UNIT 16 NEW ECONOMIC POLICY

Structure

16.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the need for New Economic Policy
- describe the nature and scope of New Economic Policy
- state the progress and problems in the implementation of the New Economic Policy
- make an assessment of New Economic Policy

1.1 INTRODUCTION

The earlier policies of public sector expansion created an inefficient public sector which incurred losses. A system of licensing and controls resulted in inhibiting investment by private sector and also discouraging foreign investment into the country. Thus there was a need to review the economic policies followed during the first three decades of development with a view to improving growth and efficiency. As a result of this, the government initiated the New Economic Policy. In this unit, you will study the nature and scope of the New Economic Policy. The progress and problems in the implementation of the policy will he highlighted and also an assessment of the policy be made.

16.2 NEED FOR NEW ECONOMIC POLICY

The economic policy initiated under the leadership of late Prime Minister Jawaharlal Nehru had provided i) a big role for the public sector in the establishment of heavy and basic industries, ii) the expansion of the role of state via public sector for the erection of hydro-electric power projects, irrigation dams, roads and communication, iii) the expansion of the role in the creation of social infrastructure in the form of schools, colleges, universities, technical and engineering institutes and in the sphere of health in the establishment of primary health centres, hospitals and medical institutions to train doctors, nurses and other supporting staff.

Although the rest of the economy was left open for the private sector, a systeln of regulations and controls was introduced. This led to the establishment of licence and permit *raj*. Both the bureaucrats and the politicians began to thrive on the basis of the licensing system.

There is no doubt that the economic development promoted under the leadership of the state did result in the creation of an industrial base in the form of heavy and basic industries. It did help to create infrastructure in the form of roads, railways, communications, irrigation and hydro-electric works, thermal power generation plants and it did help to expand educational and health facilities. At the same time it also created certain **problems.** They were :

1) The expansion of .the private sector investment was inhibited by the excessive controls and licensing policy.

2) Public sector investment, although huge, yielded poor rate of return. Public sector was plagued by inefficiency and bureaucratic rules and procedures.

3) Public sector enjoyed a monopoly in all areas which were reserved for it. The denial of competitive private sector units did not create consciousness to reduce costs.

4) Private sector investment in big projects could not be undertaken by large industrial and business houses on account of the Monopolies and Restrictive Trade Practices (MRTP) Act, (1970).

5) Foreign investment, also got discouraged due to the existence of very intricate licensing and other regulations.

All these factors necessitated the need for change in economic policy which should, on the one hand reform the public sector and on the other hand open areas restricted for the entry of the private sector - both Indian and foreign. There was a need to review the economic policies followed during the first three decades of development with a view to improving growth and efficiency.

Check Your Progress A

1. List three major elements of economic policy followed in the first three decades of development.

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2, Briefly enumerate the major problems resulting from the economic policies carried out during 1950-51 to 1984-85.

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16.3 NATURE AND SCOPE OF NEW ECONOMIC POLICY

The nature of New Economic Policy (NEP) lies in the opening of the private sector into areas hitherto reserved for the public sector. It also implied an encouragement of **the** private sector by dismantling the system of licensing and controls. For loss making units in the public sector, there was a need either to reform the working of the public sector units or close them down or transfer their ownership to the private sector. To improve technology, it was necessary to facilitate the flow of foreign investment. The nature of the NEP necessitated four kinds of changes. They are as follows:

i) Liberalisation

ii) Reform of the Public Sector

iii) Privatisation

iv) Globalisation

Thus, the scope of new policies was laid down by the above four processes of change to be initiated. They aim to remove the obstacles to growth and to promote efficiency both in the public and the private sectors by the use of market mechanism.

NEP was initiated in 1985 by late Prime Minister Rajiv Gandhi. He made a very powerful and forthright statement in his first broadcast to the nation: 'The public sector has entered into too many areas where it should not be. We shall open the economy to the private sector in several areas hitherto restricted to it'. This led to the announcement of a number of measures to remove controls and open areas to the private sector. Some of the measures undertaken by the government were:

i) Cement was decontrolled and a number of licences were issued to the private sector to expand the production of cement.

ii) The share of free sale sugar was increased to help sugar industry.

iii) 94 drugs were delicensed and 27 industries were freed from the purview of the MRTP Act.

iv) The ceiling of asset limit of big business houses was raised from Rs. 20 crores to Rs. 100 crores.

v) Electronics industry was freed from MRTP Act and the entry of foreign firms was welcomed.

