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India's 1991 Liberalization Reforms, with Emphasis on Rising Out of Pocket Expenditure (OOPE)

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ABSTRACT

What Was Happening in Indian Economy in 1991? It was the year 1991 and Indian economy was in a flux. The economy was facing a Balance of Payment (BOP) deficit because of excessive reliance on imports. In 1990, Soviet Union collapsed, India had Rupee exchange in trade with it. This collapse dwindled India's foreign reserves and India's foreign exchange reserves were so slow that they could finance barely three weeks of imports. The Iraq-Kuwait war led to rise in oil prices. This worsened India's BOP. Then in February 1991, the budget could not be passed because Moody downgraded India's bond ratings. The International Monetary Fund (IMF) suspended its loan program to India and World Bank also withdrew its assistance. It was in this context that India's political leadership was forced to liberalize the Indian economy by expanding its trade with the rest of the world. In the three decades since then, Indian economy has performed well on the global stage and the quality of life of the Indian people has improved considerably. This research would go deeper in understanding the reasons that forced Indian economy to open up, how similar attempts at reform were also made in 1966 and how what is the significance of the1991 economic reforms for the common people of India.

Rising OOPE Expenditure: However, liberalisation has also directly caused Out of Pocket Expenditure (OOPE) to increase as government subsidies withdrew for many medicines. A World Health Organization (WHO) study published in March 2022 noted that high OOPE on health impoverishes 55 million Indians, annually.

Objectives: The objective behind this research is to understand what drove India to liberalise its economy and how that impacted OOPE.

Design: This paper gives a timeline of what events forced India to liberalise its economy and then what impact it has had on India's OOPE.

Setting: The study was done by collecting data from libraries and cyber centres in New Delhi.

Participants: There were no participants directly involved in this research.

Interventions: There were no interventions.

Primary and Secondary Outcome Measures: Going through all data sources, it is evident that liberalisation has caused public spending in healthcare to decrease and hence OOPE to increase. This can be primarily seen through the various acts passed by the Indian governments reducing public expenditure on healthcare. Secondarily, there are wide variations in OOPE across Indian states, people in economically backward states are forced with high OOPE because of poor public health funding and lack of health insurance.

Results: Liberalisation has caused OOPE to rise

Conclusions: There is no doubt that liberalisation has caused public spending in healthcare to decrease and hence OOPE to increase. This is evident through the various acts passed by Indian governments post 1991. High OOPE has caused pushed people into poverty. Indian government must take stock of the situation and control rising OOPE through significant reforms when it comes to spending in healthcare.

Keywords: India, socialism, healthcare, liberalization, balance of payment, structural adjustment, reform, devaluation

ARTICLE SUMMARY

This research aims to highlight why India felt the need to liberalize its economy and the impact of this liberalization on Out of Pocket Expenditure (OOPE). It also mentions what Indian government is doing to curb rising OOPE.

Strengths and Limitations of this Study: The strength of this study is the detailed historic overview it provides around the events that propelled India to liberalize its economy. A weakness of this study is that it does not take into account events that have occurred post 31 December 2023.

INTRODUCTION

"Let the world hear it loud and clear," declared Mr. Singh, an economist. "India is now wide awake."
New York Times, 25 July 1991

Socialism is a philosophy that encompasses several political and economic systems. Although several variations of socialism exist the two extremely broad categories are Market Socialism and Non-Market Socialism. Market Socialism implies that all major sources of production are owned by the state but private entities operate them and are allowed to compete with each other to maximise their profits. Non-Market socialism implies that all major production entities are owned and operated by the state.

The ideology of socialism as a model of socio-economic development was extremely influential in India throughout the twentieth century. Most of the key leaders of the Indian National Movement were socialists and were inspired by the Russian Revolution of 1917. The first World War (1914-1918) had led to a surge in manufacturing industries in India. These industries had led to the creation of industrial proletariat. Gandhi speaking at a conference in Banaras Hindu University (BHU) in 1916, expressed the desire to make Indian National Movement to became more mass in its character. He wanted the movement to go beyond royalty and intellectuals and reach out to the masses of the country who were poverty-stricken, uneducated and deprived of basic civic amenities. He wanted to reach out to working classes in cities and poor labourers in villages. Under Gandhi's leadership, the national movement did become mass. Congress's strong tilt towards socialism helped woo the peasants and workers who were oppressed by landowners, factory owners and their local rulers. In 1927, Jawaharlal Nehru (1889-1964) visited Tashkent. There, he became influenced by Fabian socialism propagated by the Fabian Society. His ideology was heavily tilted towards Import Substitution Industrialisation (ISI) that advocates the replacement of foreign imports with domestic production. Industrialisation was supposed to be a tool to bring about greater socio-economic prosperity. State intervention was exercised even in the micro level, especially in labour and financial markets.

