IJERMT

International Journal of Engineering Research & Management Technology

ISSN: 2348-4039

August-2020 Volume 7, Issue-4

Email: editor@ijermt.org www.ijermt.org

# STUDY ON THE TRENDS IN THE PRE AND POST REFORM PERIOD GDP

**P.S Lakshmi**

Lecturere in Economics

Government Degree College

Kalyanadurgh,, A.P

**Abstract**

The first four decades of planning are characterized by rigid state control and regulation on economic activities. This period witnessed the syndrome of low savings–investment and low growth rate. This chapter makes a crtitical assessment of the features of planning and concludes that the state control and regulation retarded the growth rate in this period, especially in industries. Observing that the policies in this four-decade period traversed from forceful attempts by the state to capture the commanding heights of the economy and nationalization of private enterprises in the 1960s and 1970s to initiate measures to widen the scope of the private sector and extending its area of operation in economic activities in the 1980s, it goes on to detail some of the events, which placed the Indian economy on a sound footing despite the average growth rate being low.

**Keyword :** *growth rate ,private sector ,development ,proverty , employment* .

## Introduction

Economic growth usually refers to quantitative rise in National Income and Per Capita Income of an economy during a period of time. To understand economic growth in India, first we examine the National Income trends and then look into the trends of Per Capita Income in India during the last sixty years. India was an underdeveloped economy when it achieved independence in 1947. Even though India has started the process of economic development under the Five Year Plans, it continued to face many problems. The major issues, which India has to deal with in the 21st century, are poverty, population growth, food security, unemployment, illiteracy, lack of health facilities environmental degradation and other issues related to agriculture, industry and so on. National income measures the money value of goods and services produced by a country during a given year. National income is usually expressed in the form of Gross National Product (GNP) or Gross Domestic Product (GDP). GDP is the money value of all the goods and services produced within the economy. When the net foreign income is added to the GDP, we have the GNP. GDP and GNP can be measured either at current prices or at constant prices. The national income prices reveals the real growth rate of an economy. The growth of national income requisite for economic development. The real national income of India has increased at an annual average rate of 4.5 per cent. The rate of growth initially decelerated over the years but has subsequently accelerated continuously.

## Objectives of the Study

The main objective of the study is to analysis of India's export performance in the pre (1970-71 to 1990-91) and post-reform periods (1991-92 to 2017-18). These objectives are as follows:

1. To examine and compare the growth trends of India's exports during pre and post reform periods.
2. To analyse and compare the changing trends of India's imports during pre and post reform periods.

## DATABASE AND METHODOLOGY

To explore the dynamics of inflation in Indian economy, monthly data for the period from 1980 till 2016 has been used. This period encompasses the eras of high to moderate inflation hence; represents adequate variation in the data. Relevant macroeconomic variables have been obtained from official website of Ministry of Statistics and Policy Implementation (www.mospi.gov.in), RBI (www.rbi.org.in). The data so obtained has been analysed by using various statistical techniques. Arithmetic mean, median, variance, skewness and kurtosis have been used for the general description of the variables.

## PRESENT STUDY

Though, it cannot be denied that inflation is a perpetual problem and needed to be taken care always. But it is expected that with the change in the structure of the economy in terms of the sectoral distribution of the economy, the inflation may show different trends and patterns during the three period segments. As, the role of service sector has increased in recent decades and the share of agriculture in GDP has declined considerably in recent decade. Accordingly, reflection in the nature of inflation and its relationship with other variables are obvious consequences. Not only the structure of the economy has witnessed changes, under the influence of globalization and the consumerism has impacted the consumption pattern of the people. New things are appearing n the consumption basket of the people and some are disappearing from it. Therefore, it is interesting to study the nature and trends of inflation in India.