Mr. Rajiv Gandhi did not push the process of economic reforms further, more explicitly on the issue of privatisation and globalisation. It was only when Mr. Narsimha Rao took over as Prime Minister in 1991 that a sharp and basic departure from the earlier economic policy was made. Let us now take up the major issues which fall within the scope of NEP: liberalisation, reform of public sector, privatisation and globalisation.

16.3.1 Liberalisation

The main aim of liberalisation was to remove unnecessary shackles on freedom of setting up enterprises. The country, during the first three decades of development had created a licence-permit raj — the rule of the bureaucracy to grant a licence to start an undertaking.

Similarly, if big business houses intended to set up a new enterprise, their applications were sent for the scrutiny of the Monopolies and Restrictive Trade Practices (MRTP) Commission. Under the MRTP Act, if the assets of a business house were more than the prescribed ceiling of Rs. 100 crores, its application was rejected. This prevented big business houses to undertake big investment in projects of infrastructure of heavy industry. There was a need to review this. The government thought it desirable that this limit should be abolished so that private sector could establish big projects in the core sector — heavy industry, infrastructure, petrochemicals etc. The government considered the ceiling limit as irrelevant and a hindrance to investment in the context of the new wave of liberalisation.

The Industrial Policy of 1991 abolished industrial licensing for all projects except a small list of 18 industries. Three major items viz., motor cars, white goods (which include refrigerators, washing machines, air conditioners, micro wave ovens etc.), raw hides and skins and patent leather were also removed from the list of reserved items. On account of the growth of a large middle class of 100 to 120 million, the demand for cars and other white goods has been growing in India. White goods are no longer considered to be luxury goods, but are considered essential for reducing the burden of domestic work. Cars are considered as status symbol by the middle class. To meet this demand, the government decided to abolish licensing in these commodities. Similarly, raw hides and skins and patent leather which are inputs in the production of shoes which have a large export demand have also been freed from licensing. To enable firms to set up new units or expand existing units, the government decided to abolish licensing in this area.

16.3.2 Reform of the Public Sector

The reform process has undertaken several measures with respect to public sector. The major **measures** are:

i) The areas of public sector will be restricted to strategic, high tech and essential infrastructure. Some of the areas hitherto reserved for the public sector will be opened for the entry by the private sector.

ii) Public sector enterprises which are chronically sick will be referred to Board for Industrial and Financial Reconstruction (BIFR). In case, the Board declares them non-viable, they will be wound up. But in case, the Board advises that there is a possibility of their revival, then, revival/rehabilitation schemes will be implemented. In any case, workers rendered surplus will be provided relief by a social security mechanism.

iii) To improve efficiency and link the interests of workers, a part of the shares will be offered to the workers.

iv) To raise resources for public sector units, the public sector management will be permitted to take the help of mutual funds and other financial institutions by offering them a share in ownership.

v) Public sector management will be made more professional and would be granted greater autonomy in decision making.

vi) Public sector units will sign a Memorandum of Understanding (MoU) with the government so that they are autonomous on the one hand and accountable on the other.

16.3.3 Privatisation

Privatisation is the process by which the ownership of a public sector unit is transferred to the private sector.

When 100 per cent ownership is transferred, it is a case of **denationalisation.** When less than 100 per cent or more than 50 per cent ownership is transferred, it is a case of partial privatisation with private sector majority-ownership of shares. In this situation, the private sector can claim to possess substantial autonomy in its functioning.

When less than 50 per cent ownership is transferred hut it is more than 24 per cent, it is a case of partial privatisation. However government continues to be a majority owner and as per rules, the undertaking retains its character as a public sector enterprise.

When the government disinvests its shares to the extent of 5 to 10 per cent to meet the deficil in the budget, this is described as **deficit privatisation.** It is also referred to as **token privatisation** because there is no substantial transfer of shares to the private sector.

The various forms of privatisalion described above pertain to transfer of ownership of public sector undertakings either wholly or parlially. This is considered to be a narrow view of privatisalion. But in a hroader sense. privalisation implies the opening up of the private sector in more and more areas hitherto reserved for the public sector. Such a policy, if pursued for a decade or more, would eventually result in increasing the share of the private sector in total investment in the economy. In this hroader sense, the process of privatisalion of the economy will lead lo enlargement of the share of private sector while the share of the public sector will register a decline ovm a long period since its areas of operation get narrowed down.

