of the model cannot be assumed to be fully and widely accepted. Examples are full freedom for foreign corporate ownership; extensive privatization; a low virtual free trade in agricultural products and the reform of company and labor laws. Moreover, the momentum of reform has been lost.

However, progress on certain fronts would probably continue, for example, tax and tariff reform and simplification; and further liberalization in the financial sector, such as insurance. Gradual improvement of the public finances might also be infrastructure. These latter may almost be forced by economic circumstances. The more politically difficult reforms, such as privatization and agricultural trade; and there is no obvious reason to hope for greater resolve on the part of a new Congress led government. If the reforms are stalled, there will remain enough inconsistencies and impediments in the Indian Economy to prevent achieving the very high rates of growth, which we believe to be possible.

The achievement of the past nine years and a half years are impressive and will lead to higher growth for the Indian economy. But we do not think that the many further reforms we believe to be highly desirable will be made at all quickly. India is not likely to achieve its full potential this century.
6.14 Deficits: Interaction Between Government Deficit and Domestic
Since the modern governments take up so many welfare activities the public expenditure has increased sharply. On the other hand, revenue to the government is constrained due to low paying capacity of the people, thus resulting in a deficit budget. Several significant changes have been taken place in the dimension as well as financing pattern of government deficits in India since the early 1980's. Government deficit as a ration to Gross Domestic Product has increased markedly and the governments are financing the bulk of deficit by domestic borrowing. Heavy reliance on domestic debt of the government is placed on the Reserve bank of India. As a result concerns are being voiced about the prudence of large government deficits and sustainability of the growing domestic debt of the government.
Till the year 1978-79 it was almost customary that central budgets recorded surplus on revenue account used to offset though partially the deficit on capital account and therefore overall deficit. The deficit on capital account indicated the excess of capital expenditure over various types of the government borrowings. Since capital expenditure is mainly developmental in nature leading to creation of physical and financial assets, the budgetary trend was generally welcome except for the magnitude of the overall. However, beginning with the year 1979-80, the revenue account began to show regular and growing deficits. This has become alarming since 1985-86. In practice, however, different measures of government deficit are possible depending upon what items are deemed to comprise aggregate disbursements and aggregate receipts. Measurement of government deficit has received considerable attention in public finance literature with a resurgence of interest in the subject in recent years. A wide spectrum of different concepts of government deficit has been developing. World Development Report (1988) published by the World Bank has emphasized that the "correct" way to measure the government deficit depends on the purpose of analysis. Before going to study the deficit it is better to understand the different concepts of
deficit namely revenue deficit, traditional budget deficit, monetised deficit, fiscal deficit and primary deficit.

6.14.1 Revenue Deficit
Revenue deficit is difference between revenue receipts and revenue expenditure. It means that tax and non-tax revenues become insufficient to cover the revenue expenditure of a government, leading to use the capital receipts to fill up the revenue gap thus created.

Revenue Deficit = Revenue Expenditure – revenue Receipts.

6.14.2 Budgetary Deficit
Usually government expenditure always exceeds government revenue and this leads to a budget deficit. The difference between receipts (revenue+capital) received by the government and the total expenditure (revenue+capital) incurred by the government is budgetary deficit, which is financed through net increase in 91 day treasury bills and withdrawal of cash balance with Reserve bank of India.

Budgetary Deficit = Total Expenditure – Total Receipts

\[
(\text{Revenue + Capital}) - (\text{Revenue + Capital})
\]

6.14.3 Monetised Deficit
The third type of deficit which is important form the policy point of view is the monetised deficit, namely Reserve Bank of India credit to the government. The overall budgetary deficit derived in the budget does not accurately reflect the size of the monetised deficit. There is a justification for attaching special importance to the regulation or if necessary, reduction of the monetised deficit for controlling inflationary pressures. The volume of such deficit, which is sometimes called seigniorage, should not exceed the amount needed to meet the extra demand for cash arising due to growth under reasonably stable conditions.
6.14.4 Fiscal deficit

The excess of expenditure over revenue receipts and non-debt creating capital receipts. It represents the total borrowing requirement of the central government.

Chakravarty committee on the working of monetary system as well as IMF gave emphasis to this aspect of deficit and hence in recent years the concept of fiscal deficit has become more popular. Fiscal deficit has a much wider connotation in as much as it measures the total resource gap in terms of excess of total expenditure over revenue receipts. Hence fiscal deficit measures the net addition to public debt.

\[
\text{Fiscal Deficit} = \text{Net borrowing by the government} = \text{Net addition to public debt}
\]

\[
\text{Fiscal Deficit} = \text{Revenue Receipts} - \text{Total Expenditure} = (\text{Revenue + Capital}) - (\text{Revenue + Non-Tax})
\]

In the context of macroeconomic stabilization in India and many other countries, "fiscal deficit" has become an important variable and policy target. Reduction of the relative size of the fiscal deficit has been postulated as a basic objective of the policy. Until the mid-eighties in discussions of fiscal policy in India, attention was focused mostly on the so-called overall budgetary deficit or "deficit financing".