## INFLATION: NATURE AND TRENDS

Inflation in India is measured by using mainly three price indices. Changes in the prices of goods at the wholesale price level are measured by the Wholesale Price Index (WPI) whereas changes in prices of goods and services at the retail level are measured by the Consumer Price Index (CPI). Another technique to measure changes in prices, apart from estimating price indices, is to use the Gross National Product (GNP) deflator which is the ratio of GNP at current prices to GNP at constant prices. However, GNP numbers are not used to measure inflation in India because of the limited frequency with which these are estimated, just once every quarter.

## WHOLESALE PRICE INDEX (WPI)

Table 1: Wholesale Price Index Weights Inflationary Trends in India

| Commodity | 1981-82 | 1993-94 | 2004-05 |
|---|---|---|---|
| **Commodities** | **100** | **100** | **100** |
| **(A) Primary Articles** | **32.29** | **22** | **20.1** |

| | | | |
|---|---|---|---|
| Food Articles | 17.39 | 15.4 | 14.3 |
| Non-Food Articles | 10.08 | 6.1 | 4.3 |
| Minerals | 4.82 | 0.5 | 1.5 |
| **(B) Fuel and Power** | **10.66** | **14.2** | **14.9** |
| Coal | 1.26 | 1.8 | 2.1 |
| Mineral Oils | 6.67 | 7 | 9.4 |
| Electricity | 2.73 | 5.5 | 3.5 |
| **(C) Manufactured Products** | **57.05** | **63.7** | **65** |
| Food products | 10.14 | 11.5 | 10 |
| Beverage and Tobacco | 2.15 | 1.3 | 1.8 |
| Textiles | 11.54 | 9.8 | 7.3 |
| Wood and Wood Products | 1.2 | 0.2 | 0.6 |
| Paper and Paper Products | 1.99 | 2 | 2 |
| Leather | 1.02 | 1 | 0.8 |
| Rubber and Plastic | 1.59 | 2.4 | 3 |
| Chemicals | 7.35 | 11.9 | 12 |
| Non-Metallic | 2.48 | 2.5 | 2.6 |
| Machinery and Tools | 7.63 | 8.3 | 10.7 |
| Transport and Equipment | 6.27 | 8.4 | 8.9 |
| Basic Metals and Alloys | 2.71 | 4.3 | 5.2 |
| | 0.97 | 0 | 0 |

Source: Office of the Economic Advisor, Ministry of Commerce The WPI is a weighted average of three categories of commodities

## CONSUMER PRICE INDEX (CPI)

Information regarding Consumer Price Index (CPI) in India is available in four formats namely (a) CPI for Industrial Labourers (IL); (b) CPI for Agricultural Labourers (AL); (c) CPI for Rural Labourers (RL); and (d) CPI for all India (or combined CPI) (CPI for urban Labourers was discontinued in April, 2010). India did not have one composite CPI before the start of all India CPI. For the earlier period, CPI (IL) is used as a representative of all India CPI. The broad items of consumption expenditure of CPI (IL) and CPI Composite are divided into 5 groups (a) Food; (b) Pan, Supari, Tobacco and Intoxicants; (c) Fuel and Light; (d) Clothing, Bedding and Footwear; (e) Miscellaneous (includes medical care, education, recreation and amusement.

**Table 2: Weights Assigned to Consumer Price Index (Base2001)**

| Particulars | Weights |
|---|---|
| Food | 57 |
| Pan, Supari, Tobacco and Intoxicants | 3.15 |
| Fuel and Light | 6.28 |
| Housing | 8.67 |
| Clothing, Bedding and Footwear | 8.54 |
| Miscellaneous | 16.36 |
| All Groups | 100 |

Source: Ministry of Labour and Employment

**Table 3: Weights Assigned to Combined Consumer Price Index (Base 2010)**

| Particulars | Weights |
|---|---|
| Food, Beverage and Tobacco | 49.71 |
| Fuel and Light | 9.49 |
| Housing | 4.73 |
| Clothing, Bedding and Footwear | 9.77 |
| Miscellaneous | 26.31 |
| Total | 100 |

