An Analysis of New Economic Policy of India

Dr.Swarooprani.k
Assistant Professor Siddhartha Arts and Commerce Degree College Bidar, Karnataka, India

Abstract **- New Economic Policy of India was launched in the year 1991 under the guidance of P.V.Narasimha Rao. This policy opened the access of the India Economic for the inclusive revelation for the first time. In this New Economic Policy P.V. Narasimha Rao government abridged the significance duties, opened reticent sector for the private troupe, and devalued the Indian money to enhance the export. This is also identified as the LPG Model of development**

ECONOMIC POLICY

Economic policy refers to the events that governments receive in the economic field. It covers the systems for situation levels of duty, government budgets, the wealth supply and attention charge as well as the labor market, national possession, and many other areas of government interventions into the economy.

PRE-1991 ECONOMIC SITUATION IN INDIA

● Indian economic policy following independence was predisposed by the imposing experience (which was seen by Indian privileged as unequal in nature) and by those leaders' experience to Fabian communism.
● Nehru, and other leaders of the sovereign India, sought a substitute to the great variations of entrepreneurship and Leninism.
● In this system, India would be a collective society with a burly public division but also with private possessions and democracy.
● As part of it, India adopted a national planning advance.
● Policy tended towards protectionism, with a burly emphasis on importation substitution, industrialization under state monitoring, state interference at the micro point in all businesses particularly in labour and monetary markets, a large public sector, and business
1. Licence raj: The "Licence Raj" or "Permit Raj" was the elaborate system of licenses, system and associated red tape that were required to set up and run businesses in India between 1947 and 1990.
2. Significance replacement:
Significance replacement industrialization (ISI) is a operate and economic policy which advocates replacing foreign imports with familial production. ISI is based on the principle that a country should challenge to decrease its foreign dependence during the local construction of industrialized harvest and was planned to encourage self confidence. But this meant the domination of Indian industries and lack of inducement for them to recover the eminence of foodstuffs which hindered customer welfare. "Before the process of reform began in 1991, the government attempted to close the Indian economy to the exterior world. The Indian currency, the rupee, was inconvertible and high tariffs and significance licensing prohibited foreign goods attainment the market. The complex officialdom often led to ridiculous restrictions—up to 80 agencies had to be content before a firm could be arranged a license to create and the state would decide what was twisted, how much, at what price and what sources of capital were used." - BBC on the Pre-1991 economic policy.

1991 ECONOMIC CRISIS

● By 1985, India had ongoing having balance of payments evils. This is due to more expenses by the government while the profits generated were less. In totaling there were huge disparities amid income and expenditure.
● By the end of 1990, it was in a grave economic crisis. The government was close to default; its middle bank had refused new credit
● In 1991, India met with an economic crisis - involving to outside debt. The government was not able to make repayments on its borrowings from overseas.
● The foreign exchange reserves, which we preserve to introduce petroleum and other significant items,

dropped to levels that were not adequate to last even a fortnight.

● The disaster was further compounded by increasing prices of necessary goods.

INITIATION OF IMF AND WORLD BANK

● India approached the International Bank for Reconstruction and Development (IBRD), commonly recognized as World Bank and the International Monetary Fund (IMF) for help.

● India usual 7 billion dollars as loan from these agencies to resolve the crisis.

● It had to assurance 20 tons of gold to Union Bank of Switzerland and 47 tones to Bank of England as part of the deal with the International Monetary Fund (IMF)

● In adding, as part of the assist, IMF expected India to liberalize and open up the economy and eliminate trade restrictions between India and other countries.

"There is no time to lose. Neither the Government nor the economy can live beyond its means year after year. The room for man oeuvre, to live on borrowed money or time, does not exist anymore…. We need to expand the scope and the area for the operation of market forces."

— Dr. Manmohan Singh. Budget Speech, July 24, 1991.

(Before proposing the reforms)

1991 Economic reforms
Structural reforms Stabilization measures
Privatization Liberalization Globalization
Deregulation Financial sector Tax reforms For Ex reforms Trade policy

STABILIZATION PROCEDURES

● These are short term measures intended at solving the instant cause - the 1991 economic crisis.

● These included correcting the fault which resulted in the balance of payments disaster and steps to bring the increase under control. Structural measures:

● These are extended term measures aimed at civilizing the efficiency of the economy and growing its global competitiveness by removing the rigidities in different segments of the Indian economy.

These reforms fall under three leads:

1. Liberalization
2. Privatization
3. Globalization

LIBERALIZATION

Liberalization was done in different sectors in the following ways:

1. Deregulation of industrial sectors:

● Industrial licensing was abolished for all but creation categories - alcohol, cigarettes, dangerous chemicals, drugs, explosives etc.,

● Many industries which are reticent for public segment in have now been "dereserved". Only railways, defense equipment, atomic power generation have been reticent with the public sector.

● Market has been permitted to decide the prices.

2. Financial sector reforms:

● decrease the role of RBI from regulator to catalyst of financial sector.

● These reforms led to the organization of private banks.

● FDI in banks was raised to 50%.

● But positive managerial aspects have been retained with the RBI, to maintain the interests of the account holders.

3. Tax reforms:

● Corporate tax, which was very high previous has been slowly reduced.

● The tax procedures have been simplified and the rates also have been lowered. 1973-74 - Eleven tax slabs, with charge from 10 to 85 per cent. 1990-91 - In five Budgets between 1991-96, FM Minoan Singh reduces IT slabs to three (20, 30 and 40 per cent).

4. Foreign exchange reforms:

● The rupee was "devalued" against foreign currencies which led to an augment in inflow of foreign exchange.

● Market has been permissible to determine the foreign exchange rates.

5. Trade and investment policy reforms:

● dismantling of quantitative limitations on imports.

● Reduction of duty rates (taxes on imports)

- Removal of licensing events for imports except in case of dangerous and environmentally sensitive products
- Quantitative limit on imports was also fully decreased later.
- Export duties have been impassive to promote exports.

PRIVATIZATION

- Privatization means the convey of assets from public segment to private sector.
- Privatization helps in civilizing financial regulation and to facilitate modernization.
- Privatization helps in sturdy inflow of FDIs

DISINVESTMENT

Privatization of public sector enterprises by advertising off part of the fairness of PSEs to the public is called Disinvestment.

CRITICISM

1. Assets of PSUs have been undervalued.
2. The money from disinvestments was abstracted to meet the shortage in the government income rather than in creating new assets.

GLOBALIZATION

Globalization is the development of international addition arising from the interchange of world views, products, ideas and common sharing, and other aspects of culture.

OUTSOURCING

In Outsourcing, a company hires usual service from outside sources, which was hitherto provided inside. It is an outcome of globalization. Thanks to new economic policy, India became a main source for outsourcing jobs. Eg: BPO, banking services etc.,

WORLD TRADE ORGANIZATION (WTO)

WTO was established to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes. India has been a dynamic member of WTO, which aims to increase trade between countries.

CONCLUSION

In conclusion, the NEP has yet to completely achieve its objectives and it had also twisted or enthused up other evils pertaining generally on racial inequality. The completion of NEP had previously taken place and we all cannot deny that it happened.