There are two concepts, which are associated with the fiscal deficit, are gross and net fiscal deficit. Gross deficit refers to the excess of government expenditure (including loans). The gross fiscal deficit contains net fiscal deficit and net primary deficit and is very much influenced by revenue deficit and budgetary deficit. The difference between the gross and net is "net lending". The percentage of net lending affects the net fiscal deficit in accordance with the volume of gross fiscal deficit. Here, the net lending refers to the loans and advances made to the state government and other minus of the recovery of loans by the government of India.
6.14.5 Primary Deficit

One of the measures of public sector deficit that has gained prominence in recent years is the primary deficit. This concept, also referred to as non-interest deficit, measures the impact of discretionary policy of the government budget and can be utilized for evaluating the sustainability of government deficits. Thus the

\[
\text{Primary Deficit} = \text{Gross Fiscal Deficit} - \text{Interest Payments}
\]

The fiscal deficit that includes net lending on the expenditure side is most commonly used and referred to as the gross fiscal deficit. There is no unanimity of views regarding the primary deficit that is derived from gross fiscal deficit. One view is that the primary deficit should be represented by gross fiscal deficit less interest payments of the government. Another view is that it is equivalent to gross fiscal deficit less net lending is referred to as net fiscal deficit. When net interest payments are deducted from fiscal deficit, what is obtained is the net primary deficit - a concept that is relevant for determining the stability of debt to gross domestic product ratio. Primary deficit is a measure of government's current manoeuvrability in immediate reduction of the fiscal deficit. As interest expenses are governed largely by past borrowing. The effect of borrowing needs to be separated. But this needs to be done on both income and expenditure side. Due to federalism of government, the central government borrows and lends a part of what is borrows to the state governments. As a result, interest is insignificant both as a source of income and an item of expenditure. Therefore, while computing the primary deficit the net interest expenditure needs to be deducted from the fiscal deficit.

Rangarajan have defined gross primary deficit as gross fiscal deficit less net interest payments. Primary deficit indicates the precise extent to which current fiscal action affects the indebtedness of the government. Hence, a decline in primary deficit would infact indicate reduced potential to correct fiscal imbalance through current fiscal action. Primary deficit on
revenue account would equal to revenue deficit less interest expenses. Primary deficit on capital account would equal capital expenditure less loan repayments. Primary deficit on revenue account has declined stability and turned into surplus. This is due to fast increase in net interest payments, which contribute, sizeable to the revenue deficit. When these net interest payments are excluded, the deficit on revenue account vanishes. On the other hand, declining primary deficit on capital account shows the decline in the financing of capital account, only indicates the increasing extent to which fresh borrowing are necessary to finance net interest payments.

The budgetary transactions of the central government from 1980-81 to 2000-01 as show in the following tables.
### Table No: 6.3 Deficits of State Governments

(As per cent of GDP at current market prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal Deficit</th>
<th>Primary Deficit</th>
<th>Revenue Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>2.6</td>
<td>1.7</td>
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<td>1981-82</td>
<td>2.4</td>
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</tr>
<tr>
<td>1982-83</td>
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<td>2.0</td>
<td>-0.1</td>
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<td>1985-86</td>
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<td>-0.2</td>
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<tr>
<td>1986-87</td>
<td>3.0</td>
<td>1.7</td>
<td>-0.1</td>
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<td>1987-88</td>
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<td>1.8</td>
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<td>1989-90</td>
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<td>1993-94</td>
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<td>1996-97</td>
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<tr>
<td>1998-99</td>
<td>4.3</td>
<td>2.2</td>
<td>2.5</td>
</tr>
<tr>
<td>1999-2000 P</td>
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<td>2.4</td>
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</tr>
<tr>
<td>2000-2001 RE</td>
<td>4.5</td>
<td>2.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>

**Averages**

| 1980-81/1983-84 | 2.8 | 1.8 | -0.8 |
| 1984-85/1990-01 | 3.1 | 1.8 | 0.4  |
| 1991-92/1996-97 | 2.7 | 0.9 | 0.8  |
| 1997-98/2000-01 | 4.1 | 1.9 | 2.2  |

Note: (1) P: Provisional, (2) RE: Revised Estimate.

