

# **An Empirical Study of Recent Changes in Government Policies and its Impact on the Economy**

**Dr. S.P. Dakle**

HOD, Dept. of Commerce,

Mamasahab Mohol College, Paud Road, Pune 38

---

**Introduction:** Before the study about the current status of the Indian economy it is better to know about what was the status of Indian economy in the British crown before independence. According to some valuable studies we can easily understand the nature of Indian economy, with respect to agriculture, it was largely a primary sector economy and the major occupations were agriculture, handicrafts, and much other primary sector work. 85 percent of the Indian population was rural and their main source of subsistence was agriculture. In the British colonial period, agriculture was suffering from many problems and hence there was no growth in it. Agricultural system was stagnant, however, later there was a gradual growth, but that was not because of improvement and development of the agricultural system, but because of the expansion of agricultural land.

As far as the industrial sector concern History of Industry in India dates back to the history of mankind. India's handicrafts manufactured in village huts and houses all over the country were prized in foreign countries. Using locally available raw materials and with help of tools and skills handed being passed on over generations, village artisans have been efficiently producing products of very high aesthetic quality.

As per the situation of social factor and demographic aspect, a large number of the population were uneducated and also belonging to BPL. The percentage of literacy was very poor, standard of living was very bad, the level of poverty was very high, all these major problems existed in India.

After the independence Indian government has taken the largest initiatives for solving existing problems and pushing economic growth through various policies. So researchers are trying to identify what types of policies have been implemented by the government for the development and what outcomes have achieved till now.

Nowadays the economy of India is a developing mixed economy. It is the 6th largest economy by nominal GDP in the world and the 3rd largest by purchasing power parity (PPP). According to the IMF, India's growth is expected to rebound to 7.2% in the 2017–18 fiscal and 7.7% in 2018–19.

**Hypothesis of the research:** the research paper has based on the following hypothesis,

- 1) Indian government has implemented a number of policies for the purpose of overall development of the economy.
- 2) Government policies played a vital role in economic development.

**Objectives of research:** the main objectives of the research paper are as follows:

- 1) To study the various policies of the government.
- 2) To study the impact of government policies on the targeted sector of the economy.

**Research Methodology:** in the study of the topic researcher has used a Descriptive research method for the completion of research paper.

**Data collection:** In this study the researcher has preferred only secondary sources for the collection of data.

**Secondary Data:** Secondary data collected from the Books, Internet, magazines, Journals and different types of research papers etc for the completion of paper.

**Limitations of the Study:** The study has been limited to only LPG and recent policies of the government.

**Government policies and its impact:** government has implemented numbers of policies for the better and sustainable development of the Indian economy since independence. With reference to all these policies government researchers have selected one major policy is LPG which has brought out significant changes in the Indian economy and second selected policies are those which have global uniqueness and record break importance in the existing policies in Indian economy.

**Policy of Liberalization, Privatization and Globalization:** In 1991 after India faced a balance of payments crisis, it had to pledge 20 tons of gold to Union Bank of Switzerland and 47 tons to Bank of England as part of a bailout deal with the IMF. The IMF also required a series of structural economic reforms from India. These reforms were popularly known as 'structural adjustments' or 'liberalization', privatization and 'globalization'<sup>1</sup>

**Policy of LPG and its impact:** The government announced a New Economic Policy on July 24, 1991. This new model of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model. P V Narasimha Rao initiated economic reforms with the help of the then finance minister Dr Manmohan Singh. The reforms reduced tariffs, ended many public monopolies, did away with the License Raj and also allowed automatic approval of foreign direct investment in many sectors.

**What is LPG?**

**Liberalization-** Liberalization refers to the process of making policies less constraining to economic Activity and also reduction of tariff or removal of non-tariff barriers.

**Privatization-** The term “Privatization” refers to the transfer of ownership of property or business from a government to a private owned entity.

**Globalization-** Globalization refers to the expansion of economic activities across political boundaries of nation states. More importantly perhaps it refers to economic interdependence between countries in the world economy.

#### **The major objective of the new policy-**

- Improvement in efficiency and productivity.
- Fostering research and development efforts for the development of indigenous technologies.
- Ensuring welfare as also skills and facilities to the workers to enable them to face new technologies.
- Removing the regulator system and other weaknesses.
- Retaining the capacity to earn our own foreign exchange through exports.
- Raising investments.
- Utilizing fully the indigenous capabilities of entrepreneurs.
- To achieve self-reliance.
- Assigning the right areas for the public sector undertakings.
- Controlling monopolistic power.

#### **Highlights of the LPG Policy-**

Following are salient highlights of the Liberalization, Privatization and Globalization Policy in India:

- Beginning of privatization.
- Specific changes include the reduction in import tariffs.
- MRTP limit goes.
- Reduction of taxes.
- Public sector role diluted
- Abolition of Industrial licensing / Permit Raj.
- Industrial location policy liberalized.
- Abolition of phased manufacturing programmes for new projects.
- Freer entry to foreign investment and technology.
- Removal of mandatory convertibility cause.
- Deregulation of markets.

