CLASS 12 ECONOMICS

INDIAN ECONOMIC DEVELOPMENT

CHAPTER-3

New Economic Policy – Liberalization, Globalization and Privatization (1990- Onwards)

Part A

INSTRUCTIONS:

STEP 1 : Read chapter-3 from NCERT book Indian Economic Development.

Learning Objectives: After studying this chapter, you will be able to:

- Understand the background of the reform policies introduced in India in 1991
- Understand the mechanism through which reform policies were introduced
- Comprehend the process of globalisation and its implications for India
- Be aware of the impact of the reform process in various sectors.

The following topics are covered in this chapter:

i. Defination of New Economic Policy
ii. Need for new economic policy
iii. Components of new economic policy
iv. Privatization

STEP 2 : Watch the video on Chapter 3 Indian Economy (1990-) through the following link:

https://youtu.be/nZK88FXKsQU

STEP 3: Following are the Main points of the chapter.

The reforms were based on the assumption that market forces would steer the economy into the path of growth and development.

Economic reforms started in 1991 in India.

Causes of Economic Crisis

Different causes of economic crisis are given as under

- The continued spending on development programmes of the government did not generate additional revenue.
- The government was not able to generate sufficient funds from internal sources such as taxation

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- Expenditure on areas like social sector and defence do not provide immediate returns, so there was a need to utilise the rest of its revenue in a highly effective manner, which the government failed to do
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- The income from public sector undertakings was also not very high to meet the growing expenditures.
- Foreign exchange borrowed from other countries and international financial institutions was spent on meeting consumption needs and to make repayments on other loans

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- No effort was made to reduce such increased spending and sufficient attention was not given to boost exports to pay for die growing needs.

Due to above stated reasons, in the late 1980s, government expenditure began to exceed its revenue by such large margins that meeting the expenditure through borrowings became unsustainable

Need for Economic Reforms

The economic policy followed by the government upto 1990 failed in many aspects and landed the country in an unprecedented economic crisis. The situation was so alarming that India's reserves of foreign exchange were basely enough to pay for two weeks of imports. New loans were not available and NRIs were withdrawing large amounts. There was an erosion of confidence of international investors in the Indian economy.

The following points highlight the need for economic reforms in the country

- Increasing fiscal deficit
- Adverse Balance of Payments
- Gulf crisis
- Rise in prices
- Poor performance of Public Sector Units (PSUs).
- High rate of deficit financing.
- Collapse of soviet block.

Emergence of New Economic Policy (NEP)

Finally, India approached International Bank for Reconstitution and Development, popularly known as World Bank and International Monetary Fund (IMF) and received $ 7 million as loan to manage the crisis. International agencies expected India to liberalise and open up economy by removing restrictions on private sector and remove trade restrictions between India and other countries.
India agreed to conditions of World Bank and IMF and had announced New Economic Polity (NEP) which consist of wide range of economic reforms.

The measures adopted in the New Economic Policy can be broadly classified into two groups i.e.
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- Stablisation Measures They are short-term measures which were intended to correct some weakness that have developed in the Balance of Payments and to bring Inflation under control.

- Structural Reforms They are longterm measures, aimed at improving the efficiency of the economy and increasing its international competiveness by removing the rigidities in various segments of the Indian economy.

The various structural reforms are categorised as

- Liberalisation
- Privatisation
- Globalisation

Privatisation

It refers to giving greater role to private sector thereby reducing the role of public sector. In other words, it means shedding of the ownership or management of a government owned enterprise

It may also mean de-reservation of industries previously reserved for public sector.

Government companies (public companies) are converted into private companies in two ways

- By withdrawal of the government from ownership and management of the public sector companies.
- By the method of disinvestment.

Forms of Privatisation

Different forms of privatisation are

- Denationalisation When 100% govermffdht ownership of productive assets is transferred to the private sector, it is called denationalisation. It is also known as strategic sale.

