

# Critical Review of New Economic Policy on Indian Economy

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## Abstract:

India opened up the economy in the early nineties following a major crisis that led by a foreign exchange crunch that dragged the economy close to defaulting on loans. The country ran out of foreign exchange reserves. To face the crisis situation, the government decided to bring about major economic reforms to revive Indian economy. This paper studies the Impact of New Economic Policy on Indian economy. The Economic Reforms that made by government by New Economic Policy in 1991 made significant impact on the Indian Economy. The reforms did away with the License Raj, reduced tariffs and interest rates and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors. The primary objective of this model was to make the economy of India the fastest developing economy in the globe with capabilities that help it match up with the biggest economies of the world

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**Key Words:** License Raj, New Economic Policy

## Background

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. Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost \$1 billion; Inflation had roared to an annual rate of 17 percent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad that called for a complete overhauling of our economic policies and programs. In India wage fixation has no link with productivity. But rationality suggests that wages must be equal to marginal productivity of labour. Labour market in India is having dual character, representing organized labourers enjoying security and high wages and unorganized workers, on the other hand, which remained exploited, totally, defence less and poor. Thus in this context, economic reforms through its market mechanism will either improve productivity of workers or face closure or exit by the employer concerned. [1]

India has been experiencing maintenance of persistent fiscal deficit in its annual budget, resulting in inflationary pressure in the country. The current economic reforms have made a sincere attempt to contain this fiscal deficit and thereby became successful in containing the inflationary spiral in the price level. [1]

The country is facing a huge growth of non-plan expenditure, particularly due to its ever increasing expenditure on defence, subsidies and interest payment. The current economic reforms have made an

attempt to reduce this increasing trend in non-plan expenditure through withdrawal of subsidies of food, fertilizers, and exports and even on higher education. [1]

According to [Bhalla97], of the three sectors of economy in India, the tertiary sector has diversified the fastest, the secondary sector the second fastest, while the primary sector, taken as whole, has scarcely diversified at all. Since agriculture continues to be a tradable sector, this economic liberalization and reform policy has far reaching effects on (i) agricultural exports and imports, (ii) investment in new technologies and on rural infrastructure (iii) patterns of agricultural growth, (iv) agriculture income and employment, (v) agricultural prices and (vi) food security [Bhalla93].

### **Introduction**

In 1991 India embarked on major reforms to liberalize its economy after three decades of socialism and a fourth of creeping liberalization. Twenty-six years later, the outcome has been an outstanding economic success. India has gone from being a poor, slow-growing country to the fastest-growing major economy in the world in 2016. The World Economic Outlook for 2016 says that the United States and India are the two pillars of strength today that are helping hold up a sagging world economy [2].

The underlying socialist theory was that the market could not be trusted to produce good social outcomes, so the government in its wisdom must determine where the country's scarce resources should be deployed and what exactly should be produced, in what location, and by whom. In other words, the people would be best served when they had no right to decide what to produce and no right to decide what to consume: that was all to be left to a benevolent government.[3]

Meanwhile, the population had virtually doubled since independence in 1947, meaning that the number of poor people virtually doubled in this socialist era. There could scarcely be a crueler demonstration of how policies in the name of the poor could end up impoverishing them even further. GDP growth improved to 5.5 percent in the 1980s because of some very modest liberalization plus a government spending spree. But the spending spree was unsustainable and ended in tears and empty foreign exchange reserves in 1991.[4]

When the reforms began, all opposition parties had slammed them as a sellout to the International Monetary Fund (IMF). But when the outcome was record GDP growth, the objections melted away in practice even if not in rhetoric. Every successive government that came to power continued down the path of economic liberalization, despite some steps backward. The reforms were erratic and half-baked but not reversed.[5]

The new government led by Narendra Modi of the Bharatiya Janata Party has sought to tackle some of the worst problems, and growth has picked up to an estimated 7.5 percent in 2015-16. That growth rate is slower than before, yet China has slowed even more dramatically to 6.5 percent. So India has become the fastest-growing major economy in the world, an unexpected and notable feat, even if it owes more to the slowing of China than to its own acceleration. [6]

### **Methodology**

The present paper is totally based on secondary data. The data was drawn from various sources which have been duly acknowledged. Information on New Economic Policy and various issues related to liberalization was obtained by consulting the websites concerned. The reports of the Government of India were also referred for obtaining the necessary data.

### **Main Successes over the Past 27 Years**

Before 1991 India was derisively called a bottomless pit for foreign aid. Every few years, a food crisis or foreign exchange crisis would send Indian ambassadors and politicians scurrying around the world, asking like Oliver Twist for more. Today, aid has not vanished but has become irrelevant to the balance of payments or investment plans. Gross aid flows exceed \$5 billion, but after debt servicing, the net inflow is barely \$0.5 billion.

In the bad old days, any major drought meant India was dependent on food aid. When two droughts occurred in a row, as in 1965 and 1966, India survived only because of record food aid from the United States. A 1967 best-selling book by William and Paul Paddock declared that simply not enough food aid existed to save all needy countries, and so hopeless countries like India should be left to starve, conserving food aid for countries that were capable of survival.[7].

India's poverty ratio did not improve at all between independence in 1947 and 1983; it remained a bit under 60 percent. Meanwhile, the population virtually doubled, meaning the absolute number of poor people doubled. That was a cruel reflection of the failure of the socialist slogan Garibi Hatao (Abolish Poverty). Poverty started declining gradually after 1983, but the big decline came after economic liberalization.

In 1991, it took two years for anyone to get a telephone landline connection. N. R. Narayana Murthy, head of top software company Infosys, recalls that in the 1980s, it took him three years to get permission to import a computer and over one year to get a telephone connection. [8]. Today, the cell phone revolution means instant access to communication even in remote villages. The number of cell phone connections has just exceeded one billion. India has among the cheapest cell phone rates in the world, barely two cents per minute, and second-hand cell phones cost just \$5, so even the poor can afford to make calls. That advancement has facilitated migration out of and remittances to poor areas. Once unconnected India is now globally connected.

In 1991 Indian companies used obsolete technologies based on ancient licensing agreements and did very little research and development. Today, India has emerged as a global research and development (R&D) hub. General Electric has located one of its five global R&D centers in Bengaluru. Suzuki and Hyundai have made India a hub for small-car research and production. Microsoft and IBM are among the global companies using India as an R&D base.

India is now a low-cost commercial satellite launcher. By October 2015, it had launched 51 satellites for foreign countries, with payloads of less than 1,600 kilograms. To gain market share, it needs to develop payload capacity of over 3,000 kilograms, and building that capacity is a work in progress [9].

In 1991 Indian politicians and industrialists feared that economic liberalization would mean the collapse of Indian industry or its conversion into subsidiaries of multinational companies. Twenty-five years later, Indian companies not only have held their own but also have become multinationals in their own right. Dozens of Indian pharmaceutical companies — such as Sun Pharma, Cipla, Lupin, and Dr. Reddy's Labs — are now multinationals with higher sales abroad than in India. Through acquisitions, Arcelor Mittal became the biggest steel company in the world. The Tata Group acquired Corus Steel and Jaguar Land Rover and in the process became the largest private-sector employer in the United Kingdom. Today, the global slump in metals and the dumping by China have made many acquisitions that were completed in the boom years look like bad deals. Yet the fact remains that Indian companies are now viewed as having global management skills worthy of global takeovers. Ironically, although Tata has decided to sell its steel assets in the United Kingdom, one of the potential buyers is Liberty House, founded by another person of Indian origin, Sanjeev Gupta. [10].

Beyond all expectation, thousands of Dalits have emerged as millionaire business people and established a Dalit Indian Chamber of Commerce and Industry. Its president, Milind Kamble, says that just as capitalism killed feudalism, it is also killing casteism. In the fierce competition of a free market, what matters is suppliers' prices not their caste. This fierce competition, brought about by economic reforms, has opened new commercial space that did not exist during the license-permit raj, and Dalits have been able to occupy part of the new space. [11]

### **The Main Failures over the Past 27 Year**

Markets cannot function without good governance. With almost no exceptions, the delivery of government services in India is pathetic, from the police and judiciary to education and health. Unsackable government staff members have no accountability to the people they are supposed to serve, and so callousness, corruption, and waste are common.

India has 123 policemen per 100,000 population, almost half the UN recommended level of 220 and far below the levels in the United States (352) and Germany (296). Huge unfilled vacancies are common in all states. In Uttar Pradesh, a state of 200 million people, the overall shortage is 43 percent, with the shortage of head constables being 82 percent and inspectors 73 percent [12]. The police are notoriously inefficient and corrupt. In many states, they will not even register complaints without a bribe

In India, criminals take part in politics and often become cabinet ministers. That gives them huge clout and ensures that charges against them are not pursued [13].

An anticorruption crusade led by Anna Hazare, a veteran social activist, attracted massive public response. The anticorruption uproar led to complete paralysis in decision-making: no bureaucrat or minister wanted to sign any file for fear of being accused of corruption. The stink of corruption led to the decimation of the Congress-led United Progressive Alliance government in the 2014 election, which brought Narendra Modi of the Bharatiya Janata Party to power. [14].

Indian social indicators have improved faster in the past 27 years of liberalization than in the earlier socialist era, but the improvement is clearly insufficient. Government services of all sorts remain basically unreformed and are delivered by a callous, unsackable bureaucracy. Prime Minister Modi shows no sign of taking on this bureaucracy. Chief Ministers who have tried to take on the trade unions of the civil service have typically been forced to retreat.

India's public spending on health, which elsewhere commonly provides health care access to the poor, has always been among the lowest in the world. India has world-class hospitals for the elite, but the masses are at the mercy of quacks and dubious practitioners of traditional indigenous medicine.

India's primary schools are in pathetic shape, and so dropouts are excessive, and those completing school are barely educated. College expansion has been massive, especially of private colleges in recent decades, but the quality is spotty and the education, often useless. Consequently, India is producing millions of unemployable school and college graduates who don't want to do manual work but don't have the skills for white-collar work either. India is now witnessing a demand from relatively well-off castes — such as the Jats in Haryana and Uttar Pradesh, the Gujars in Rajasthan, and the Patels in Gujarat — for reclassification as “backward castes,” so that they qualify for a quota in government jobs and top educational institutions. When the town of Amroha invited applications for 114 jobs as “sweepers,” it received 19,000 applications, including some from people with MBAs and B.Tech Degrees [15].

Although India has had immense economic growth, not all sectors of the country have benefited. The funds that should have been directed to the agriculture sector were directed to private-sector enterprises. Another way globalization has affected the agricultural sector is through bio fuel and medicinal cultivation. There is a food security crisis in India because a significant portion of the land has been designated to grow crops for bio fuel. Crops like rice and wheat are often harvested in large quantities. However, the amount of crops that are used for bio fuel is largely unregulated, with an inadequate amount going to the poor and needy.

Another sector the government has neglected is public health. India has one of the lowest ratios of public to private health expenditure. The infant mortality rate for the richest 20% of the population is only 38 per 1000 live births, while the rate for the poorest 20% is 97 per 1000. In addition, the rate of epidemics among the poor is increasing; it is common for outbreaks of contagious diseases like human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and malaria to occur

Another criticism raised against economic reforms is in terms of unemployment arising out of large scale retrenchment of workers. Thus both the public sector, on the plea of overstaffing and redundancy, and the private sector, on the plea of modernisation and technological up-gradation, workers are gradually being retrenched or forced to accept voluntary retirement scheme like 'Golden Handshake'. This sort of unemployment arising out of structural adjustment is a serious problem and must be considered seriously. [1].

### Conclusion

The process of globalization has changed the industrial pattern social life of global people and it has immense impact on Indian trade system. Previously, the pace of process was slow. Today with the start of the information technology, new ways of communication have made the world a very small place. With this process, there is a big market place. Globalization has resulted in increase in the production of a range of goods. MNCs have established manufacturing plants all over the world. It has positive effects and India will overcome many obstacles and adopt global policies to expand business at international scale. India is gaining international recognition and strengthening in economic and political areas.

The 25 years from Narasimha Rao to Narendra Modi have moved India from low-income to middle-income status. To reach high-income status, India must become a much better governed country that opens markets much further, improves competitiveness, empowers citizens, vastly improves the quality of government services and all other institutions, jails political and business criminals quickly, and provides speedy redress for citizen grievances. That is a long and difficult agenda.

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Mr. Saikat Majumdar is a Data manager at Public Health Research (Govt of West Bengal).and Research Scholar, Ranchi University. He has several publications to his credit in reputed national and international journals (including Oxford, Sage Publication etc) and several chapters in edited books (including Lambert Academic Publishing). He has also presented a good number of research papers in national and international conference (more than 28). Further, he has participated in many workshops related to research methodology and other educational issues. His research paper ‘Teenage Pregnancy and Adverse Birth Outcome in Rural West Bengal, India’ – has been accepted for an oral presentation at the 2015 INDEPTH Scientific Conference in Addis Ababa, Ethiopia. He is a member of Association of Gerontology of India.