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Study of LPG (Model) on Economic Development in India

Sangeeta

M.Com, NET

Abstract – Economic policy refers to the actions that governments take in the economic field. It covers the systems for setting interest rates and government budget as well as the labor market, national ownership, and many other areas of government interventions into the economy. Such policies are often influenced by international institutions like the International Monetary Fund or World Bank as well as political beliefs and the consequent policies of parties

New economic policy was announced in year 1991. In this policy liberalization, privatization and globalization were mainly emphasized. Before 1991, public sector had been assigned important role in the economic development. Private sector was subject to rigorous control. but it was realized that public sector was inefficient because of bureaucratization, red-tapism, over staffing, lack of initiative etc. net result of of all this was the acute economic crisis in India in the year 1991.foriegn exchange reserves were too depleted to finance our imports even for two weeks. Fresh loan were not available and nonresident fund were being withdrawn. Since July 1991, the govt. of India has taken many policy measures with the objective of pulling the country out of economic crisis and accelerating the rate of economic growth. Main among them are: (1) replacing controlled economic by liberal one, i.e. reducing control and promoting liberalization (ii) encouraging private sector (iii) promoting foreign direct investment (iv) introducing improved technology (v) encouraging modernization of agriculture (vi) introducing extensive changes in trade policy monetary policy and fiscal policy (vii) keeping fiscal deficit under control. All these policy measures are collectively called NEW ECONOMIC POLICY.

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INTRODUCTION

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, ***Liberalization, Privatization and Globalization*** (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient.

MEANING OF LIBERALIZATION

Liberalization means to reduce unnecessary restriction and controls on business units imposed by government. It means procedural simplification, relaxing trade and industry from unnecessary

Bureaucratic hurdles. Prior to 1991,govt.had imposed several types of controls on Indian economy e.g., industrial licensing system; price control or financial control on goods, import license, foreign exchange control, restrictions on investment by big business houses, etc.

IMPACT OF LIBERALIZATION IN INDIA

The **economic liberalization in India** refers to ongoing economic reforms in India that started on 24 July 1991. After Independence in 1947, India adhered to socialist policies. Attempts were made to liberalize the economy in 1966 and 1985. The first attempt was reversed in 1967. Thereafter, a stronger version of socialism was adopted. The second major attempt was in 1985 by prime minister Rajiv Gandhi. The process came to a halt in 1987, though 1967 style reversal did not take place. In 1991, after India faced a balance of payments crisis, it had to pledge 20 tonnes of gold to Union Bank of Switzerland and 47 tonnes to Bank of England as part of a bailout deal with the International Monetary Fund (IMF). In addition, the IMF required India to undertake a series of structural economic reforms. As a result of this requirement, the government of P. V. Narasimha Rao and his finance minister Manmohan Singh (currently the Prime Minister of India) started breakthrough reforms, although they did not implement many of the reforms the IMF wanted. The new neo-liberal policies included opening for international trade and investment, deregulation, initiation of privatization, tax reforms, and inflation-controlling measures. The overall direction of liberalization has since remained the same, irrespective of the ruling party, although no party has yet tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labour laws and reducing agricultural subsidies. Thus, unlike the reforms of 1966 and 1985 that was carried out by the majority Congress governments, the reforms of 1991 carried out by a minority government proved sustainable. There exists a lively debate in India as to what made the economic reforms sustainable.

The fruits of liberalization reached their peak in 2007, when India recorded its highest GDP growth rate of 9%.With this; India became the second fastest growing major economy in the world, next only to China. The growth rate has slowed significantly in the first half of 2012An Organization for Economic Co-operation and Development (OECD) report states that the average growth rate 7.5% will double the average income in a decade, and more reforms would speed up the pace.

There has been significant debate, however, around liberalization as an inclusive economic growth strategy. Since 1992, income inequality has deepened in India with consumption among the poorest staying stable while the wealthiest generate consumption growth. As India's gross domestic product (GDP) growth rate became lowest in 2012-13 over a decade, growing merely at 5%, more criticism of India's economic reforms surfaced, as it apparently failed to address employment growth, nutritional values in terms of food intake in calories, and also exports growth - and thereby leading to a worsening level of current account deficit compared to the prior to the reform period.

For 2010, India was ranked 124th among 179 countries in Index of Economic Freedom World Rankings, which is an improvement from the preceding year.

MEANING OF PRIVATIZATION

Privatization means allowing the private sector to setup more and more of such industries as were previously reserved for public sector. Under it existing enterprises of the public sector are either wholly or partially sold to private sector.

