India’s growth prospects are extremely encouraging and one can realistically envision that the country’s growth rates will be on the upswing for the next few years. An 8 per cent growth rate of GDP per annum, which may well climb to 10 per cent, very simply means that India has crossed the growth barrier, entered the league of the fastest-growing nations and is poised to consolidate itself as an economic power.

The nation can certainly extol its achievements; however, this should not lead to complacency about the unattained goals if economic progress is to be sustained over the longer term. Issues of sustainability define an unequivocal need for a continuous process of economic reform. As in any other nation so also in India economic reform in contemporary India may be succinctly described as a process that would facilitate the integration of growth objectives with the larger goal of development.

According to the National Sample Survey (2006), the incidence of poverty in India has declined over the period 1993–4 to 2004–5. It is important to note the fact that this reduction has been extremely gradual and insufficient in magnitude, estimated at 0.74 per cent per annum over the period 1993–4 to 2004–5 and 0.79 per cent over 1999–2005.

The immediate priority is that economic reform in India should be directed towards facilitating patterns of growth that are more inclusive and pro-development than these prevalent at present. Prosperity, where it occurred, was a selective phenomenon, as evidenced by the 300 million people who live on the margins of existence. Liberalization that was tempered with gradualism during its initial stages was prudent; however, the current hindered and slowed down the trajectory of poverty reduction, and it has to be surmounted if the momentum of progress is to continue unabated. Although the country’s growth performance has improved significantly over the last decade, it still represents a level of output and employment that is much below what the nation is capable of achieving. Theoretically, India’s current situation may be described as one that does not represent full employment. (Full employment...
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output may be defined as a country’s supply determined output.) Notably, full employment is a useful concept not because it is a goal that most countries find tenable but because there are very few nations that have achieved full employment levels of output. Thus, it can be used as a gauge or measure of how proximate or distant a country is from attaining its optimal level of output and employment.

Sustainable growth and economic reform

A decade ago, India was an emerging market with unbridled potential; now it is an emerging economic power with immense untapped capacity for opportunity creation. Having embarked on economic liberalization in 1991, India’s reforms in the financial and capital markets have been successful. This is evidenced by the emergence of a fairly competitive and rapidly expanding banking sector, vibrant equity markets and foreign exchange reserves, which were about US$ 180 billion as of February 2007, giving the country a balance of payments situation that can be described as reasonably comfortable. Over the last decade and a half, the country has certainly made discernible strides towards increasing levels of efficiency, particularly in industry, and entrepreneurs have certainly found a business environment that was more conducive than what prevailed during the licence Raj.

It is not as if liberalizing financial and capital markets did not elicit opposition; dismantling curbs, unbundling bureaucratic shackles was not an easy option. However, throughout the early 1990s economic reform was limited to initiating the steps that would propel liberalization. Evidently, the structure and content of economic reform in the subsequent era will have a far-reaching impact on development. The highlight of the next phase of economic reform would be its transition from being an appendage to liberalization in the precedent phase to becoming a full-blooded development strategy. There is a consensus about economic reform in India, one that has fortunately transcended political factions. However, despite this crucial issues pertinent to these continue to be topics of fervent debate, which, more often than not, erupts into disruptive squabbles in the Indian parliament.

Thus, during the ensuing phase the country’s reform agenda would have to take on a role that is certainly more broad-based and with many more ramifications than its precedent one. This would entail steps that extend beyond the purview of implementing the policies of deregulation and privatization because its central objective would be to ease the constraints that restrict economic development.

Basically the challenges currently confronting the nation can be viewed as three: