

# New Economic Policy of 1991: Objectives, Features and Impacts



New Economic Policy refers to economic liberalisation or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes to expand the economic wings of the country.

**Former Prime Minister** Manmohan Singh is considered to be the father of New Economic Policy (NEP) of India. **Manmohan Singh introduced the NEP on July 24, 1991.**

## **Main Objectives of New Economic Policy – 1991, July 24**

**The main objectives behind the launching of the New Economic policy (NEP) in 1991 by the union Finance Minister Dr. Manmohan Singh are stated as follows:**

1. The main objective was to plunge **Indian Economy** in to the arena of 'Globalization and to give it a new thrust on market orientation.
2. The NEP intended to bring down the rate of inflation

3. It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.
4. It wanted to achieve economic stabilization and to convert the economy into a market economy by removing all kinds of un-necessary restrictions.
5. It wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.
6. It wanted to increase the participation of private players in the all sectors of the economy. That is why the reserved numbers of sectors for government were reduced. As of now this number is just 2.

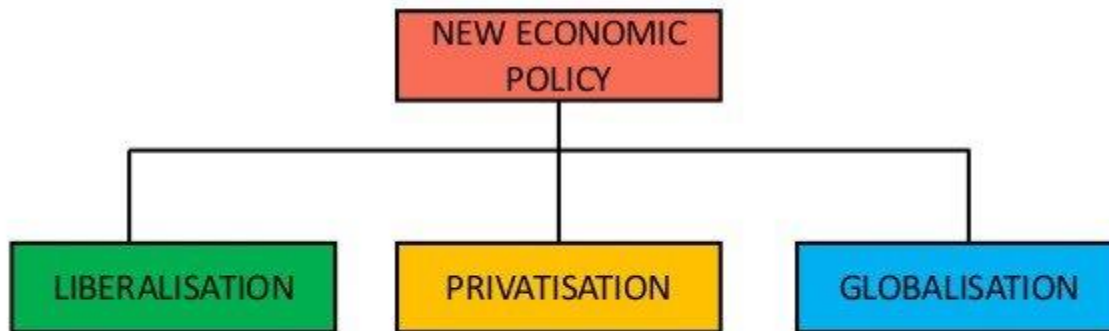
Beginning with mid-1991, the govt. has made some radical changes in its policies related to foreign trade, Foreign Direct Investment, exchange rate, industry, fiscal discipline etc. The various elements, when put together, constitute an economic policy which marks a big departure from what has gone before.

The thrust of the **New Economic Policy** has been towards creating a **more competitive environment** in the economy as a means to **improving the productivity and efficiency** of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms.

### **Main Measures Adopted in the New Economic Policy**

Due to various controls, the economy became defective. The entrepreneurs were unwilling to establish new industries ( because laws like **MRTP Act 1969** demotivated entrepreneurs). Corruption, undue delays and inefficiency risen due to these controls. Rate of economic growth of the economy came down. So in such a scenario economic reforms were introduced to reduce the restrictions imposed on the economy.

# BRANCHES OF NEW ECONOMIC POLICY



**Following steps were taken under the Liberalization measure:**

**(i) Free determination of interest rate by the commercial Banks:**

Under the policy of liberalisation interest rate of the banking system will not be determined by RBI rather all commercial Banks are independent to determine the rate of interest.

**(ii) Increase in the investment limit for the Small Scale Industries (SSIs):**

Investment limit of the small scale industries has been raised to Rs. 1 crore. So these companies can upgrade their machinery and improve their efficiency.

**(iii) Freedom to import capital goods:**

Indian industries will be free to buy machines and raw materials from foreign countries to do their holistic development.

**(v) Freedom for expansion and production to Industries:**

In this new liberalized era now the Industries are free to diversify their production capacities and reduce the cost of production. Earlier government used to fix the

maximum limit of production capacity. No industry could produce beyond that limit. Now the industries are free to decide their production by their own on the basis of the requirement of the markets.