After India's independence, the Indian government was committed towards making India self-reliant and build a more egalitarian society. This involved extensive focus on agriculture and industries through five-year planning programs. The very idea that socio-economic development should be planned. The

government was definitely not market friendly and its approach towards private companies was infamously dubbed as the "license raj". The "license raj" referred to the number of licenses a private enterprise had to obtain. Up to 80 government agencies had to be satisfied before private companies could produce something and, if granted, the government would regulate production. Legislation to regulate industry started with the Industrial Development Regulation Act of 1951, which laid out licensing restrictions on industries it designated as Schedule I which included industrial machinery, telecommunications, and chemical manufacturing. Next, the Industrial Policy Resolution of 1956 extended these restrictions by designating certain industries known as Schedule A to be exclusively under state control, and certain other industries under Schedule B to be majority state-owned. Industries in Schedule A included defence production, metallurgy, mining, and transportation. The resulting economic system is commonly referred to as Dirigism, characterized by state intervention and central planning. Several trade barriers were also put in place so that foreign companies found it hard to start their operations in India.

That time, Indian electoral politics was wholly dominated by the Indian National Congress. No opposition party was strong enough to really overthrow Congress at a pan India level. Although parties that vouched for a more liberal economic outlook, for instance, the Swatantra Party founded by old Congressmen like Chakravarti Rajagopalachari (1878-1972) contested elections, they never really got triumphing victory over Congress. Hence, India continued with a protectionist regime. This was also a regime marked by corruption and a lackadaisical attitude of bureaucrats and politicians in public institutions.

By the 1970s, people's faith in public institutions was dissolving. There was anger at the widespread corruption and licensing in the public institutions. In cinema, the emergence of 'angry young man' played by Amitabh Bachchan was a reflection of just how unhappy people were with public institutions. Films like Deewar gave birth to the onscreen "Angry young man" who was disillusioned with the way the country was being governed.

Capital controls are residency-based measures such as transaction taxes, other limits, or outright prohibitions that a nation's government can use to regulate flows from capital markets into and out of the country's capital account. Indian capital controls started as wartime restrictions imposed by the British on cross-border transactions during World War II, eventually grew into a complex framework of restrictions on the current account and capital account. After independence the Indian government introduced restrictions on the flow of foreign exchange reserves, and following a balance of payments crisis from 1956-1957, the government asked for aid from World Bank and in 1958 Aid India Consortium (Aid-India Consortium Group) was established by the World Bank.

METHODS

This research paper is based on secondary resources. These include newspaper reports in dailies like Hindustan Times and bimonthly magazines India Today. This research is also based upon Project 1991, Mercatus Centre, George Mason University, Virginia, USA.

LITERATURE REVIEW

Numerous books and articles have been penned on how it was vital for India to become liberalised in 1991. India was facing a severe Balance of Payment (BOP) crisis and badly needed foreign reserves. Further, public-sector was marred with corruption and had not done that well when it came to eradicating absolute poverty. The quality of life in India was far behind the first world despite forty years since

independence. The introduction of direct foreign investment in India would not only help India's BOP crisis but also force public companies to compete with their private counterparts and improve the quality of their products and services.

However, as Economist Sumit Sarkar writes "The 1991 economic reforms were focused primarily on the formal sector, and as a result, we have seen significant boom in those areas that were liberalized. Sectors such as telecom and civil aviation have benefited greatly from deregulation and subsequent reforms. However, liberalisation and economic reforms still have a long way to go, especially for the informal sector—including the urban poor who hold jobs as street vendors or rickshaw pullers, the agricultural sector, Micro, Small and Medium Enterprises (MSMEs) and tribals. The slow growth and stagnation in these sectors which have not seen any reform further highlights that the informal sector does not attract the policy makers in the same."

FAILED ECONOMIC REFORMS OF 1966

By 1966, India had already fought two wars (one with Pakistan in 1965 and other with China in 1962). These wars and prolonged droughts had ravaged the Indian economy. India's foreign exchange cover dropped by almost 65% in just a matter of three weeks in 1966. In order to combat it India decided to promote import liberalisation, export promotion and most importantly devaluation of Indian currency. In June 1966, the rupee's value was brought down by 57% by the Indira Gandhi's (1917-1984) government. In return, India was promised US $900 million a year for three years through Aid India Consortium. Indira Gandhi's own Commerce minister Manubhai Shah did not favour this devaluation. He felt that exporting subsidies and importing replenishments would have been better strategies than devaluation. He was vocal of his opinions and received a lot of support from socialist factions within the congress.

By this time, Aid-India Consortium purpose had shifted from providing emergency financial aid to coordinating long-term financing to India's development plan. However, the first aid of from Aid India Consortium US $900 million dollar came with a significant delay and India's exports declined while debt obligations kept rising. US decided to reduce the next supply of aid to only $600 million. India faced another drought. Food prices rose due to inflation. India could never really properly liberalise itself. In 1967, World Bank noted that India could not liberalise itself. India returned back to its protectionist regime. It kept giving import licenses to export firms like Coco-Cola and IBM contingent upon export contributions. The Aid- India Consortium finally gave only $642 million to India.

THE ECONOMIC CRISIS OF 1991

A series of events lead to the economic crisis in India in 1991. India was suffering from a Balance of Payment (BOP) deficit. BOP has two components. The first is current account and the other is capital account. Current account records the value of exports and imports of both goods and services and international transfer of capital. On the other hand, capital account refers to the net flow of investment transaction in the country. This happened because India was relying excessively on imports. India also suffered from a twin deficit. The Twin Deficit theory suggests that there is a strong causal link between a government's budget balance (difference between the government's revenue and spending) and its current account balance (records the value of exports and imports of both goods and services and international transfers of capital). [1]The reasons behind BOP and Twin Deficit crisis were "India's swelling oil import bill, slumping of exports, credit drying up and investors pulling their money back."

