

# Chapter-12: Economic Reforms Since 1991

## **Learning objectives**

- 1 Meaning of new economic policy
- 2 Need for economic reforms
- 3 Features of new economic policy
  - (i) Liberalization and its measure
  - (ii) Privatization and its measure
  - (iii) Globalization and its measure
- 4 Positive impact of LPG
- 5 Negative impact of LPG

## **Q1.What is economic reforms?**

Ans. The new economic policy started by the government since 1991 in order solve the Economic crisis and to accelerate the rate of economic growth is called Economic Reforms. It is also known as new economic policy which consists of Liberalization, Privatization and Globalization (LPG).

## **Q2.Why there was need for economic reforms?**

Ans. 1. **Mounting fiscal deficit :**

Fiscal deficit of the government had been mounting year after year on continuous increase in non-development expenditure. Due to persistent rise in fiscal deficit there was corresponding rise in public debt and interest payment liability there was possibility that the economy might lead to debt-trap situation. Thus it becomes essential for the government to reduce its non-development expenditure and restore fiscal discipline in the economy.

**2. Adverse balance of payment :** When receipts of foreign exchange fall short of their payments, the problem of adverse balance of payment arises. Despite the restrictive policy adopted by the government till 1990 import substitution and export promotion the desired result could not be met. Our export could not compete in terms of price and quality in the international market. As a result there was slow growth of export and rapid increase in imports. Accordingly the burden of foreign debt services increased tremendously and leading to depletion of foreign exchange reserves.

**3. Gulf Crises:** On account of Iraq war in 1990-91 prices of petrol shot-up . Besides india used to receive huge amount of remittances from gulf countries in terms of foreign exchange.

**4. Poor performances of PSU's:**

Due to poor performances of public sector undertakings degenerated in to a liability. Most of public sector undertakings were incurring loss and their performance was quite satisfactory. On account of these factors, it becomes imperative for the government to adopt new economic policy or to initiate economic reforms.

**5. Rise in price:** Due to rise in prices of food grains there was pressure of inflation Prior to 1991. Which deepened the economic crisis from bad to worse.

**6. Fall in foreign exchange reserves:** In 1990-91 India's foreign exchange reserves fell to such a low level that there was not enough to pay for an import bill of even 10 days. In such situation the government had to helplessly resort to policy of liberalization as suggested by the World Bank.

**Q3 what is New Economic Policy? Briefly explain it.**

Ans. New Economic Policy refers to adoption of Liberalisation, Privatisation and Globalization (LPG) which aims at the rendering the economy more efficient, competitive and developed.

**ELEMENTS OF NEW ECONOMIC POLICY**

1. **Liberalization:** It means to free the economy from the direct and physical control imposed by the government.

**Measures adopted for Liberalization:**

- (i) Abolition of industrial licensing.
- (ii) DE reservation of production areas
- (iii) Expansion of production capacity
- (iv) Freedom to import capital goods

2. **Privatization:** It refers to general process of involving the private sector in the ownership or management of state owned enterprises. It implies partial or full ownership and management of public sector enterprises by the private sector.

**Measures adopted for Privatization:**

- (i) Contraction of public sector
- (ii) Disinvestment of public sector undertaking
- (iii) Selling of shares of public enterprises

3. **Globalization:** It means integrating the economy of a country with the economies of other countries under condition of free flow trade and capital and movement of persons across borders.

**Measures adopted for Globalization:**

- (i) Increase in equity limit of foreign investment
- (ii) Partial convertibility of Indian rupees
- (iii) Long –term trade policy
- (iv) Reduction in tariffs.

**Q4. Mention the positive impact of LPG policies**

- 1. a vibrant Economy
- 2. Stimulant to Industrial production
- 3. Check on fiscal deficit
- 4. Check on inflation
- 5. Improvement in consumers sovereignty
- 6. A substantial increase in foreign exchange reserves.
- 7. Flow of private foreign investment.
- 8. India as an emerging economic power
- 9. Shift from monopoly market to competitive market

**Q5. . Mention the negative impact of LPG policies.**

- 1. Neglect of agriculture
- 2. Urban concentration of growth process
- 3. Economic colonialism
- 4. Spread of consumerism
- 5. Lopsided growth process
- 6. Cultural erosion