#### **(vi) Abolition of Restrictive Trade Practices:**

According to [Monopolies and Restrictive Trade Practices \(MRTP\) Act 1969](#), all those companies having assets worth Rs. 100 crore or more were called MRTP firms and were subjected to several restrictions. Now these firms have not to obtain prior approval of the Govt. for taking investment decision. Now MRTP Act is replaced by the competition Act, 2002.

### **Cess: Meaning and Types in India**

#### **1. Liberalisation**

##### **Removal of Industrial Licensing and Registration:**

Previously private sector had to obtain license from Govt. for starting a new venture. In this policy private sector has been freed from licensing and other restrictions.

##### **Industries licensing is necessary for following industries:**

- (i) Liquor
- (ii) Cigarette
- (iii) Defence equipment
- (iv) Industrial explosives
- (v) Drugs
- (vi) Hazardous chemicals

#### **2. Privatisation:**

Simply speaking, privatisation means permitting the private sector to set up industries which were previously reserved for the public sector. Under this policy many PSU's

were sold to private sector. Literally speaking, privatisation is the process of involving the private sector-in the ownership of Public Sector Units (PSU's).

The main reason for privatisation was in currency of PSU's are running in losses due to political interference. The managers cannot work independently. Production capacity remained under-utilized. To increase competition and efficiency privatisation of PSUs was inevitable.

### **Step taken for Privatisation:**

**The following steps are taken for privatisation:**

#### **1. Sale of shares of PSUs:**

Indian Govt. started selling shares of PSU's to public and financial institution e.g. Govt. sold shares of Maruti Udyog Ltd. Now the private sector will acquire ownership of these PSU's. The share of private sector has increased from 45% to 55%.

#### **2. Disinvestment in PSU's:**

The Govt. has started the process of disinvestment in those PSU's which had been running into loss. It means that Govt. has been selling out these industries to private sector. Govt. has sold enterprises worth Rs. 30,000 crores to the private sector.

#### **3. Minimisation of Public Sector:**

Previously Public sector was given the importance with a view to help in industrialisation and removal of poverty. But these PSU's could not able to achieve this objective and policy of contraction of PSU's was followed under new economic reforms. **Number of industries reserved for public sector was reduces from 17 to**

**2.**

**(a)** Railway operations

**(b)** Atomic energy

#### **4. Globalization:**

Literally speaking Globalisation means to make Global or worldwide, otherwise taking into consideration the whole world. Broadly speaking, Globalisation means the interaction of the domestic economy with the rest of the world with regard to foreign investment, trade, production and financial matters.

#### **Steps taken for Globalisation:**

##### **Following steps are taken for Globalisation:**

##### **(i) Reduction in tariffs:**

Custom duties and tariffs imposed on imports and exports are reduced gradually just to make India economy attractive to the global investors.

##### **(ii) Long term Trade Policy:**

Forcing trade policy was enforced for longer duration.

##### **Main features of the policy are:**

- (a) Liberal policy
- (b) All controls on foreign trade have been removed
- (c) Open competition has been encouraged.

##### **(iii) Partial Convertibility of Indian currency:**

Partial convertibility can be defined as to convert Indian currency (up to specific extent) in the currency of other countries. So that the flow of foreign investment in terms of Foreign Institutional Investment (FII) and foreign Direct Investment (FDI).

##### **This convertibility stood valid for following transaction:**

- (a) Remittances to meet family expenses
- (b) Payment of interest
- (c) Import and export of goods and services.

##### **(iv) Increase in Equity Limit of Foreign Investment:**

Equity limit of foreign capital investment has been raised from 40% to 100% percent. In 47 high priority industries foreign direct investment (FDI) to the extent of 100% will be allowed without any restriction. In this regard **Foreign Exchange Management Act (FEMA)** will be enforced.

If the Indian economy is shining at the world map currently, its sole attribution goes to the implementation of the New Economic Policy in 1991.