REASONS BEHIND THE CRISIS

Iraq's Invasion of Kuwait and the Subsequent Gulf War

On 2 August 1990 Iraq had invaded Kuwait. Both countries were combined producing 4.3 billion barrels of oil every day during the invasion that lasted nine months from August 1990 to February 1991. The potential loss of these supplies and restrictions on oil exports from these countries lead to a soar in oil prices.[2] In mid-October 1990, the prices reached a peak at US $46 per barrel. This phenomenon was infamously dubbed as "oil price shock". The Gulf War was an armed campaign of 35 countries against Iraq's invasion of Kuwait. Over 80% of India's oil imports came from the Gulf countries. Iraqi forces withdrew from Kuwait in February 1991 but not before setting at least 605 oil wells in Kuwait on fire. Indian nationals settled in Kuwait used to also send handsome remittances back home. Between August 13 and October 20 of 1990, India evacuated over 1,75,000 of its nationals from war-torn Kuwait, the biggest such operation by the Indian government. As the remittances from Kuwait dwindled, it affected India's GDP and per capita income drastically.

This was at a time when the country was already in a huge fiscal deficit (A fiscal deficit is a shortfall in a government's income compared with its spending. A fiscal deficit is calculated as a percentage of gross domestic product , or simply as total rupees spent in excess of income. In either case, the income figure includes only taxes and other revenues and excludes money borrowed to make up the shortfall.) Large fiscal deficits, over time, had a spill over effect on the trade deficit culminating in an external payment crisis.

The Fall of the Eastern Bloc

The Eastern bloc (also known as the socialist bloc) was a group of socialist states in Central and Eastern Europe. The most influential state in this bloc was USSR (Union of Soviet Socialist Republic). USSR was a close ally of India and 75% of all of India's international trade was with USSR and allowed for rupee exchange. This closeness was because of a variety of factors. Throughout the Cold War (1947-1991), India was closer to USSR than it was to the US, partly because US's foreign policy was tilted towards Pakistan and partly because Indian and Soviet leadership had genuine ideological affinity. However, by the early 1990's, USSR was on the verge of collapse. People in USSR were unhappy because of lack of consumer goods and poor quality of life. Although USSR did not dissolve till 31 December 1990, the eastern bloc had already started disintegrating bit by bit. In 1990, elections were held for the first time in all fifteen republics of USSR as a sign that the communist party was gradually giving up monopoly on power. In Lithuania, Georgia, Moldova, Estonia ,Lativia and Armenia , the communist party was ousted out of power and these countries started making demands for greater political autonomy. As USSR started breaking up , demands for Indian exports started dwindling.

A news report published in July 1991 in India Today says "The two countries are bound together in a web of advantages and disadvantages when it comes to shifting rupee-rouble trade into hard currency trade," noted Bhabani Sen Gupta, a research fellow at New Delhi-based Centre for Policy Research in July 1991. "Not before the end of the century, if then, will India and the USSR be trading fully in hard currencies.

For decades, contradictions dogged Indo-Soviet trade. The Indian Government purchased crude petroleum, non-ferrous metals, and fertilisers among other things from the Soviets. Paying for it all in rupees. In return, India exported tea, technology, clothing, consumer electronic items, and spices, receiving revenue in rupees. Exports to the Soviet Union consistently outweighed imports, with exports worth Rs 5,200 crore in 1990-91 increasing the trade in India's favour by almost Rs 2,600 crore - the highest ever."

However, as Soviet rupee holdings depleted, a large chunk of their imports from India were financed through rupee loans - technical credit in government jargon - up to Rs 2,000 crore in 1990. This has jolted both finance and commerce ministry officials. What bothered them more was that a number of Indian exports to the Soviet had an import component. Simply put, India paid foreign exchange for imports, produces goods using those imports for export to the Soviet Union, but got only rupees in return. This was especially evident in case of engineering goods, computers and colour picture tubes, which on an average had an import content of 70 to 80 per cent.

There was another factor that went against India: the highly distorted exchange rate. The commercial exchange rate between the dollar and the rouble was $1 to 1.8 roubles and officially, as a dollar was equivalent to Rs 26 in 1991, the logical level for a rouble would have be Rs 14.

On the contrary, one rouble was pegged at Rs 29.90. In April 1991, Gosbank, the Soviet Union's central bank, announced a new dollar-rouble exchange rate for the sale of dollars to Soviet citizens: $1 for 27.60 roubles.

Political Instability in India

The Mandal Commission, officially known as the Socially and Educationally Backward Classes Commission (SEBC), was set up on 1st January 1979 by the Indian Government under the then Prime Minister Morarji Desai. The Commission was chaired by an MP, B P Mandal. The chief mandate of the Mandal Commission was to identify the socially or educationally backward classes of India and to consider reservations as a means to address caste inequality and discrimination. The Commission submitted its report to the President on 31st December 1980. VP (Vishwa Pratap) Singh's government decided to implement Mandal Commission's recommendations in 1990. This meant that All of a sudden almost 75% of Indian population got preferential treatment in educational admissions and Govt employment. Earlier 25% population of India which is SC ST was covered and now more than 50% of Other Backward Class came under reservation. The youth went for massive protest in large numbers in the nation's campuses, resulting in many self-immolations by students.

On 7 November 1990, the central government led by prime minister VP Singh fell. The government was a coalition government. On 30 October 1990 police had open fire on car sevaks who had gone to Ayodhya to rebuild the Ram Janmabhoomi temple. A deadly communal riot took place in Ayodhya on 2 November 1990. VP Singh had an extremely secular outlook and did not vouch for Bhartiya Janata Party's (BJP) agenda of nationalism based on Hindutva. In response, BJP withdrew its support from the VP Singh government. VP Singh faced a Vote of No Confidence and lost the vote 142-346 and resigned. He was immediately succeeded by a minority government having Prime Minister Chandrashekhar (1927-2007) at the helm. This government consisted of a breakaway faction from Janata Dal and outside support from the Congress. Chandrashekhar remained the prime minister from 10 November 1990 to 6 March 1991. According to Economist Sumit Sarkar, "By December 1990, senior bureaucrats along with Gopi Arora, India's representative at (IMF) had mobilised support to manage India's balance of payment crisis. Their efforts lead to an agreement that the Indian government will implement reforms to liberalise the rupee and manage fiscal deficit, with IMF supporting a US $ 1.8 billion-dollar loan in return.

Given this background of political and communal turmoil that the country was going through Moody's downgraded India's bond ratings. Moody's is an American business and financial services company. Bond ratings are third-party evaluations of how likely a company or government agency is to pay interest on fixed income securities and return principal. "Put simply, bond ratings are a tool that investors use to quickly evaluate the credit quality of a bond." After Moody's had downgraded India's bond ratings,

Congress withdrew its support from Chandrashekhar's government on 6 March 1991. Chandrashekhar's government could not introduce the Union financial budget. Without Congress's support, the Chandrashekhar government no longer had majority in the Lok Sabha and resigned on 6 March 1990 after remaining in power for just five months. Dr Manmohan Singh was Chandrashekhar's Economic Advisor. Manmohan Singh and other economists like Subramanian Swamy and Montek Singh Ahluwalia (who later served as the Head of India's planning commission) prepared a series of documents with the aim to liberalise India's economy. However, they never got a chance to present these documents in the parliament because Congress withdrew its support from the government and the government resigned.
Standard and Poor (simply called S&P) is a stock market index tracking the stock performance of companies listed on stock exchanges in the United States. On 7 March 1991, S&P downgraded India's sovereign rating to BBB for long term credit risk and A- for short term credit risk. Moody's and S&P downgrading India's ratings meant that it became extremely difficult for India to take loans from international financial institutions.
After the resignation Chandrashekhar's government, fresh elections were announced. However, on 21 May 1991, former Prime Minister Rajiv Gandhi (1944-1991), who was also Chandrashekhar's chief competitor for the prime ministerial post, was assassinated. His sudden death led to a leadership vacuum and internal power struggle within the Congress party. By now, India only had two weeks of foreign exchange reserves available. Despite the resignation on 6 March 1990, Chandrashekhar's government remained the interim government till the new government took over. On 24 May 1991, India sold 20 tonnes of gold (with repurchase option) for $234 million to urgently raise foreign exchange reserves and handle its balance of payment crisis.

PV NARASIMHA RAO'S GOVERNMENT AND DEVALUATION OF INDIAN RUPEE

Congress won the maximum seats (though not the majority of seats) in the 1991 elections. Congress formed a minority government with Pamulaparthi Venkata Narasimha Rao (1921 -2004), popularly known as P. V. Narasimha Rao as the prime minister.[3] Narasimha Rao assumed office on 21 June 1991. He appointed Dr Manmohan Singh as his finance minister. After obtaining his doctorate in economics from Oxford, Singh had worked for the UN during 1966–1969. He subsequently began his bureaucratic career when the then Union Minister for trade, Lalit Narayan Mishra (1923-1975) hired him as an advisor in the Ministry of Commerce and Industry.
During the 1970s and 1980s, Singh held several key posts in the Government of India, such as Chief Economic Advisor (1972–1976), governor of the Reserve Bank (1982–1985) and head of the Planning Commission. The appointment of Singh as the finance minister came as a surprise to many because of his apolitical background. However, Narasimha Rao realised that he needed an ace economist like Singh to implement the structural adjustment programs and liberalise the economy in order to secure loans from IMF. [4]
Manmohan Singh's first move as the finance minister was to devaluate the Indian currency to encourage exports and inflow of foreign investment into India. [5]
In a secret handwritten memo written by Dr. Manmohan Singh to Narasimha Rao, it is revealed that the devaluation process of the Indian rupee would happen in two stages, first by 7-9% and then by 11%. On 01 July 1991, it is announced by the government that the Indian rupee would be devaluated 7 to 9 percent across four currencies. The secrecy before this announcement was made is remarkable. Very few people apart from Singh and Narasimha Rao knew about the decision about the devaluation of the currency

because Narasimha Rao feared that a lot of Congressmen within the cabinet were still socialists and would oppose the devaluation. Narasimha Rao's fears were not unfounded. A lot of parliamentarians within and outside of the government started pressurising Rao to retract the decision. On 03 July 1991, Rao called Singh to inform him that they had to retract their decision about the devaluation. C Rangarajan, the then governor of RBI (Reserve Bank of India) told Singh that a second devaluation of 11% was already initiated and could not be taken back.