16.3.4 Globalisation

The term globalisation refers to the process of opening up of the economy to the rest of the world economy so that a free flow of goods and services, technology and investment can take place. The basic purpose of globalisation is lo integrate the Indian economy with the rest of the world. It has four **components:**

i) Reduction of trade harriers so as to permit free flow of goods and services across the border;

ii) Creation of an environment in which free flow of capital can take place;

iii) Creation of an environment in which free flow of technology can take place; and

iv) Creation of an environment in which Sree flow of labour can Cake place among different countries.

The supporters of globalisation, more especially from the developed countries restrict the definition of globalisation to only three components, namely. free trade flows, free capital flows and free technology flows. However, the economists from the developing countries desire that the fourth component, i.e.., free tlow of labour is also included. The developed countries argue that a free flow of labour would result in a very large inflow of labour from developing countries and they may not be able to accommodate such a large number. In case, free flow of labour is permitted, this may result in a decline in the wages of the native labour, because equally efficient persons from developing countries may he prepared to work at relatively lower wages. The fear of a fall in the standard of living of the native labour prevents the developed countries to have free entry. They, therefore, follow a selective approach. But the developing countries argue that the developed countries hy offering higher wagcs to highly skilled labour from the developing countries are causing a 'brain drain' and thus suck away the cream of the talent and expertise from these .countries.

Check Your Progress B

1. What are h e main elements of the policy of liberalisation? Stale them briefly.

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2. What is privatisation? List the various forms of privatisation.

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3. Distinguish between privatisation of an individual public sector unit and privatisation of the economy.

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4. Fill in the blanks:

i) The areas of public sector will be restricted to ....high tech and essential infrastructure.

ii) Public sector enterprises which are chronically ....will be referred to BIFR.

iii) Privatisation is the process by which the ....of a public sector unit is transferred to the private sector.

iv) The basic purpose of globalisation is to .... the Indian economy with the rest o f the world.

v) According to developed countries, the definition of globalisation is restricted to the three components, namely, ..., ... and ....

16.4 PROGRESS AND PROBLEMS IN THE IMPLEMENTATION OF NEW ECONOMIC POLICY

The Government of India has undertaken several steps to implement the NEP. Let us study them in detail.

1) **Liberalisation of the economy:** The Government has liberalised the regulatory framework by abolishing licensing in all industries except 15 industries, This has provided enough freedom of enterprise. The private investors now need not run after bureaucrats in various industries to seek clearance for setting up new units or to execute plans of expansion of existing capacity or undertaking the production of new products in the same industry. This has been welcomed by the industry captains.

2) **Reforms of the public sector:** This has been undertaken in a systematic manner and a number of steps have been taken.

   a) Overstaffing of public sector is being progressively reduced. In 1990-91, a total of 22.19 lakhs employees were working in public sector undertakings and their number has been brought down to 20.41 lakhs — a reduction of 1.78 lakhs. In other words, employees strength has been reduced by 8 per cent.

   b) To help the workers affected by NEP, the government set up the National Renewal Fund (NRF) to provide compensation for voluntary retirement. It was also decided that these workers will be provided training so that they can take up some other job. A review of the working of NRF reveals that during the two year period (1993-94 and 1994-95), Rs. 803 crores were paid as compensation against voluntary retirement, but the training and retraining of workers has been tolally neglected.

   c) The government referred 53 PSUs which were chronically sick to the BIFR upto March 1995. In case of 6 PSUs, revival schemes were recommended. The government is taking appropriate action. BIFR also decided that in the following cases, revival was not possible and these units be wound up. They are : National Bicycles Corporation of India Ltd., Elgin Mill Co. Ltd., and Tannery and Footwear Corporation Ltd. The cases of other units are pending under inquiry.

   d) Due to prevailing atmosphere of new economic reforms and the threat of closure in case of inefficiency continues, the public sector units have 'got a jolt and there is an effort lo improve the performance of PSUs. This is evidenced by the fact that during 1995-96, the gross profit as percentage of capital employed reached a record level of 16.1 per cent and net profits also shot up to 5.6 per cent. This is a very welcome developmenl.

   e) The government has undertaken disinvestment of PSUs to the extent of 5 to 20 per cent, During the period 1991-92 to 1996-97, a total of Rs. 12,455 crores was raised through this source. The entire amount was used to cover Central Government deficits. The PSUs which have been privatised are the most healthy units. Recently, the PSUs are finding few takers of their shares. This explains the sharp decline of disinvestment fund raised during 1996-97 to a low figure of Rs. 500 crores.

The main criticism against the government policy is that it has only undertaken deficit privatisation. Actually, the government should, therefore, decide that the resources raised through disinvestment of PSUs will be used to strengthen either weak PSUs or modernise PSUs to improve their technology.

3) **Programme of privatisation:** This has not yielded any tangible results. Whenever the government indicated its intention to privatise PSUs, there was strong resistance by trade unions. The government tried in case of banks and LIC, but had to retreat. Even the bureaucrats who consider PSUs as their 'colonies' have been silently working against privatisation. Since the prevailing political instability prevents the government to pursue the policy of privatisation with vigour, it considers it more advisable to reform the public sector.

4) **Globalbation of the economy:** To strengthen the globalisation of the economy, the government has undertaken a number of measures. These are:

i) *Reduction of import daties:* The government has undertaken a considerable reduclion of import duties. For instance, the maximum rate of import duty has been reduced from 150% in 1991-92 to 50% in 1995-96. Similarly, custom duties on the import of capital goods were reduced from 80% in 1991 to 25% in 1995. Tariffs on import of raw materials and manufactured goods have also been effectively reduced. Besides these, the government has also removed quantitative restrictions on imports and exports. It has also attempted an adjustment of exchange rate to remove over-valuation of the rupee. This has helped to step up exports. On the 8th of February 1997, the Commerce Ministry removed restrictions on 162 items for imports. Out of them, 69 items were moved from Special Import Licence (SIL) to free imports. All these measures have been taken to facilitate the free flow of trade.

Table 16.1 : Growth of Exports and Imports during the post-reform period

	In Rs. Crores			In US $ million		
	Exports	**Imports**	**Trade Balance**	**Exports**	**Imports**	**Trade Balance**
1991-92	44,042	47,851	-3,809	17,866	19,411	-1,545
1992-93	53,688	63,375	-9,687	18,537	21,882	-3,345
1993-94	69,751	73,101	-3,350	22,238	23,306	-1,068
1994-95	82,674	89,971	-7,297	26,331	28,654	-2,323
1995-96	106,353	122,678	-16,325	31,797	36,678	-4,881
1996-97(P)	117,525	136,844	-19,319	33,106	38,548	-5,442

(P) stands **for** provisional
Source: Reserve Bank **of India** Bulletin, **July** 1997.

As a result of NEP, there has been a rapid growth of exports (see table 16.1). As per data given by the Director General of Commercial Intelligence & Statistics (DGCIS), exports have increased from US $ 17,866 million in 1991-92 to US $ 33,106 million in 1996-97 an increase of 85 per cent during the last 5 years. Simultaneously, imports have also shot up from US $ 19,411 million in 1991-92 to US $38,548 million in 1996-97 an increase of 83 per cent. The trade balance deficit which was of the order of US $1,545 million in 1991-92 has gone up to US $ 5,442 million in 1996-97. Obviously the benefit due to export growth has been more than neutralised due to a rapid rise of imports. This has imposed higher foreign exchange burden on the Iqdian economy.

It is, therefore essential that to reach a situation of favourable balance of trade, a cautious policy in opening the import window too widely be followed.

Table 16.2 : Exchange Rate of Rupee vis-a-vis US Dollar

	Rs. Per US $
1990-91	17.96
1991-92	24.47
1992-93	28.96
1993-94	31.37
1994-95	31.39
1995-96	33.45
1996-97	35.60

ii) *Fall in the external value of the rupee:* One of the objectives of the NEP was to stabilise the exchange rate of the Rupee vis-a-vis US Dollar. But as facts indicate clearly, the internal value of the rupee was 1$=Rs. 17.96 in 1990-91 (table 16.2). This has come down to 1$=Rs. 35.60 in 1996-97. Fall in the value of the rupee results in an increase in the burden of international debt. Secondly, it has an adverse effect on foreign investor's confidence in India. Both factors adversely affect the interests of the Indian economy,

iii) *NEP and India's foreign exchange reserves:* The advocates of globalisation claim that as a result of new economic policies, foreign exchange reserves which were barely US $ 2.236 billion in 1990-91 increased to US $ 20.81 billion in 1994-95, but due to a sharp deficit in the balance of payments on current account, these reserves came down to a low level of US $ 17.0 billion in 1995-96. These reserves again increased to US $ 22.37 billion during 1996-97 and were of the order of US $25.41 billion on July 4, 1997. However, it may be noted in no year, the balance of payments of current account was positive. It has, throughout, been negative. The critics maintain that the accumulation of foreign exchange reserves does not indicate the strength of the Indian economy, because they. are largely a consequence of loans and borrowings from international financial institutions. Partly, flow of funds for portfolio investment has also contributed to the sharp increase in foreign exchange reserves.