The state fiscal deficit rose sharply to percent gross domestic product by 1999-2000, exceeding the pre-crisis of 1990-91 in 200-2001 there was further small decreasing.

By 1999-2000 the state primary deficit had tripled to (996-97) 2.4 percent of gross domestic product and the revenue deficit had risen sharply to 2.8 percent.

The state revenues deficit in 1991-2000 of 2.8 at percent of gross domestic product was 60 percent higher than the per crisis level of 0.9 percent 1990-91.
Table: 6.4 Deficits of Central Government  
(As per cent of GDP at current market prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal Deficit</th>
<th>Primary Deficit</th>
<th>Revenue Deficit</th>
</tr>
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<tbody>
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<td>1991-92</td>
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<td>1992-93</td>
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<td>2000-2001</td>
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Averages

<table>
<thead>
<tr>
<th></th>
<th>6.8</th>
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<td>1980-84/83-84</td>
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<td>1987-98/2000-01</td>
<td>5.3</td>
<td>0.7</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Note: Deficits are uniformly computed net of small savings transferred to states.

Sources: Economics Survey (Various issues), and Budget documents.

The above following table is represents time series for fiscal primary and revenue deficits of central government. The gross fiscal deficit decreased significantly from an average of 5.92 per cent in the 5 years 1980-1985 to 5.3 per cent in the next 1985 - 90 and even further to 6.6 per cent in 1990 - 91 there was a reduction of over 1 per cent of GDP in the gross fiscal deficit in
1991-92 brought about essentially by the central budget of that year. The lowest central government fiscal deficit for the decade of 4.1 per cent of GDP recorded in 1996-97

The centre fiscal deficit rise sharply to 5.4 per cent of gross domestic product by 1999-2000, marginally exceeding the pre-crisis level of 1990-91. In 2000-01 there was a further small increase by 1999-2000 tax centre primary deficit had tripled relative total (1996-97) 0.7 per cent of gross domestic product and the revenue deficit has increase sharply to 3.5 per cent. The centre revenues deficit in 1999-2000 at 3.5 per cent of gross domestic product was 40 per cent higher then the per-crisis level of percent 1990-91, 2.5
A result of centres achieving its lowest deficit in the decade. The next three years the fiscal deficit rose sharply to 5.4 per cent of GDP by 1999-00 marginally exceeding the pre crisis level of 1990-91 in 2000-01 there was a further small decrease.

Table 6.5: Consolidated Deficits of Central and State Government
(As per cent of GDP at current market price)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal Deficit</th>
<th>Primary Deficit</th>
<th>Revenue Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
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</tr>
<tr>
<td>1999-2000</td>
<td>9.5</td>
<td>3.9</td>
<td>6.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>9.7</td>
<td>3.6</td>
<td>6.3</td>
</tr>
</tbody>
</table>

| Averages   | 6.8            | 4.4             | 0.3             |

Note: For 1998/99 onwards the RBI data have been adjusted for revision of GDP estimates published by CSO in January 2002. For 2000-01 the central government fiscal accounts have been used.

Source: Reserve Bank of India, Annual Reports.
The above following table is represents time series for fiscal primary and revenue deficits of central state consolidated. The gross fiscal deficit increased significantly from an average of 7.2 per cent in the 5 years 1980-1985 to 8.9 per cent in the next quinquennium, 1985 – 90 and even further to 9.4 per cent in 1990 – 91 there was a reduction of over 2 per cent of Gross Domestic Product in the gross fiscal deficit in 1991-92 brought about essentially by the central budget of that year. The lowest consolidated fiscal deficit for the decade of 6.4 per cent of Gross Domestic Product recorded in 1996-97.

This coincided with and was largely a result of centres achieving its lowest deficit in the decade of 4.1 per cent of Gross Domestic Product. the next three years the consolidated fiscal deficit rose sharply to 9.5 per cent of Gross Domestic Product by 1999-00 marginally exceeding the pre crisis level of 1990-91 in 2000-01 there was a further small increase.

1991-2000 the consolidated primary deficit had tripped to 3.9 per cent of Gross Domestic Product and the revenue deficit had raised sharply to 6.2 per cent of Gross Domestic Product. The consolidated revenue deficit in 1999-2000 at 6.3 per cent of Gross Domestic Product was 50 per cent higher than the pre crisis level of 4.2 per cent in 1990-91.
The year in which the consolidated primary deficit achieved a nadir of 1.3 per cent of gross domestic product, mainly to the only year of primary surplus achieved by the centre in the last 20 years. The consolidated fiscal deficit rose sharply to 9.5 percent of gross domestic by the 1999-2000, marginally exceeding the pre-crisis level of 1990-91. In 2000-01 there was a further small increase.