24 JULY 1991 BUDGET SPEECH

On 24 July 1991 Manmohan Singh gave a budget speech that changed the course of history and came to be known as the Epochal Budget. His essential argument throughout the speech was that the protectionist regime had outlived its utility and it was high time that India opens up to the world.

"The past four decades have witnessed import substitution which has not always been efficient and has sometimes been indiscriminate. The time has come to expose Indian industry to competition from abroad in a phased manner. As a first step in this direction, the Government has introduced changes in import export policy, aimed at a reduction of import licensing, vigorous export promotion and optimal import compression. The exchange rate adjustments on 1st and 3rd July 1991 and the enlargement and liberalisation of the replenishment licence system constitute the two major initial steps in the direction of trade policy reform. They represent the beginning of a transition from a regime of quantitative restrictions to a price-based mechanism.

After four decades of planning for industrialisation, we have now reached a stage of development where we should welcome, rather than fear, foreign investment. Our entrepreneurs are second to none. Our industry has come of age. Direct foreign investment would provide access to capital, technology and markets."

WHAT WERE THE REFORM MEASURES?

The Government would keep control on the manufacture of hazardous chemicals, motor vehicles, coal, petroleum, arms, atomic energy and drugs. Project 1991 is a research project on the 1991 economic reforms in India. It has been funded by Mercatus Centre of George Mason University (Virginia, USA). Their research highlights the following key points as being notable impacts of the reform.

Fiscal Reforms: A key element in the stabilization effort was to restore fiscal discipline. The data reveals that fiscal deficit during 1990-91 was as large as 8.4 percent of GDP. The budget for 1991-92 took a bold step in the direction of correcting fiscal imbalance. It envisaged a reduction in fiscal deficit by nearly two percentage points of GDP from 8.4 percent in 1990-91 to 6.5 percent in 1991-92.

Some of the important policy initiatives introduced in the budget for the year 1991-92 for correcting the fiscal imbalance were: reduction in fertilizer subsidy, abolition of subsidy on sugar, disinvestment of a part of the government's equity holdings in select public sector undertakings, and acceptance of major recommendations of the Tax Reforms Committee headed by Raja Chelliah. These recommendations aimed to raise revenue through better compliance in case of income tax and excise and customs duties and make the tax structure stable and transparent.

- **Monetary and Financial Sector Reforms:** Monetary reforms aimed at doing away with interest rate distortions and rationalizing the structure of lending rates.
  - Interest Rate Liberalisation: Earlier, RBI controlled the rates payable on deposits of different maturities and also the rates which could be charged for bank loans which varied according to the

sector of use and also the size of the loan. Interest rates on time deposits were decontrolled in a sequence of steps beginning with longer term deposits, and liberalisation was progressively extended to deposits of shorter maturity

- Greater competition among public sector, private sector and foreign banks and elimination of administrative constraints, liberalisation of bank branch licensing policy in order to rationalize the existing branch network and banks were given freedom to relocate branches and open specialized branches.
- Guidelines for opening new private sector banks

- **Reforms in Capital Markets:** Recommendations of the Narasimham Committee were initiated in order to reform capital markets, aimed at removing direct government control and replacing it with a regulatory framework based on transparency and disclosure supervised by an independent regulator. The Securities & Exchange Board of India (SEBI) which was set up in 1988 was given statutory recognition in 1992 on the basis of recommendations of the Narasimham Committee. SEBI has been mandated to create an environment which would facilitate mobilization of adequate resources through the securities market and its efficient allocation.
- **Industrial Policy Reforms:** In order to consolidate the gains already achieved during the 1980s, and to provide greater competitive stimulus to the domestic industry, a series of reforms were introduced in the Industrial Policy. The government announced a New Industrial Policy on 24 July 1991. The New Industrial Policy established in 1991 sought substantially to deregulate industry so as to promote growth of a more efficient and competitive industrial economy. The central elements of industrial policy reforms were as follows:

- Industrial licensing was abolished for all projects except in 18 industries. With this, 80 percent of the industry was taken out of the licensing framework.
- The Monopolies & Restrictive Trade Practices (MRTP) Act was repealed to eliminate the need for prior approval by large companies for capacity expansion or diversification.
- Areas reserved for the public sector were narrowed down and greater participation by private sector was permitted in core and basic industries. The new policy reduced the number of areas reserved from 17 to 8. These eight are mainly those involving strategic and security concerns. (Example, railways, atomic energy etc.)
- The policy encouraged disinvestment of government holdings of equity share capital of public sector enterprises.
- The public sector units were provided greater autonomy and professional management that could be helpful for generating reasonable profits, through an MOU (Memorandum of Understanding) between the enterprise and the concerned Ministry, through which targets that the enterprise had to achieve were set up

- **Trade Policy Reforms:** Under trade policy reforms, the main focus was on greater openness. Hence, the policy package was essentially an outward-oriented one. New initiatives were taken in trade policy to create an environment which would provide a stimulus to export while at the same time reducing the degree of regulation and licensing control on foreign trade.