iv) *Foreign investment flows into India:* A Major contribution of the NEP is that it has facilitated the flow of foreign investment. Foreign investment inflows are of two types—i) foreign direct investment and ii) Portfolio investnlent.

Foreign direct investment helps to increase the production of goods and services and creation of infrastructure in the form of hydro-electric projects, telecommunications, construction of express highways, manufacturing units, etc. As against it, portfolio investment is financial investment in the form of equity, stocks, bonds and debentures undertaken by a foreign national or a foreign company in India. Portfolio investor compares the rates of return expected from the company in which he invests and the risk involved in such an investment, Whereas foreign direct investment leads directly lo the building of productive assets of an economy, portfolio investment is of a financial nature and is purely concerned with its rate of return. The portfolio investment can be liquidated if the economic prospects are gloomy.

Table 16.3 : Foreign Investment Flows by Categories

US $ million

	Direct Investment	**Portfolio Investment**	**Total**
1991-92	150	8	158
1992-93	341	92	433
1993-94	586	3,649	4,235
1994-95	1,314	3,581	4,895
1995-96	2,133	2,214	4,347
Total (1991-96)	4,524 (32.2)	9,544 (67.8)	14,068 (100.0)

Source: Government of India, Economic Survey (1996-97)

Table 16.3 shows that during 1991-92 and 1995-96 — a period of 5 years, total foreign investment of the order of US $ 14,068 million was made, out of which foreign direct investment was barely of the order of US $ 4,524 million (32.2% of total) and portfolio investment was of the order of US $ 9,544 million (67.8% of total). In other words, foreign direct investment was barely one-third of the total investment. Critics believe that the share of foreign direct investment should increase since portfolio investment is of a speculative nature and is hot money which can lead to flight of capital during a period of political uncerlainty.

The data regarding approvals of direct foreign investment and actual inflows reveals that whereas during 1991-96, approvals aggregated to US $ 29.61 billion, actual flows were barely 5.69 billion, i.e., 19% of total approvals (Table 16.4).

Table 16.4 : Direct Foreign Investment: Actual inflows Vs Approvals

	Approvals	Actual
1991	325	155
1992	1,781	233
1993	3,559	574
1994	4,332	959
1995	11,245	2,100
1996*	8,367	1,670
Total (1991-96)	29,609	5,691

* Upto September 1996.

Source: Government of India, Economic **Survey** (1996-97)

Thus, the actual inflow of direct foreign investment during the last 6 years (1991-96) is only one-fifth of the total approvals. Unless the lag between actual inflows and approvals is narrowed down, it would be a folly to assume that foreign direct investment is helping in a big way to improve our economy.

16.5 AN ASSESSMENT OF NEW ECONOMIC POLICY

The NEP initiated with vigonr has brought several benefits, but it has not succeeded on several counts. It would be of interest to make an assessment of the policy.

Firstly, as a result of the new economic policy, gradually the growth of the economy which had slumped to a low level of 0.8 percent of GDP in 1991-92 has slowly recovered and during the last three years (1994-95 to 1996-97), it has averaged 7 percent of GDP which is a record achievement.

Secondly, NEP. by throwing the challenge of privatisation to the public sector undertakings (PSUs) has shaken them out of their slumber and this fear has instilled a vigorous effort to improve the performance of PSUs. In 1995-96, Central Government PSUs have shown a gross rate of return on capital employed at a record level of 16.1 per cent.

Thirdly, NEP has been able to arrest the inflationary trend of wholesale prices. The index of wholesale prices which rose by 13.7 per cent during 1991-92 (at 1981-82 prices) declined to 4.4 per cent during 1995-96 and 7.6 per cent in 1996-97. This is a healthy development.