Source: Ministry of Labour and Employment

The Table 2 and 3 depict that there is dramatic change in the weights assigned to different groups' overtime. The growth pattern experienced by the Indian economy during the first decade of this century must have compelled the authorities' changes weights of CPI overtime. The weights of food items have reduced overtime whereas such weights have increased in terms of clothing, housing and fuel. These are the indicators of a growing economy

## CONSUMER PRICE INDEX (CPI) AND WHOLESALE PRICE INDEX (WPI) TRENDS

CPI in India is considered as the true representative of inflation. For, it reflects the ground realities by tracking the prices of the goods that are purchased on daily basis by general public. This index is very much popular in most of the countries. The primary disapproval for WPI is that general public does not transact on wholesale level on a daily basis; not considered as definitive ideal indicator of inflation. The CPI along with tracking prices of goods also includes services in indexing. In India now, bimonthly monetary policy makes the CPI as the base for the policy inputs. The trends in the WPI and CPI are the indicators of many policy concerns in India. Moreover, inflation rates and its control are always on the agenda of respective governments. Therefore, to control and make the appropriate policy in this context it is important to watch the trends in the indices of CPI and WPI. The trends in the CPI and WPI are presented in Table 4.

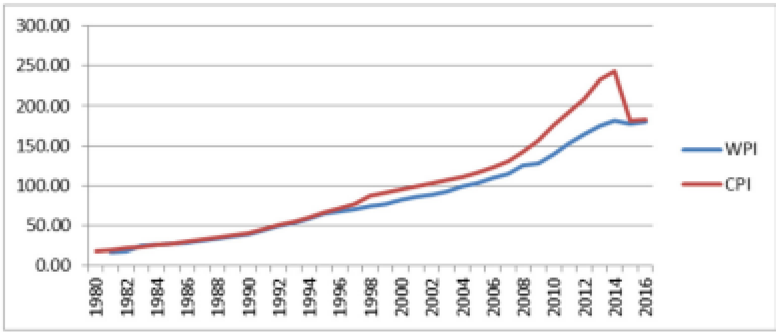
**Table 4: Consumer Price Index (CPI) and Wholesale Price Index (WPI) Series 1981 to 2016 (2004-05=100)**

| Pre-Reform Period | | | Post-Reform Period | | | Subsequent Period | | |
|---|---|---|---|---|---|---|---|---|
| **YEAR** | **WPI** | **CPI** | **YEAR** | **WPI** | **CPI** | **YEAR** | **WPI** | **CPI** |
| **1981** | 16.40 | 19.56 | **1991** | 44.21 | 45.77 | **2001** | 86.06 | 98.78 |
| **1982** | 17.18 | 21.10 | **1992** | 49.31 | 51.17 | **2002** | 88.19 | 103.02 |
| **1983** | 24.32 | 23.60 | **1993** | 53.14 | 54.42 | **2003** | 92.88 | 106.94 |
| **1984** | 26.01 | 25.57 | **1994** | 58.67 | 59.98 | **2004** | 99.02 | 110.97 |
| **1985** | 27.22 | 26.99 | **1995** | 64.37 | 66.12 | **2005** | 103.37 | 115.68 |
| **1986** | 28.72 | 29.34 | **1996** | 67.24 | 72.05 | **2006** | 109.59 | 122.90 |
| **1987** | 30.73 | 31.93 | **1997** | 70.32 | 77.21 | **2007** | 114.94 | 130.75 |
| **1988** | 33.41 | 34.80 | **1998** | 74.41 | 87.43 | **2008** | 124.92 | 141.67 |
| **1989** | 35.66 | 36.89 | **1999** | 77.03 | 91.51 | **2009** | 127.86 | 157.08 |
| **1990** | 38.89 | 40.20 | **2000** | 81.84 | 95.18 | **2010** | 140.08 | 175.92 |
| | | | | | | **2011** | 153.35 | 191.50 |
| | | | | | | **2012** | 164.93 | 209.33 |
| | | | | | | **2013** | 175.35 | 232.17 |
| | | | | | | **2014** | 182.03 | 246.92 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | **2015** | 177.03 | 261.42 |
| | | | | | | **2016** | 179.89 | 273.56 |

Note: Data based on average of Monthly data for obtaining Annual figure.