- Freer imports and exports: Prior to 1991, in India imports were regulated by means of a positive list of freely importable items. From 1992, imports were regulated by a limited negative list. For instance, the trade policy of 1 April 1992, freed imports of almost all intermediate and capital goods. Only 71 items remained restricted.

- Rationalization of tariff structure and removal of quantitative restrictions: The Chelliah Committee's Report had suggested drastic reduction in import duties. It had suggested a peak rate of 50 percent. As a first step towards a gradual reduction in the tariffs, the 1991-92 budget had reduced the peak rate of import duty from more than 300 percent to 150 percent. The process of lowering the customs tariffs was carried further in successive budgets.
- Trading Houses: The 1991 policy allowed export houses and trading houses to import a wide range of items. The Government also permitted the setting up of trading houses with 51 percent foreign equity for the purpose of promoting exports. For instance, under the 1992-97 trade policy, export houses and trading houses were provided the benefit of self-certification under the advance license system, which permits duty free imports for exports.

- **Promoting Foreign Investment:** The government took several measures to promote foreign investment in India in the post-reform period. Some of the important measures are:

- In 1991, the government announced a specified list of high technology and high-investment priority industries wherein automatic permission was granted for foreign direct investment (FDI) up to 51 percent foreign equity. The limit was raised to 74 percent and subsequently to 100 percent for many of these industries. Moreover, many new industries have been added to the list over the years.
- Foreign Investment Promotion Board (FIPB) has been set up to negotiate with international firms and approve direct foreign investment in select areas.
- Steps were also taken from time to time to promote foreign institutional investment (FII) in India

By August 1991, the Reserve Bank of India made some suggestions to the Narasimha Rao government. It wanted the government to reduce the Statutory Liquidity Ratio (SLR) from 38.5% to 15% and Cash Reserve Ratio (CRR) from 25% to 10%. This move would help markets decide upon the rate of interest rather than the government. RBI also wanted to reduce the number of public sector banks to be reduced and all banks to be placed in the direct control of RBI rather than the central government. The government agreed to these suggestions.

By November 1991, World bank had sanctioned a structural adjustment loan/credit with two components – an IBRD loan of $250 million to be paid over 20 years and IDA credit of SDR 183.8 million with 35 years of maturity. The loan was taken through India's Ministry of Finance, with President of India as the borrower. This loan was supposed to help India in increasing foreign direct investment, reform domestic interest rates, strengthen the stock market and help in selling off public enterprises.

A comprehensive range of related services, including Investment Banking, Asset Management, Underwriting Services, Hedging Advice, etc., have been made available by these markets. In total, these support lakhs of jobs across India. However, despite this, Indian Armed forces and railways are still the largest employers in India.

OPPOSITION TO THE ECONOMIC REFORMS

Attempts at liberalisation were met with heavy opposition from outside the government and also some economists. Critics were sceptical that constant devaluation of currency worsen runaway inflation (runaway inflation is also known as hyperinflation). This inflation, especially hike in food prices would hit the poorest of the poor the hardest.

IMPACT OF THE ECONOMIC REFORMS

India's GDP (Gross Domestic Product), adjusted according to inflation, $266 billion in 1991 to $3.7 billion

in 2023 and Purchasing Power Parity (PPP) increased from $1 trillion in 1991 to $ 13 trillion in 2023. Indicators of development like infant mortality rate and maternal mortality rate have reduced drastically since the reforms. Notably, life expectancy rates have improved from 57.66 years in 1991 to 70.42 years in 2023 due to improvement in health infrastructure. The United Nations noted that in India, 271 million people moved out of poverty between 2005/06 and 2015/16. Since 1991, 80% of the total reduction in poverty has been due to urban growth — rural poor have gained more from urban growth than from rural growth.

Before the reforms, agriculture accounted for 60% of India's GDP. After the reforms, agriculture now only accounts for 15% of the national economy. However, the percentage of people who depend on agriculture is still about 55%. With the arrival of foreign companies and technology, Farm Mechanization—the use of tractors, combines, electronic/solar pumps, etc.—is another benefit of globalization. Moving on, information technology is now being applied in agriculture to simplify farming. Post liberalisation, India became a more service-oriented economy The growth of the information technology, software, BPO, KPO, and LPO industries provided employment opportunity primarily to urban lower middle-class youth. The best thing is that exporting services results in high-value exports. The majority of India's foreign exchange gains come from the export of these services. During the three years 2000–2002 did India have a current account surplus.

India has benefited in the banking sector. There have been three rounds of licence grants for private banks since the reforms. Private banks like ICICI, HDFC, and Yes Bank, as well as foreign institutions, increased the bar for the Indian banking sector. The banking sector is now more competitive, and public sector banks are more customer-focused. Similarly, the insurance sector currently provides a wide range of products, including Unit Linked Insurance Plans and Travel Insurance.

