Hello learners, we will discuss today about Economic reforms. So let's get started.

Need for economic reforms in India

The short answer: Crisis of 1991! The crisis was that India did not have enough money to meet the increasing needs of the economy. So, it had borrowed from International Markets and NRIs, but their confidence in the Indian Government deteriorated gradually. The situation was worsening as India had foreign reserves that could last only for the next two weeks. The specific reasons, among others, for the crisis, were:

- Crisis in Gulf countries
- Increase in fiscal deficit
- Inflation
- Balance of payments (BOP) Crisis
- Failure of PSUs

So, there was a need for new and fresh funds. Now the IMF jumps into the picture and agrees to lend India much-needed funds. But with a catch. The catch was that India had to comply with the conditions imposed by the IMF, which were:

- Stabilization and structural stability program
- Reduction of trade barriers.
- Revision of fiscal and monetary policies.
- Active role in the market.
- Integration of the Indian economy with the world economy.

It was more of a forced reform; India had to reform its economic system, not because it wanted to but because it had no other option! The three basic elements of economic reforms were Liberalization, Privatization, and Globalization of the Indian economy. It is also known as the LPG strategy.

India intended to achieve the following with LPG reforms:

- High rate of growth of national and per capita income.
- Full employment.
- Self-reliance.
- Reduce the number of people living below the poverty line.

Liberalization

The country shifted from a license-dominated regime (Permit Raj) to a de-licensing, deregulation, and debureaucratization. It was realized mainly by undertaking the following three measures:

1. Removal of Industrial Licensing: Previously every industrialist needed Permits from the government to open new factories or set up new businesses. All industrial licensing was abolished except for 18 industries relating to security and strategic concerns. Presently only 5 industries need a permit.

2. De-reservation of Small-scale industry (SSI) items: Small scale industry items were reserved to be produced locally, which was gradually relaxed. Presently, no items are reserved exclusively for SSI.

3. Withdrawal of MRTP Act: This enabled business houses to undertake expansion and establishment of new businesses as well as undertake mergers, amalgamations, and takeovers.

The Objectives of the Liberalization Policy were:

- Competition amongst domestic industries.
- Foreign trade with other countries with regulated imports and exports.
- Enhancement of foreign capital and technology.
- Expansion in global market frontiers of the country.

Privatization

The transfer of ownership, property or business from the government to the private sector. It is implemented in the following ways:

- **By Denationalization or Strategic Sale:** 100% of government ownership of productive assets is transferred to the private sector companies.
- **Partial Privatization:** When the private sector owns more than 50% but less than 100% ownership in a previously constructed public sector company by transfer of shares.
- **Deficit Privatization/ Token Privatization:** When the government disinvests its share capital to an extent of 5- 10% to meet the deficit in the budget is termed as deficit privatization.

The Objectives of Privatization Policy were:

Improve the financial situation of the government.

Reduce the workload of public sector companies.

Raise funds from disinvestment.

Increase the efficiency of government organizations.

Globalization

The process of integrating the economies of the world without creating any barriers in the flow of goods and services into a bigger world economy is called globalization. It has four components:

1. Reduction of trade barriers in the form of customs duties or quantitative restrictions for goods and services or quotas so as to permit a free flow of goods and services among different economies.
2. Capital Investment between nation-states.
3. Free flow of technology
4. Free flow of human resources

This was all about economical reforms. Hope you understood well.