Source: RBI (www.rbi.org.in); Ministry of Statistics and Policy Implementation (www.mospi.gov.in)




**Graph 1- Consumer Price Index (CPI) and Wholesale Price Index (WPI) Series 1981 to 2016**

Source: Compiled from the Table 4.

The inflation chart and the Table 4 features an overview of the Indian inflation based on WPI and CPI since 1980. From the Table 4 and Graph 1, it appears that inflation, based on wholesale price index and CPI, has been continuously rising since 1980 except for few years. The lowest figure of WPI and CPI was recorded for the year 1981-82 and, while the highest one for WPI is 182.03 for the year 2013- 14 and for CPI is 273.56 for the year 2015-16. The Trends can be studied into three time spans namely, pre-reform period (1980-90), Post reform period (1991-2000) and subsequent period (2001-16). Pre-reform period- for this phase, comparison of data is done over a period from 1980-81 to 1989-90. It can be seen from the Table 4 that both WPI and CPI registered a continuous increase in this phase. WPI and CPI inflation never entered the negative territory during this phase. Though the rate of increase is not uniform in both. In the post reform period the rate of increase in WPI is greater as compared to CPI and the third phase was very turbulent and severe in terms of the inflation, as it registered a big jump in WPI to 182.03 in the year 2014-15 and in CPI to 273.56 in the year 2015-16. It thus surfaces that there is a clear pattern of increase in the whole period.

**Table 5: Trend Growth Rate: Consumer Price Index (CPI) and Wholesale Price Index (WPI) (1981-2016)**

| | **Trend Growth Rate** | | **Standard Deviation** | |
|---|---|---|---|---|
| **Period** | **WPI** | **CPI** | **WPI** | CPI |
| Pre-Reform Period | 9.68 | 8.25 | 7.40 | 6.88 |
| Post Reforms Period | 6.85 | 8.77 | 12.47 | 17.50 |
| Subsequent Period | 5.78 | 7.45 | 35.25 | 61.45 |
| Total | 6.83 | 7.68 | 51.73 | 73.8 |

Source: Computed by the researcher.

It can be seen from the Table 5 that the Trend Growth Rate of WPI inflation was highest in the Pre-reform period as is clearly depicted in the Table 5 and the overall TGR stands out to be 6.83 percent. Whereas the Trend Growth Rate of CPI inflation was registered highest in the post reform period. The overall TGR of both the indicators is higher in CPI as compared to WPI.

**Table 6: Correlation between WPI and CPI**

| **Period** | **Correlation Coefficient** |
|---|---|
| Pre-Reform Period | **.979* (0.00)** |
| Post Reforms Period | **.987* (0.01)** |
| Subsequent Period | **.944* (0.00)** |
| Total | **.986* (0.00)** |

Source: Computed by the researcher

* Insignificant values, Figures in Parentheses are P values

A look at Table 6 also reveals that the inflation rate based on both the indicators has been volatile, particularly during the Subsequent period. The volatility in WPI and CPI inflation is highest during this phase, as indicated by the standard deviation of 51.73 and 73.8 in WPI and CPI respectively. The highest volatility recorded is for the last phase. The fluctuations in WPI and CPI inflation are however moderate in the Pre-reform and post reform period, as is clear from the standard deviation of the same.