The quality of life improved dramatically.[6] Economist Sumit Sarkar recalls his own experiences on pre-liberalised India "In 1991, scooters like Bajaj Chetak and Lambretta accounted for more than half of the two-wheelers sold in the country. A bottle of soft drink, be it desi versions like Gold Spot or Thums Up, cost just Rs 4.50. Scooters are now extinct, at least in cities and Coco-Cola's market in India is Rs. 20,000 crores from just 200 crores in 1991."

RESULTS

Economists Shambavi Joshi, Ovee Karwa and Sahil Deo conducted in-depth research on how liberalisation transformed the Indian pharmaceutical industry forever. One change was that Out Of Pocket Expenditure (OOPE) rose exponentially. OOPE refer to the expenses that individuals pay for healthcare services directly, using their own funds, rather than through insurance coverage or other third-party payment mechanism. OOPE rises because of a variety of reasons- poor infrastructure, expensive medicines, lack of any health covers/insurances etc.[7]

While liberalization benefited the pharmaceutical market immensely, the withdrawal of state funding from healthcare and the mushrooming of private practice raised citizens' OOPE. As of 2019, nearly 13 percent of all medicines sold in India's retail segment are price controlled using a market-based price-regulation method. Although the twelfth five-year plan recommended the abolishment of user charges, these charges continue to be present in the secondary- and tertiary-level public-sector healthcare facilities across states. The progression toward a liberalized economy also led to an increase in foreign investment in the hospital sector, medical devices manufacturing, pharmaceuticals manufacturing, and the insurance sector. As foreign investment in healthcare increased, the government's spending decreased. Post-1991, the Indian

government's total expenditure on healthcare was 1 percent of the GDP, much lower than in other BRICS countries. This led to an exponential rise in OOPE for the population. Over the years, 65 to 72 percent of total expenditure on healthcare per capita in India was paid out of pocket.

Ever since liberalisation, India's OOPE has risen 3 to 4 times. There are multiple reasons behind that. First reason being that in the 1986–1991 period was the introduction of the DPCO (Drug Price Control Order). It allowed the central government to fix the formulations and prices of essential bulk drugs in India. The DPCO meant that, to maximize profits, pharmaceutical companies reduce the production of drug categories that were subject to price control. Since the manufacturers were not compelled to produce these essential drugs, there was an acute shortage in the market. Hence, 1987 DPCO reduced the number of drugs subject to price regulation and the number of drugs reserved for production by the public sector. It was only in 2013 that a new DPCO was launched, which regulated the prices of 348 essential medicines. Amendments to the 2013 DPCO, such granting five years of patent protection to manufacturers regardless of their origin, encouraged foreign firms to introduce their drugs into the Indian market sooner. India is currently one of the world's largest suppliers of generic drugs and vaccines, producing 20 percent of the global supply of generic drugs and 60 percent of the global vaccines.

Secondly in 1992, during the eighth five-year plan, with the introduction of user fees according to the mandates of the World Bank. This change meant that people who could pay for their healthcare were levied fees to subsidize services for those who could not.

Thirdly, during the Drug Policy of 1994 and the 1995 DPCO, when restrictions on the use of imported bulk drugs and on industrial licensing were abolished. Bulk drugs and formulations subject to controls were reduced from more than 350 to 74. These changes caused a steep, sometimes double-digit increases in drug prices, especially for drugs that had been under a price freeze. Nevertheless, it was essential that pharmaceutical companies do not lose interest because of decreased margins in order to keep research and development momentum high and avoid production of substandard medications.

Fourth, and perhaps the most significant reform between 2001 to 2010 was the Patents Amendment Act of 2005, which re-allowed drug patenting. The act was part of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which India signed in 1995. It led to a sharp increase in research and development on pharmaceuticals. It also changed the research orientation to product innovation, such as novel drug delivery systems, new drug development research, and biopharmaceuticals. It was only in 2013 that a new DPCO was launched, which regulated the prices of 348 essential medicines. Amendments to the 2013 DPCO, such granting five years of patent protection to manufacturers regardless of their origin, encouraged foreign firms to introduce their drugs into the Indian market sooner. India is currently one of the world's largest suppliers of generic drugs and vaccines, producing 20 percent of the global supply of generic drugs and 60 percent of the global vaccines While liberalization benefited the pharmaceutical market immensely, the withdrawal of state funding from healthcare and the mushrooming of private practice raised citizens' OOPE. As of 2019, nearly 13 percent of all medicines sold in India's retail segment are price controlled using a market-based price-regulation method. Although the twelfth five-year plan recommended the abolishment of user charges, these charges continue to be present today.

The "mailbox system" refers to a transitional provision allowed under the TRIPS Agreement for certain countries that didn't provide patent protection for pharmaceutical products at the time the agreement came into effect. The system allowed these countries to receive applications for patents on pharmaceuticals during the transition period, but the actual patent protection would be delayed until the country's laws were fully compliant with TRIPS. The implementation of TRIPS led to increased patent protection for

pharmaceutical products. This exclusivity allows patent holders to have a monopoly on the production and sale of these medicines, which can contribute to higher prices due to lack of competition during the patent period. This led to an increase in prices of many generic drugs.