Fourthly, the index of industrial production has also shown an overall growth rate from 0.6 percent in 1991-92 to 11.8 percent in 1995-96, though there is a decline to 6.6 percent in 1996-97,

Fifthly, growth of exports which was on a low order of 3.8 percent (measured in US $) in 1992-93 improved to 20.8 percent in 1995-96, but this has again slowed down to 4.1 percent in 1996-97. Similarly, growth of imports picked up from 12.7 percent in 1992-93 to 28.6 per cent in 1995-96 hut has again declined to 5.1 percent during 1996-97.

Lastly, foreign exchange reserves which had slumped to a low level of US $ 2.24 billion in 1990-91 have increased to a level of US $ 25.4 billion as on July 4, 1997. This has salvaged the Indian economy and its creditbility in the international market has improved.

NEP encompassing liberalisation, privatisation, globalisation and reform of the public sector has been concentrating on short-term objectives such as controlling the worsening situation of balance of payments, building up foreign exchange reserves, reducing fiscal deficit and controlling inflation etc. But the NEP has not been able to pay adequate attention to long-term gods of reducing poverty, achievement of full-employment, selfreliance and reduction in inequalities of income and provision of equality of opportunity and social justice. Even in some of the short-term objectives like control of inflation and privatisation, it has succeeded only partially.

Major areas of concern towards which the NEP should re-orient itself are :

i) Its scope has been narrow. It has mainly concentrated on the large corporate sector. As a Consequence, there is a virtual neglect of small scale sector and agriculture which are the main sources of employment. It is, therefore, necessary that to improve the over-all economic growth and make it more sustainable from a long-term point of view, small scale sector and agriculture should be strengthened.

ii) In the sphere of privatisation, on account of resistance from trade unions, NEP has not been able to achieve any tangible results. It has, therefore, restricted itself to token privatisation of the most healthy public sector undertakings by the process of disinvestment. Moreover, the disinvestment proceeds have so far been used only to reduce the ,deficit of the Central Government. This is totally unjustifiable.

iii) While the NEP has been able to control the rate of increase in wholesale price index, it has failed to arrest the rise in the consumer price index of either industrial workers or agricultural labourers. Consumer price index has shown an annual average increase of about 10 per cent per annum during the period 1991-92 and 1996-97. This has welfare implications for the masses.

iv) NEP, has not been able to reduce the fiscal deficit on an enduring basis. It has failed to control non-plan expenditure, but has reduced plan expenditure to show a reduction in fiscal deficit. With the implementation of the Fifth Pay Commission report, non-plan expenditure is likely to shoot up much higher, but the chances of raising revenue through voluntary disclosure income scheme do not seem to be very bright. In other words, whereas it has given ample tax concessians to the more affluent sections hy reducing the maximum rate of taxation to 30 per cent, it has failed to persuade the tax evaders to disclose incomes.

v) While the NEP has depended more on the foreign private sector to create infrastructure, it has failed in this respect. For instance, foreign firms have not added even a single kilowatt of power during the last five years. As against the capacity addition target of 30,538 MW during the Eighth Plan, the actual achievement was barely 16,243 MW. which was 46 per cent short of the target.

To sum up, there is a need to re-orient NEP with a view to making it more broad-based so as to include agriculture and small scale industries. Excessive dependence on foreign investment is not the correct approach. The Indian private sector and the public sector should be given parity of treatment so that they can also contribute in building infrastructure in power, telecommunications and roads, etc. Recognising this, the then Prime Minister I.K. Gurjal while addressing the Conference organised by the Confederation of Indian Industry (CII) on August 16, 1997 stated: "The days of 19th century capitalism where any outsider can come and overwhelm you are over. Outsiders are welcome. But they will not be allowed to drown us and take over Indian companies. They will be allowed to invest in sectors where we need them." Moreover, "Indian trade and industry will get all the benefits of paternity,and il will not be allowed to face unfair competition."

Check Your Progress C

1. Give five major achievements of the NEP.

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2. List five major areas of weakness of NEP.

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3. 'State whether the following statements are True or False.

   i) The programme of privatisation has not yielded any tangible results,

   ii) The benefit due to export growth has been more than neutralised due to a rapid rise in imports.

   iii) In 1994-95 the internal value of the rupee per US dollar was 31.37.

   iv) As a result of the NEP, the index of industrial production has shown an over all growth from 0.6 per cent in 1991-92 to 11.8 per cent in 1995-96.

   v) The NEP has been concentrating on long-term objectives.

