Economic Policy - 1991

Economic reforms in India were introduced in 1991 by the congress government led by Mr. P.V. Narasimha Rao.

A consensus was been achieved in the country to introduce and implement economic reforms so as to accelerate the process of development.

Since July 1991 when the rupee was devalued, the Government of India ~~made some radical changes in its policies~~ announced several new policies in order to redeem the economy from the clutches of the crisis and to put it on the road of rapid development. The Government made some radical changes in its policy regarding foreign investment trade, exchange rate, industry, fiscal affairs etc, all these policies constitute together the New Economic Policy.

According to C. Rangarajan,

"The new economic policy comprises various policy measures and changes introduced since 1991."

The thrust of New Economic Policy was toward creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system.

The measures adopted in this economic policy were;

(1) Replacement of control or licensing system by liberalization policy.

(2) Promotion of Privatisation by squeezing public sector.

(3) Adoption of Globalisation policy in place of protectionist policy for enlarging imports & exports.

The NEP with three broad measures were names LPG Policy or U-turn policy. U-turn policy shows the reverse strategy as adopted in the past.

In a nutshell, NEP is basically based on three components i.e;

NEP

Liberalisation | Privatisation | Globalisation

OBJECTIVES OF NEP :

The salient objectives behind the adoption of NEP are -

1. To liberalise the economic structure
2. To accelerate the growth rate in the economy
3. To improve the working efficiency & productivity of the manufacturing unit.
4. To make production unit more competitive
5. To utilize global resources for economic development
6. To promote reforms & modernisation in financial sector.

FEATURES OF NEP :

The main features of NEP are —

1. Liberalisation

The fundamental ~~freedom~~ feature of the NEP is that it provides freedom to the entrepreneurs to establish any industry trade / business venture. The entrepreneurs are not required to get prior approval for any new venture, they only have to fulfill certain conditions to get into a line of one's choice. The procedures involving a case by case examination of the proposals for new ventures have been wiped off.

The entrepreneurs now no longer need licenses to come into business.

The capital market have also been freed and opened to the private enterprises.

The New Industrial Policy has liberalised the industries in the following way —

(1) All other industries, excepting 18 industries are delicensed and allowed to set up and sell shares without any restriction.

(2) Industries are free to expand their capacity as per the needs of the market.

(3) MRTP companies (having investment beyond ₹ 100 crore) are now no longer required to go for pre-entry of investment decisions & they are now allowed to expand their size

(4) Producers are allowed to produce any com-

duty on diversity their output as per the demand in the market.

(5.) Industries are free to buy foreign exchange from open market.

The aforesaid measures have liberalised the industries to take decision so as raise their efficiency & in production & to face global competition

2. Extension of Privatisation

Another feature of NEP is the extension of in the scope of Privatisation. Now, the majority of economic activities will be conducted by the private sector.

In the wave of privatisation out of 17 industries reserved for public sector, 11 industries have been given to the private sector.

Moreover, government has also privatised the ownership of some public sector undertakings by the sale of some selected enterprise to the private sector.

The Privatisation Programme of the economic reforms consists of :

1. Reducing the number of industries reserved for the public sector from 17 to 8.
2. Raising the share of private sector to total investment of to 55% at the end of the eight Plan
3. Selling the government equity holdings of public sector enterprises among the workers and public

for greater participation of private individuals.

4. Institutional credit support to private sector enterprises from the national financial institutions.

Thus privatisation is expected to raise the efficiency and productivity of the private sector.

3. Globalisation of Economy

The neo economic policy has been the economy outwardly oriented.

It means unification of the domestic economy with the world economy.

Globalisation of the Indian economy due to NEP has made the following changes;

(1) The NEP has prepared a list of high technology & high investment priority industries in which automatic permission will be available for Foreign Direct Investment upto 51% of foreign equity

(2) In order to make international adjustment of Indian currency, rupee was devalued in July 1991 by nearly 20%. It help to stimulate exports, discourage imports & raise the influx of foreign capital

(3) To make an expeditious integration of Indian economy with that of the world, the Union Budget 1992-93 has made Indian

rupee partially convertible.
The rupee was made fully convertible in 1993-94 budget.
A major step was taken by the government in March 1993 towards current account convertibility and the exchange rate was unified and transactions on trade account were freed from exchange control.

(4) To bring Indian economy within the ambit of global competition, the government has modified the customs duty by considerable extent.
Accordingly the bank rate of customs duty has been reduced from 250% to 30% in 2002-03 budget

(5) A new five year export-import policy, 1992-97 was announced by the government of India.
The new policy aimed to establish the framework of globalisation of India's foreign trade, to promote productivity, modernisation & competitiveness of Indian industry & to enhance its export capabilities.
The policy removed all restrictions and control on the external trade & market forces.
On March 31, 2002 a new Exim Policy 2002-07 was announced which has simplified the trade practices

(6) In order to increase the flow of foreign investment & technology the government has taken many measures like
(i) granting foreign technical collaboration of high priority industries

(ii) granting freedom to import foreign technology by private entrepreneurs & also to test indigenous technology abroad.

4. Modernisation

NEP accorded high priority to modern techniques.

It aims at augmenting the growth rate of sunrise industries.

In order to import technical dynamics to Indian Industry, the government decided to clear all foreign collaborations.

Government has also been trying to stimulate private entrepreneurs to establish their own research & development centre by offering them various tax concessions.

Efforts are also being made to revive & modernise the sick industrial units within the public & private sectors.

5. New Public Sector Policy

Dr Manmohan singh the then Finance Minister in Congress Government opined that the priority was given to the public enterprise in the hope that it will help to accumulate capital, industrialisation, economic growth and removal of poverty.

But none of these objectives were achieved thus, NE Reforms tried to shift the emphasis

from public sector to private sector.

The Industrial Policy took following major decisions in case of public sector;

(1) Reduction in the list of industries reserved for the public sector from 17 to 8.

(2) Introduction of selective competition in the reserved area.

(3) Disinvestment of shares in PSEs to raise resources & encourage wider participation of general public & workers in the ownership of PSEs.

(4) Policy for sick PSEs be made at par with that of private sector.

(5) Improving Performance through the performance contract or Memorandum of Understanding (MOU) system by which managements are to be granted greater autonomy and held accountable for results.

6. Financial Reforms

Following Narasimham committee report, the Government of India has undertaken various measures for the reform of its financial sector.

These consist of;

(i) reduction in liquidity ratio

(ii) abolition of direct credit programmes

(iii) free determination of interest rates

(iv) necessary improvement in the banking accounting system

(v) making provision for Non Performing Assets (NPAs)

(vi) establishing speedy recovery of loans by special tribunals.

(vii) liberal treatment to foreign banks

(viii) Reconstitution of banking system for the establishment of a few banks of international standard, national banks, local banks, rural banks, private sector banks etc

(ix) giving more freedom to banks & ending dual control of RBI and Finance Ministry.

(x) introducing capital market reforms.

7. Fiscal Reforms.

The government has initiated various fiscal measures to reduce the fiscal deficit from 8.4% of DP in 1990-91 to 5.0% in 1996-97 & then to 4.4% in 1999-2000

To achieve this target, the Government has introduced various control over public expenditure & took initiative to raise its both tax & non-tax revenue.