Insurances entered the market mainly post-liberalization. An increase in the number of private healthcare facilities has improved the accessibility and quality of the services provided, and these improvements have encouraged people to invest in health insurance policies. India's insurance-sector stakeholders include both private health insurance providers and the Insurance Regulatory and Development Authority of India. Yet as of 2023, only 41%of India's households have a health insurance. Most of them relied on government-run healthcare facilities and schemes such as the Pradhan Mantri Jan Arogya Yojana (PMJAY), which provides health coverage to economically vulnerable families. Very few of them have access to private health insurance schemes.

For those who do not have access to any kind of insurance, high OOPE are there to stay.

Further, OOPE can vary greatly from state to state.

First, the relationship between low public health spending and low OOPE is found in states with high per capita GDP. Therefore, even with below-average health spending (as percentage of GSDP), these states spend large amounts on health in absolute terms, resulting in lower OOPE. In contrast, in economically weaker states even higher health spending as percentage of GSDP does not generate a large increase in absolute terms, resulting in high OOPE. For instance, the per capita GDP in Haryana (the state with the highest per capita income) was almost six times that in Bihar (the state with the lowest per capita income). The cost of healthcare may vary from state to state. However, it is not expected to be so materially different in an economically weaker state vis-à-vis an economically well-off state.

Second, a large proportion of households in economically well-off states can afford health insurance relative to that in economically weaker states. For instance, the National Family Health Survey-5 (NFHS-5) estimated that only 15.9% and 17.4% of households in UP and Bihar have at least one usual member covered by any health insurance or financing scheme. However, the percentage of households with insurance was as high as 80% in Andhra Pradesh and above 63% in Tamil Nadu, Telangana, and Uttarakhand. It is also significant that Rajasthan, Chhattisgarh, and Assam have a high percentage of households with health insurance at 88%, 71% and 67%, respectively. Therefore, OOPE is low in these states even though the per capita GDP is lower than in many rich states.

The third explanation relates to the poor quality of public healthcare in economically weaker states. For instance, 80% of households (based on NFHS-5) in Bihar and 75% in UP do not generally use a government health facility, mostly due to poor quality of care. This large number of households with a perception of poor quality of public healthcare facilities is not found in other states.

There are also some idiosyncratic factors creating high OOPE in some states. OOPE in Kerala is over 3% of GSDP, while its health spending is at the all-India average. The population in Kerala has higher health-seeking behaviour than that in other states. Kerala has the highest proportion of ailing persons (24.5%) and the highest hospitalisation rate (105 hospitalisation cases per 1,000 persons based on the National Sample Survey 75th round)

DISCUSSION

Perhaps another poignant reason behind India's rising OOPE is that after the 1991 economic reforms in addition to reducing expenditure on healthcare, the reforms shifted the responsibility for healthcare from the central government to the states. This decentralization resulted in a division of responsibilities. The

central government focused on launching health programs and schemes; developing and monitoring national health policies, standards, and regulations; and providing funds to the states. The states focused on hospital management, sanitation, resource allocation, education, provision of medicines, and prevention of communicable diseases. This is also the reason that OOPE in India vary greatly from state to state.

CONCLUSION

According to recommendations of Niti Aayog's report India@75 India[8] should boost domestic production of APIs by setting up six large API intermediate clusters as per the recommendations of the Katoch Committee.[9]

The GOI INR 9,940 crore package to boost the domestic API manufacturing industry is divided into two parts – INR 6,940 crore has been allocated for the PLI Scheme and INR 3,000 crore will be spent on setting up three bulk drug parks. The PLI scheme is applicable to 41 critical KSMs/APIs and aims to address the supply issue of 53 identified critical APIs. The list has been classified into two broad categories – chemical synthesis products (n=27) and fermentation-based products (n=14). The PLI Scheme is open only for manufacturers of critical KSMs/drug intermediates (DIs)/APIs in India and the eligibility shall be subject to a threshold of incremental investment for manufacturing of identified KSMs/APIs and drug intermediates. The scheme is valid from FY 2020–21 to FY 2029–30. For chemical synthesis products, the incentive would be 10% on incremental sales for five years, i.e. from FY 2022–23 to FY 2027–28. For fermentation-based products, the incentive would be 20% on incremental sales for four years, 15% for the fifth year and 5% for the sixth year, i.e. up to 2028–29.7 Out of the total allocation of INR 6,940 crore for the PLI Scheme, INR 4,600 crore will be earmarked for fermentation-based products and INR 2,340 crore for chemical synthesis products. Under the fermentation-based category, two companies per product will benefit from the incentives, while four companies per product will benefit under the chemical synthesis category.

The government has taken steps to provide various tax benefits to senior citizens including raising the basic exemption limit from INR 2.5 lakh to INR. 3 lakhs, increasing the deduction for health insurance from INR 15,000 to INR 50,000 as well as raising the deduction for bank interest from INR 10,000 to INR 50,000. The Pradhan Mantri Vaya Vandana Yojana has also been launched to provide a maximum pension of INR 10,000 per month with an investment of INR 15 lakh. Gradually, OOPE are declining. [10]

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