

- Economic Reforms in India
- Liberalisation
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## Economic Reforms in India

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**Concept Explanation:** Economic reforms in India refer to the policy changes initiated to create a competitive environment, increase productivity, and improve efficiency in the economy. These reforms are collectively known as the New Economic Policy (NEP) of Liberalisation, Privatisation, and Globalisation (LPG).

### Key Definitions / Features:

- **New Economic Policy (NEP):** A set of policy decisions aimed at economic liberalisation, privatisation, and globalisation to enhance economic growth.
- **Need for Economic Reforms:** Due to unsatisfactory public sector performance, high inflation, increasing debt burden, and balance of payment problems.
- **Inflation:** The rise in prices of goods and services.
- **Immediate Crisis:** Gulf crisis and inadequate foreign exchange reserves.
- **Main Components of NEP:** Industrial, trade, fiscal, monetary, investment policies, and globalisation of finance.
- **Main Phases of NEP:** Liberalisation, Privatisation, and Globalisation.

### Illustrative Examples:

- *Liberalisation*: Removal of government controls such as permits and licenses.
- *Privatisation*: Transfer of ownership from government to private sector.
- *Globalisation*: Integration of Indian economy with the world economy.

### Practice Set:

- **Level 1 – Easy**: Define economic reforms and list the main components of NEP.
- **Level 2 – Moderate**: Explain the need for economic reforms in India with examples.
- **Level 3 – Challenging**: Discuss the phases of NEP and their impact on the Indian economy.

### Answer Key:

- Economic reforms refer to policy changes aimed at improving economic efficiency and growth.
- Main components include new industrial, trade, fiscal, monetary, investment policies, and globalisation.
- Need arises from poor public sector performance, inflation, debt, and balance of payments issues.
- Phases: Liberalisation (removal of controls), Privatisation (transfer to private sector), Globalisation (integration with world economy).

**Quick Reference:** NEP = Liberalisation + Privatisation + Globalisation; Inflation = Price rise; Debt burden = Government loan repayment.

### Glossary:

- **Liberalisation**: Removal of government restrictions.
- **Privatisation**: Transfer of ownership to private sector.
- **Globalisation**: Economic integration with the world.
- **Inflation**: Increase in prices.
- **Debt Burden**: Government's loan repayment responsibility.

# Liberalisation

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**Concept Explanation:** Liberalisation involves removing unnecessary government controls and restrictions such as permits, licenses, and protectionist duties to encourage free enterprise and competition.

## Key Definitions / Features:

- **Soft Liberalisation Policy (1985–1991):** Initiated under Rajiv Gandhi with incentives and exemptions.
- **Extensive Liberalisation Policy (Post–1991):** Includes liberalised licensing, industry expansion, concessions from monopolies, freedom to import technology and machinery, and tax reductions.

## Illustrative Examples:

- Removal of licensing requirements for small industries.
- Allowing free import of machinery and technology.

## Practice Set:

- **Level 1 – Easy:** What is liberalisation? List two measures adopted during soft liberalisation.
- **Level 2 – Moderate:** Explain the extensive liberalisation policy and its impact on Indian industries.
- **Level 3 – Challenging:** Analyse how liberalisation has affected foreign investment in India.

## Answer Key:

- Liberalisation is the removal of government controls to promote competition.

- Soft liberalisation included incentives and exemptions under Rajiv Gandhi.
- Extensive liberalisation allowed free imports, reduced taxes, and expanded industries, attracting foreign investment.

**Quick Reference:** Liberalisation = Removing controls + Encouraging competition.

**Glossary:**

- **Licensing:** Government permission to operate industries.
- **Monopolies:** Exclusive control over a market.
- **Tax Reduction:** Lowering tax rates to encourage business.

## Privatisation

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**Concept Explanation:** Privatisation is the transfer of ownership and control of enterprises from the government to the private sector to improve efficiency and reduce government burden.

**Key Definitions / Features:**

- **Ownership Measures:** Total denationalisation and joint ventures.
- **Organisational Measures:** Holding companies, leasing, and disinvestment.
- **Denationalisation:** Converting public sector enterprises into private enterprises.
- **Factors Encouraging Privatisation:** Economic reforms, debt burden, foreign companies, competitiveness, and production base expansion.

**Illustrative Examples:**

- Sale of shares of public sector undertakings.
- Joint ventures between government and private firms.

## Practice Set:

- **Level 1 – Easy:** Define privatisation and list two ownership measures.
- **Level 2 – Moderate:** Explain the steps taken by India towards privatisation.
- **Level 3 – Challenging:** Discuss arguments for and against privatisation.

## Answer Key:

- Privatisation is transferring ownership from government to private sector.
- Ownership measures include denationalisation and joint ventures.
- Steps include contraction of public sector, abolition of licensing, disinvestment, and sale of shares.
- Arguments for: reduces budget deficit, improves efficiency; against: concentration of power, industrial sickness.