16.6 LET US SUM UP

The policies of public sector expansion and a system of licensing and controls which was developed during the first three decades of developnlent resulted in inhibiting investment by private sector. It also crealed an inefficient public sector which incurred losses year after year. Foreign investment also got discouraged due to excessive bureaucratisation, and a system of licensing and controls.

Four kinds of changes were envisaged in the NEP: i) liberalisation, ii) reform of the public sector, iii) privatisation, and iv) globalisation.

Liberalisation has helped the expansion of private sector to enlarge capacity, enter new areas and take up production of new products. Reform of the public sector has helped to shed the extra load of workers by a policy of retrenchment/voluntary retirement scheme. Chronically sick PSUs have been would up. Revival packages were undertaken in some cases. PSUs have improved their performance and in 1995-96, they have shown a record gross rate of return of 16 per cent on capital employed. Disinvestment of the most healthy PSUs was undertaken by the government to finance budget deficits.

Programmes of privatisation have not yielded tangible results due to slrong resistance by trade unions and leftist political parties. Bureaucracy has also been tacitly opposing privatisation. Privatisation of individual PSUs is not taking place, but the process of privatisation bf the economy in a broader sense of encouraging private sector investment is taking place.

NEP has been concentrating on short-term goals like improving balance of payments position, building up foreign exchange reserves, controlling inflation and reducing fiscal deficit. Major long-term objectives of reducing unemployment, poverty and providing social and economic justice ignored,

There is a need to go in for selective globalisation by taking reasonably protective measures for Indian industry so that foreign firms, after entry in the joint sector do not swallow Indian firms.

16.7 KEY WORDS

Deficit Privatisation: When the government disinvests its shares, lo the extent of 5% to 10% to meet the deficit in the budget, it is referred to as deficit privatisation.

Foreign Direct Investment: The form of investment that helps to increase Lhe production of goods and services, thereby increasing the productive capacity of the economy.

Globalisation: It refers to the process of opening up of the economy to the rest of the world so that a free flow of goods and services, technology and investment takes place.

Liberalisation: It implies a process of removing unnecessary shackles on the freedom of the private sector. The process involves the removal of unnecessary licensing, controls and regulation which have led lo bureaucratization and corruption.

Monopolies And Restrictive Trade l'ractices (MRTP) Commission: A Commission set up to screen applications for fresh investment and reject the application of those business houses whose assets were above the limit prescribed under the MRTP Act (1970) as amended from time to lime.

National Renewal Fund (NRF): It refers to the fund created by the government to provide a safety net for workers seeking voluntary retirement or those losing their jobs on account of privatisation.

Portfolio Investment: Financial investment in the form of equity, stocks, bonds and debentures undertaken by a foreign national or foreign company in India.

Privatisation: The process in which the ownership of a public sector unit is transferred to the private seclor.

Token Privatisation: When the government sells its shares by a very small percentage of 5% to 10% to raise resources, it is referred to as token privatisation.

White Goods: A term used to describe costly gadgets used by households, such as, refrigerators, washing machines, air-condilioners, micro-wave ovens, motor cars etc.

16.8 ANSWERS TO CHECK YOUR PROGRESS

B. i) strategic ii) sick iii) ownership iv) integrate v) free trade flows, free capital flows, . free technology flows.

C. 3. i) True, ii) True, iii) False, iv) True, v) False

16.9 TERMINAL QUESTIONS

1. Discuss the factors which acted as shackles on Indian economic development as a consequence of the policies followed during the first three decades.
2. What are the major elements of New Economic Policy? Explain in detail the measures taken with respect of each major element of NEP.
3. Discuss the narrow and broad concept of privatisation. What are the various forms of privatisation attempted in India? Have they yielded tangible results?
4. Discuss the various components of globalisation.
5. Give the major achievements of the Indian economy as a consequence of privatisation, liberalisation and globalisation. What lessons can be drawn from the experience of the last six years (1991 to 1997)?
6. Make a critical assessment of the New Econoinic Policy keeping in view both the short-term and long-term objectives of development.

Note: These questions will help you lo understand the Unit better. Try to write answers for them, but do not send your answers to the University. These are for your practice only.

SOME USEFUL BOOKS

Francis Cherunilam., *Business Environment,* Himalaya Publishing House, Mumbai.

George Steiner., *Business and Society,* Macmillan, New York.

Indira Gandhi National Open Univeristy, Course Materials — *MS-3: Economic and Social Environment.*

Tandon, B.B. & Tandon, K.K., *Indian Economy,* Tata Mc Graw Hill, New Delhi.