## **Impact of LPG:**

**1) Increase in GDP growth rate** -India's GDP growth rate is increased. In 1990-91 India's GDP growth rate was 1.1% but after post the reforms in 1991 due to the adopted LPG policy India's GDP growth rate kept increasing year on year and was estimated to be 4.7% by the IMF for the year 2019-20(Q3). Because of the Abolition of Industrial licensing, privatization, advanced foreign technology and Reduction of taxes India's GDP is increased after 1991 reforms.

**3) Increase in per capita income-** In 1991 India's Per capita Income was Rs. 11,235 but as per the 'First Advance Estimates of National Income, 2016-17' released by the Central Statistics Office (CSO), the per capita net national income during 2016-17 is estimated to be Rs 1,03,007 at current prices. Per Capita income has increased due to increase in employment, due to new economic policy of globalization and privatization due to which many job opportunities are created, and thereby people's income has increased.

### **4) Unemployment rate has reduced-**

In 1991 unemployment rate was 4.3% but there after India adopted the new LPG policy more employment opportunities have come up. With the rise of globalization many new foreign companies have come in India and due to liberalization many new entrepreneurs have started new companies. In 1983 it was 8.30%, and 4.3% in 1991 whereas in oct-2017 it was 4.4%.

**2) Increase in Foreign Direct Investment (FDI)** - capital formation is the key factor of economic development. Lack of adequate availability of capital resources in any country will develop itself. This thing was realized by Indian policy maker. So they took action to remove the gap between the amount of desired capital and actual capital through the FDI policy. Since 1991, in terms of foreign investment the regulatory environment has been consistently eased to make it investor-friendly. India has opened up to allow up to a 100% FDI in single brand retail, telecom sector, medical services etc. FDI cap increased in insurance & sub-activities from 26% to 49% and also in Private Sector Banking- Except branches or wholly owned subsidiaries (74%) FDI is allowed and in Public sector banking 20% FDI is allowed under Make In India scheme. India has now firmly established itself as a lucrative foreign investment destination, with foreign capital inflows of over US\$ 45 billion in 2019.

## **Some recent policies and its impact on Indian economy:**

**Demonetization and its impact:** Demonetization is a generations' memorable experience and is going to be one of the economic events of our time. Its impact was felt by every Indian citizen. Demonetization affected the economy on the liquidity side. Its effect was a telling one because nearly 86% of currency value in circulation was withdrawn without replacing the bulk of it. As a result of the withdrawal of the intermediate Rs 500 and Rs 1000 notes, there has occurred a huge gap in the currency composition as after Rs 100 now directly Rs 2000 is the only denomination.

Effectively, this will make Rs 2000 less useful as a transaction currency and rather it will become a store value denomination.

### **Pradhan Mantri Jan-Dhan Yojana And Financial Inclusion:**

Prime Minister Narendra Modi launched India's biggest ever financial inclusion drive on the 15th of August 2014. This was the Pradhan Mantri Jan-Dhan Yojana which was launched to ensure access to financial services, namely savings accounts, credit, remittance, pension and insurance in an affordable manner.

Three years on, the achievements have been remarkable along many dimensions:-

1. The total number of PMJDY accounts opened has increased from 12.55 crore in the start of 2015 to 38.33 crore as of Mar 2020.
2. The number of rural accounts opened under PMJDY has grown from 7.54 crore in the start of 2015 to 22.63 crore as of Mar 2020.
3. No. of RuPay cards issued increased from 11.08 crore in January 2015 to 29.30 crore as of Mar 2020.
4. The total balance in beneficiary accounts was Rs. 118434.41 crore as of Mar 2020 and the average balance per account increased from Rs. 837 in January 2015 to Rs. 2231 as of Aug 2017.
5. Zero balance accounts under PMJDY declined from 76.81 % in September 2014 to 21.41 % in August 2017.

Pradhan Mantri Jan-Dhan Yojana statistics as on 11 October 2017 (All Figures in Crores)

Bank Type	Number of Accounts			Number of <u>RuPay</u> Cards	Balance in Accounts
	Total	Rural	Urban		
Public Sector Banks	30.51	16.46	14.05	24.57	93919.97
Regional Rural Banks	6.56	5.47	1.09	3.59	21331.80
Private Banks	1.26	0.7	0.56	1.15	3182.64
<b>Total</b>	<b>38.33</b>	<b>18.17</b>	<b>12.28</b>	<b>29.30</b>	<b>118434.41</b>

## **Conclusion:**

Nowadays all government policies have their merits and demerits. On the basis of the above study we finally conclude that all discussed policies have made a positive impact on Indian economy and are more supportive to inclusive growth of the Indian economy.

## **References-**

- 1)Mukesh kumar(2014), “ Impact of Economic reforms on India” IJIFR Volume1 Issue-7.
- 2.)Vaghela Dharini Ishvarsinh (2014), “New Economic Policies: Liberalization, Privatization, Globalization” Journal of Social Sciences Year-2, Issue-5
- 3.)Dr. Babita Thakur, Vinod Kumar Sharma, Som Raj(2012), “ Had Economic Reforms had an Impact on India’s Industrial Sector?” IOSR Journal Of Humanities And Social Science (JHSS), Volume 4, Issue 2.
4. Dr.Meenu (2013), “Impact Of Globalization And Liberalization On Indian Administration” International Journal of Marketing, Financial Services & Management Research, Vol.2.
- 5.Puri.V.K., Misra S.K. “Economic Environment of Business”,2013 Edition ,Himalaya Publishing House.