- Partial Privatisation When less than 100% or more than 50% ownership is transferred, it is a case of partial privatisation with private sector owning majority of shares. In this situation, the private sector can claim to possess substantial autonomy in its functioning. It is also known as partial sale.

Objectives of Privatisation

The most common and important objectives of privatisation are

- Improving the financial condition of the government.
- Raising funds through disinvestment.
- Reducing the workload of public sector.
- Increasing the efficiency of the government undertakings.
- Providing better goods and services to consumers.
- Bringing healthy competition within an economy.
- Making way for Foreign Direct Investment (FDI).

Navratnas and Public Enterprise Policies

In order to improve efficiency, infuse professionalism and enable them to compete more effectively in the liberalised global environment, the government identifies PSUs and declare them as maharatnas, navratnas and mininavratnas. They were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and thus increase their profits. Greater operational, financial and managerial autonomy has also been granted to profit-making enterprises referred to as mininavratnas.

In 2011, about 90 public enterprises were designated with different status.

A few examples of public enterprises with their status are as follows

- Maharatnas
    - Indian Oil Corporation Limited

    - Steel Authority of India Limited
- Navratnas
    - Bharat Heavy Electricals Limited
    - Mahanagar Telephone Nigam Limited
- Mininavratnas
    - Bharat Sanchar Nigam Limited
    - Airport Authority of India

ASSIGNMENT

1.	Define the following terms: Privatization ……… ….. ……… ….. ……… ….. ……… ….. Disinvestment ……… ….. ……… ….. Foreign direct investment ……… ….. ……… ….. Public sector undertaking	

	…… ….. …… ….. Two examples of companies which have been privatized so far …… ….. …… ….. …… ….. …… …..	
2.	What is meant by economic reforms? Explain the need for economic reforms (new economic policy) in 1991. …… ….. …… ….. …… ….. …… ….. …… ….. …… …..	

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3	What is meant by the term privatization? What are the objectives of privatization? (explain any two) …… ….. …… ….. …… ….. …… ….. …… ….. …… ….. …… ….. …… ….. …… ….. …… ….. …… ….. …… …..	

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4	What are the various ways in which privatization can be done? …….. …….. …….. …….. …….. …….. …….. ……..	
5	Privatisation of the public sector undertakings by selling off part of the equity of PSUs to the private sector is known as______________. **a.** Privatisation **b.** Origin of private sector **c.** Disinvestment **d.** None of the above	
6	In which year WTO was founded?	

	a) 1995 b) 2005 c) 1985 d) 1975	
7	Identify the indirect tax a) Wealth tax b) Income tax c) GST d) Property tax	
8	In which year new economic policy in India was announced? a) 1981 b) 1991 c) 2001 d) 1971	
9	Which of the following is the aim of Privatisation? **a.** Providing strong momentum to the inflow of FDI **b.** Improving the efficiency of PSU's **c.** Both (a) and (b) **d.** None of the above	
10	Which of the following are the reasons of economic reforms? **a.** The poor performance of public sector **b.** Inflationary Reforms **c.** Terms and conditions of world bank **d.** All of the above	
11	When government disinvests its shares to the extent of 5 to 10 percent to meet the deficit in the budget, this is termed as a. None b. Partial privatisation c. Token privatisation	

	d. Denationalisation	
12	LPG stands for: a. Liberalisation, Production and Global Cooperation b. License, Privatisation and Globalisation c. Liberalisation, Privatisation and Globalisation d. License, Permit and Good	
13	_________ means transfer of ownership, management and control of public sector enterprises to the private sector. **a.** Liberalisation **b.** Privatisation **c.** Globalization **d.** None of the above	
14	Extra questions for practice. These questions may have the same content but asked in a different way. Privatisation has done more harm than good. Justify your answer. **(1)** Why did the Indian Government need to borrow from international organisations? **(1)** Those Public Sector Undertakings which are making profits should be privatised. Do you agree with this view? Why? **(3)** In your opinion, what are the advantages of privatisation to the economy? **(3)**	