**Quick Reference:** Privatisation = Transfer ownership + Improve efficiency.

## Glossary:

- **Disinvestment:** Selling government stake in enterprises.
- **Joint Venture:** Partnership between government and private sector.
- **Industrial Sickness:** Poor performance of industries.

## Globalisation

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**Concept Explanation:** Globalisation is the integration of the Indian economy with the world economy through trade, investment, technology, and capital flows.

## Key Definitions / Features:

- **Factors Fostering Globalisation:** Technical changes, competition, liberalisation policies, emergence of the US as a superpower, experiences of developing countries.
- **Effects of Globalisation:**
  - *Favourable:* Increased exports, better export-import ratio, application of high technology, stable exchange rate.
  - *Adverse:* Decrease in revenue of Indian industries, foreign control, regional disparities, profit export.
- **Suggestions:** Improve competitiveness, alliances with MNCs, self-sufficiency in technology, face protectionism, modernise agriculture and small sector.

### Practice Set:

- **Level 1 – Easy:** Define globalisation and list two factors fostering it.
- **Level 2 – Moderate:** Explain favourable and adverse effects of globalisation on India.
- **Level 3 – Challenging:** Suggest measures to improve the benefits of globalisation for India.

### Answer Key:

- Globalisation is economic integration with the world.
- Factors include technical changes and liberalisation policies.
- Favourable effects: increased exports, technology use; adverse effects: foreign control, regional disparities.
- Suggestions: improve competitiveness, alliances with MNCs, modernise sectors.

**Quick Reference:** Globalisation = Integration + Trade + Investment.

### Glossary:

- **MNCs:** Multinational corporations.
- **Protectionism:** Policies to protect domestic industries.
- **Exchange Rate:** Value of currency relative to others.

# Demonetisation

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**Concept Explanation:** Demonetisation is the process of stripping a currency unit of its status as legal tender, replacing old currency notes with new ones to curb corruption, inflation, counterfeit currency, and tax evasion.

## Key Definitions / Features:

- **Types:** Total and partial demonetisation.
- **Purposes:** Combat corruption, inflation, counterfeit currency, tax evasion, and improve economic performance.
- **History in India:**
  - 1946: ₹500 and ₹1000 notes demonetised to catch tax evaders.
  - 1978: ₹1000, ₹5000, ₹10000 notes demonetised to catch corrupt officials.
  - 2016: ₹500 and ₹1000 notes demonetised with 50 days exchange period.

**Illustrative Example:** 2016 demonetisation introduced new ₹500 and ₹2000 notes, limited exchange and withdrawal, aimed at reducing black money.

## Practice Set:

- **Level 1 – Easy:** What is demonetisation? List two purposes.
- **Level 2 – Moderate:** Describe the demonetisation event of 2016 and its effects.
- **Level 3 – Challenging:** Analyse the impact of demonetisation on the Indian economy.

## Answer Key:

- Demonetisation is removal of currency as legal tender.
- Purposes include curbing corruption and counterfeit currency.
- 2016 demonetisation removed ₹500 and ₹1000 notes, introduced new notes, limited exchange.

- **Effects:** pushed cashless economy, increased tax payments, curbed black money, affected MSMEs.

**Quick Reference:** Demonetisation = Currency withdrawal + New notes issuance.

### Glossary:

- **Black Money:** Unaccounted income.
- **MSMEs:** Micro, Small and Medium Enterprises.
- **Legal Tender:** Currency accepted for payment.

## Goods and Services Tax (GST)

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**Concept Explanation:** GST is a comprehensive indirect tax replacing multiple indirect taxes to create a unified national market by eliminating cascading taxes. It is destination-based and follows a dual model with Central GST (CGST), State GST (SGST), and Integrated GST (IGST).

### Key Definitions / Features:

- **Objective:** Eliminate cascading tax effect, streamline indirect taxes, increase revenue, reduce transaction costs, and corruption.
- **Benefits:** Comprehensive input credit, uniform tax rates, better compliance, increased competitiveness, and expected price reduction.

### Practice Set:

- **Level 1 – Easy:** Define GST and list its objectives.
- **Level 2 – Moderate:** Explain the benefits of GST for businesses and consumers.
- **Level 3 – Challenging:** Discuss how GST has impacted the Indian economy since its implementation.

## Answer Key:

- GST is a single comprehensive indirect tax replacing multiple taxes.
- Objectives include eliminating cascading taxes and streamlining tax regime.
- Benefits include input credit, uniform rates, better compliance, and competitiveness.
- Impact: unified market, increased tax revenue, reduced tax evasion.

**Quick Reference:** GST = Single tax + Input credit + Dual model.

## Glossary:

- **CGST:** Central GST.
- **SGST:** State GST.
- **IGST:** Integrated GST for inter-state transactions.
- **Cascading Effect:** Tax on tax.