In 1999-2000 the consolidated primary deficit had tripled to 3.9 per cent of gross domestic product and the revenue deficit had risen sharply to 6.3 per cent of gross domestic product. The consolidated revenue deficit in 1999-2000 at 6.3 percent of gross domestic product was 50 per cent higher than the pre-crisis level of 4.2 per cent in 1990-91.

In all figures clearly shown that while trends in the consolidated deficit indicators were largely dominated by trends at the centre up to 1996-97. The recent deterioration is develop to adverse trends in both the centre and states but predominantly in the latter. The subject of fiscal deficits, a quick glance at international comparison of fiscal deficits reveals that India's deficit is emphatically on the high side.
6.15. Reasons for Success and Cause for Failure

The macroeconomic crisis of 1991 was the occasion for reform. But while adjustment, in the sense of a large reduction in the domestic absorption of resources, was forced by the crisis, this was not true of the accompanying programme of structural reform. A realization that a major change of economic system was needed has been slowly gaining ground in policymaking circles over the previous decade. The crisis permitted the new Prime Minister to take full advantage of this change of outlook and initiate a wide-ranging programme of reform with devastation speed.

It is amazing how much has been achieved given the tiny base form, which the reforms have sprung. There were in the beginning, to all intense and purposes, only two politically active reformers, the Prime Minister and his Finance Minister, Dr. Manmohan Singh. They were supported by a small select band of like-minded economic advisers, nearly all in the Ministry of Finance. Dr. C. Rangarajan, the governor of the Reserve Bank has also played a strong supportive role.

In the past year, Mr. P. Chidambaram, the minister of Commerce, has also show himself to be an enthusiastic reformer. But unfortunately the Prime Minister seems to have decided after the State electoral set backs for the Congress Party at the end of 1994, that any change would lose votes in the forthcoming national election. Moreover, the Congress Party is not a party of reform, and many ministers were probably quite reluctant to agree to many of the changes they promoted. The Finance Minister has continued to argue strongly for reform, but his wings have clearly been clipped.

The Prime Minister held the ministry of Industry portfolio form, which sprang the decontrol of industrial investment and production. The other major achievement is almost all in the purview of the finance ministry. The reduction of protection; the reforms of the domestic indirect tax system; and the reforms of the financial system including exchange controls, through here
the Reserve Bank also had a large role to play. Both the Prime Minister and the Finance Minister presumably promoted the encouragement of foreign investment.

The principal failure lies with expenditure control. Most important are the fertilizer and food subsidies, but pay and employment in the public sector have also not been adequately curbed. The loss of revenue from favors to small-scale industries is also not negligible. Explanation of failure in all cases lies with reluctance to confront a powerful interest group—the farmers, the bureaucracy, public sector trade unions, and the small-scale industry lobby. We suspect that the Finance Ministry has lacked support from the Prime Minister and the Cabinet.

The two main areas of darkness are public sector reform and agriculture. Public sector reform cries out for privatization, of banking and other financial institutions, and of many industrial enterprises. While private competition in most sectors has been welcomed, if only because sufficient investment by the public sector has become impossible, the authorities have balked at being concerned, and so the political barriers to privatization must again be the bureaucracy and the public sector unions.

One should note that the states have in this respect been more reformist than the center. Even the Marxist government of West Bengal has been actively courting the multinationals. Several have embarked on a programme of privatization. We have indicated that agricultural reform is very complex necessarily involving reforms in other policies and the co-operation of the states. But it is not clear that there should be any long-run insuperable opposition, since the opening of trade would very probably more than compensate most farmers for loss of subsidies, and the poor could be compensated in various ways for a rise in cereal prices.

However, there is no over-arching institution to steer the process of reform. We have mentioned the same lack in connection with industrial
restructuring and privatization. It is ironical that reforms leading to an unplanned economy seem to need planning: and one must bear in mind the danger that institutions, which should quickly make themselves redundant, would actually survive.

Conclusion:
The country was facing an acute macroeconomic crisis. In a short near sense, the stabilization policies that were adopted must be judged a reasonable success. The inflation record is different, but the balance of payments has been a success story. For 6 years there was slow-down in the growth of investment and output particularly in the manufacturing sector. The growth performance was better than that of many countries undergoing stabilization and structural adjustment. In the last two years there has been a rapid recovery.

Stabilization cannot be judged a success in the medium-run sense. The principal shortcoming is the inadequacy of fiscal adjustment. An essential to deliver rapid growth and low inflation, indeed even to avoid another crises.
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