

# A Review about Economic Policy 1991 in India

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**Abstract – Since 1951, India has fully fledged like a planned economy. The very first couple of plans centered on development with strengthening of manufacturing sector and the manufacturing to develop the backbone of the Indian economy. Other primary aspects of planning were agriculture, employment generation, poverty alleviation, social development etc. In 1991, India saw itself fighting its most crucial economic and currency crisis ever, but after financial reforms and following the policy of LPG (Liberalization, Privatization, and Globalization) Indian economy performed very well. Then again because of global financial crisis in 2008 Indian economy again interrupted and starting another turbulent phase. This paper analysis Indian economy from 1991 2013.**

**Keywords: Indian Economy, Economic Crisis, Global Financial Crisis.**

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## INTRODUCTION

Because of constant increase in government spending, excessive development of imports, insufficiency of international exchange reserves and also high degree of inflations, India chooses to shoot a historical stage of modifying industry in 1991. It embarked on an extensive reform of the economic system Out of Liberalization, Globalization and Privatization the first 2 are policy methods and also the 3rd one will be the result of these techniques. These 3 expressions would be the supporting pillars, where the structure of New Economic Policy of the federal government have been erected and also implemented after 1991. Consequently, we've to recognize the negative and positive impacts of these and learn the ways and issues of developing new economic policy and the way to conquer from its demerits.

## REASONS AND ALSO BACKGROUND FOR FINANCIAL REFORMS OF 1991

The financial state of India in the season 1991 was miserable. It was on account of the cumulative negative effects of number of factors. Therefore economic reforms have been launched in India as 1991 was the season of crises for the Indian economy. The primary factors were as follows:-

- i) National income was developing only at a speed of 0.8%,
- ii) Inflation gets to the level from 6.7 % to 16.8%,
- iii) Balance of payment crises would be to the scope of 10,000 crores. Balance of

payments deficit was estimates at Rs 2,214 crore in 1980 81, that rose to high amount of Rs 17,367 crore in 1990-91,

- iv) India was remarkably indebted country. It was spending 30,000 crores interest charging per year,
- v) Foreign exchange reserves had been only 1.8 billion dollars that were adequate for 3 weeks. Forex reserves which were Rs 8,151 crore in 1986 87, decline sharply to Rs 6,252 crore in 1989-90,
- vi) India sold great amount of gold to Bank of England,
- vii) India used for the mortgage from World Bank and IMF (International Monetary Fund) to avail this particular mortgage, Indian government also agree on the problems of World Bank and IMF (International Monetary Fund) and also announced the New Economic Policy,
- viii) Fiscal debt was much more than 7.5%,
- ix) Deficit financing was around 3%,
- x) Trade relations with soviet bloc had broken down,
- xi) India utilized to get large volume of remittance from gulf countries in international exchange. Nevertheless, remittance from non residence Indians stopped because of battle in gulf countries,

- xii) Prices of oil products was extremely high on account of Iraq war in 1990 91,
- xiii) The PSU's (Public Sector Undertakings) in India have been dealing with the issue of poor rates plus lower efficiency of return.

In 1951, there have been only five businesses in public sector in India that rose to 232 in 1991. Several 1000 crores of rupees have been invested in their development and growth. In the initial fifteen years their performance was very satisfactory but thereafter nearly all of these began recording losses. Due to the bad performances of theirs, public sector undertaking degenerates right into a liability.

On account of these aspects it started to be important for any authorities to follow New Economic Policy or even initiate reforms policies. The government was left with no choice but in order to address World Bank and IMF (International Monetary Fund) for financial asylum.

In order to control the crises, India was given a loan for seven billion dollars. Nevertheless, before giving bank loan to IMF, World Bank, or India (International Monetary Fund) expected India to liberalize simply start the economy by eliminating restrictions on the private sector, decreasing the job on the government in so many places and taking away trade restrictions, Liberalization, Globalization and Privatization were 3 fundamental components of the New Economic Policy (NEP, 1991) and New Economic Reforms. Out of Liberalization, Globalization and Privatization the first 2 are policy methods and the 3rd one will be the result of these strategies. These 3 expressions would be the supporting pillars, where the structure of New Economic Policy of the federal government have been erected and also implemented after 1991. This's popularly known as LPG type of growth.

### POSITIVE IMPACT OF NEW ECONOMIC POLICY

- i) The development of GDP increased from 5.6 % in 1980 90 to 6.1 % during 1992 2000.
- ii) The structure of GDP by major sectors of the economic system has in addition undergone a proper change.
- iii) The opening up of the economic system has resulted in the rapid rise in foreign direct investment (FDI).
- iv) Foreign exchange reserves come to the degree of \$25186 million at the conclusion of March 1995 as compared to just \$3962 million in 1980 90.
- v) During the reforms period, India experienced considerable increase in exports of auto

parts, engineering goods, IT textiles and software.

- vi) New economic policy has additionally succeeds for check on inflation. Increase in production, other reforms and tax reforms aids in controlling inflation. Inflation remained constant at approximately five per cent for quite a while which in 1990 91 was at high level of seventeen per cent.
- vii) With the launch of financial reforms after 1991 a large assortment of products and services are currently available on the Indian consumers which raises competitive environment.
- viii) Since 1991, the private sector is participating in a predominant role. The share of private sector has grown in most places.
- ix) With the launch of financial reforms, financial deficit has fallen in 1991.

### NEGATIVE IMPACT OF NEW ECONOMIC POLICY

- i) The brand new economic policy has overlooked the agricultural sector as than business, service sector and trade. In India agriculture market continues to be a significant source of livelihood in outlying areas.
- ii) New economic policy has led to the focus of development process in regions that are urbanized. Consequently' rural urban gulf' is widening hence, creating unbalanced growth process.
- iii) Reforms in India have negatively affected our industries especially small scale industries.
- iv) Under its policy of disinvestment, the property of PSUs are already undervalued and also offered on the private sector. This means a substantial damage to the authorities.
- v) Though the GDP growth rate has grown throughout the reform time which hasn't produced corresponding growth in employment. Hence, the development has didn't reduce poverty.
- vi) MNCs in India have currently participating in the dominating part within the Indian economy. They're effectively exploiting the Indian market and are marketing the

products of theirs and thus, making large profits. This created economic colonialism.

- vii) The brand new economic policy is encouraging a dangerous pattern of consumerism by stimulating the products of theirs of products and luxuries of better consumption. A number of worldwide makes in the industry has lured the masses to be spend thift, even beyond the means of theirs.
- viii) New economic policy resulted in Globalization which more instigated cultural erodin of the Indian culture. Economic prosperity has taken a lead over any other details of life. Respect towards the household, culture as well as country that was once the strongholds of the Indian public tradition have been surrendered as useless virtues in the wake of materialism.

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### CONCLUSION

Economic reforms process in India is still unfinished with a few negative and positive impacts. The effect of the reforms on the functionality on the economy hasn't been big and a sustained as expected by its protagonists. It's highly suggested that modern economic policies are pursued with guarded precautions. Additionally, there's a requirement of second generation reforms where there's a need to add the reforms that couldn't be accomplished up to now and new reforms which wasn't taken during 1991 new economic policy & these next generation reforms likewise requires legal action and administrative machinery.

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