## MAJOR FINDINGS

The major findings emerging out of the analysis can be stated as follows: The weights of primary articles have declined in weights of whole sale price index whereas such weights have registered considerable increase in the categories of manufacturing and fuel and power. The shift in weights overtime provide us an indicator of the changing production and use pattern of the commodities in Indian set up. Moreover, the weights of traditional items have declined and it has increased in other items which are emerging important in the growth process. The changes witnessed in weights of CPI are indicators of a growing economy. For, the weights of food items have reduced overtimes and such weights have been increased in terms of clothing, housing and fuel. The inflation, based on WPI and CPI, has been continuously rising since 1980. Up to 1995, the trend in CPI and WPI were same and there was no significant difference between them. However, after 1994, CPI has recorded larger growth as compared to WPI. Besides, such trend continued in subsequent period. Such gap was more dramatic during this period. This is a question of major concern. Why such divergence has occurred? Conventionally the main reason for the CPI inflation being higher than WPI inflation is that food articles had a higher weight (48.3 per cent) in CPI than in WPI (24.3 per cent). The second main reason is the Non-food inflation. WPI and CPI have very different composition. Fuel and power category has a much bigger weight in WPI than in CPI. What is included in this category also differs very much. The third reason is that CPI includes “Service Sector”, rising cost of education, health services leads to bigger CPI. As India grows, demand for services increases from urban middle class, due to which CPI increases. During the period under study the CPI grew faster than WPI. Surprisingly, WPI grew faster than CPI during pre-reform period. However, the rate of growth in CPI was faster than WPI during the post reform period and subsequent periods. Inflation rate based on both the indicators has been volatile, particularly during the subsequent period. The volatility in WPI and CPI inflation is highest during this phase. The fluctuations in WPI and CPI inflation are however moderate in the Pre-reform and post reform period.

**Conclusion**

The economic reform policy adopted by government of India has positive impact on value and volume of trade. The value and volume of exports, imports and unfavourable trade balance of India’s foreign trade expands at a large extent during post reform periods. Although most of these changes have been in accord with the development needs of the economy, the problem of deficits in the trade balances need immediate attention. Due to a persistent growing deficit in trade balance the cumulative deficits occurs in the balance of payment (BoP) of India. Nature of inflation during the period under study has been quite different. Prices of many commodities responsible for inflation during the pre-reform period did not register substantial increase during the post reform period and their place has been taken by other commodities. Prices of fuel, power, light and lubricants rose at a rapid rate in the post reform period. During the Post Reform period there had been higher increase in the prices of manufactured goods compared to that of agricultural commodities.

**References**

1. Ahluwalia, M. S. (2002). Economic Reforms in India since 1991: Has Gradualism Worked? Journal of Economic Perspectives , 16 (3), 64-68.
2. Banik, N. (2001). An Analysis of India’s Exports during the 1990s’. Economic and Political Weekly , 36 (44), 4222-30.
3. Bhagwati, J. N., & Kruger, A. (2007). The Foreign Trade Regime: Analytical Phases and Changes Overtime. New Delhi: IGNOU.
4. Datt., R., & Sundaram, K. P. (1997). Indian Economy. New Delhi: Sultan Chand & Sons.
5. Dingra, I. C. (2014). The Indian Economy-Environment and Policy. New Delhi: Sultan & Chand.
6. Harikumar, A. (2014). Changing Phases of the India’s International Trade before and after Liberalization Period . International Journal of Application or Innovation in Engineering & Management (IJAIEM) , 3 (3), 72-76.

7. Mallik, J. K. (2005). India’s Exports: Policy Defeating Exchange Rate Arithmetic. Economic and Political Weekly , 40 (52), 5486-96.
8. Mathur, V. (2006). Foreign Trade of India 1947-2007: Trends, Policies and Prospects. New Delhi: New Century Pub
9. Mehta, S. N. (2015). Impact of New Economic Policy on India's Foreign Trade. International Journal for Research in Education , 4 (3), 47-55.
10. Mishra, P. K. (2011). The Dynamics of Relationship between exports and economic growth in India. International Journal of Economic Sciences and Applied Research ,