The term of privatization is used in two senses-

1 narrow meaning of privatization

In narrow sense privatization implies the private ownership of public enterprises.

2 broader meaning of privatization

In broader meaning privatization implies transferring the ownership of public sector to private sector or managing and controlling the public sector by private individuals without transferring the ownership.

DEFINITION OF PRIVATIZATION

Privatization is the general process of involving the private sector in the ownership or operation of a state owned enterprise.

IMPACT OF PRIVATIZATION IN INDIA

Before independence, private sector dominated in India. In 1991, new economic policy was declared. Under this policy, private sector has been accorded great importance and process of privatization has been initiated. Main features of the process of privatization in India are as follows:

1 **contraction of public sector**: number of industries reserved for the public sector has been gradually reduced from 17 to 2. These two industries are- atomic energy and railways, and the remaining industries have been opened for private sector.

2 sales of shares of public sector to the private sector: Up to 74% of shares of public sector have been sold to foreign investors, institutional investors, mutual funds, public and workers. Till the end of march 2013, shares of public sector worth Rs. 1,34,519 crore were sold.

3 sick public sector units: public sector units will be treated in the same way as sick units of private sectors; various cases of sick industrial companies of public sector have been forwarded to BRPSE (board of reconstruction of public sector enterprises)

4 National renewal fund : this fund was establish for protecting the interest of employees on account of privatization .some employees are retrenched and some are offered voluntary retirement under this scheme, upto march 2012, 6.18 lakh employees have sought voluntary retirement from public sector units. It has been decided that workers interest will be protected in alln in disinvestment decisions.

5 Implementation of recommendations of Rangarajan committee: Rangarajan committees have been implemented, which have gone in the direction of privatization of PSUs.

1 to disinvest 49% equity of reserved public sector units and to disinvest 74% equity of other public sector units

2 corporatization of public sector units.

3 public issue of shares.

4 10% of disinvestment proceeds should be set aside for granting concessional loans to PSUs.

6 **increase in private sector investment in plans**: shares of private sector investment has been increased from 42% in fifth five year plan to 78.1% in eleventh five year plan.

GLOBALIZATION ON INDIAN ECONOMY-

Globalization and its Meaning: Broadly speaking, the term 'globalization' means integration of economies and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people. Cross border integration can have several dimensions – cultural, social, political and economic. In fact, some people fear cultural and social integration even more than economic integration. The fear of "cultural hegemony" haunts many.

Limiting ourselves to economic integration, one can see this happen through the three channels of (a) trade in goods and services, (b) movement of capital and (c) flow of finance. Besides, there is also the channel through movement of people.

Impact of Globalization on Indian Economy: Now the concept of localization is totally changed it's converted into globalization. Go globally and think globally is the mantra of present era. Right from Manufacturing to services, thrust is on globalization. For example, Mazada's sport car MX-5 Maita, was designed in Californiyya, it's proto type product is created in England, assembled in Michigan and Maxico using advanced electronic components which are invented in New Jersy, fabricated in Japan by sourcing the finance from Tokyo and New York and marketed worldwide.

As you all know, for the good part of the last decade and even before, various forces in the world have been active to shape the economy of their own countries and internationally in the post-Cold War world. Globalization refers to one of the main trends of their orientation of the economy in this period and its main content is to strengthen "market forces". The end of Cold War created a new situation worldwide and no force could remain aloof from the demands of this new situation. One of the camps of the bipolar world, the one led by the US, seized that opportunity and released numerous initiatives in the political, military, social and ideological spheres - and most importantly, in the economic sphere. One objective was to give a knockout blow to its arch-rival, the Soviet Union so that it could not rise again, politically, militarily and economically, at least in near term. The other objective was to ensure that this period of global disequilibrium does not give rise to popular revolutions and people's power, which had been kept in check by both super powers for the good part of the Cold War period.

CONCLUSION:

New economic policy refers to various policy measures and changes under taken since july, 1991 with a view to increase productivity and efficiency of the economic by creating an atmosphere of competition. The new economic policy laid emphasis on liberalisation, privatization and globalization. The control were liberalized so as to encourage setting up of new industrial units and expansion of existing industrial units. Private sector was given more important role in the process of economic development. The areas reserved for public sector were opened for private sector. Foreign investment limits on foreign equity participation were liberalized.

Thus, the main objective of new economic policy is to promote competition and efficiency. Globalization, liberalization and privatization will promote competition. Thus increased competition will promote efficiency.

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