



THE ROLE OF PV NARASIMHA RAO IN INDIA ECONOMIC REFORMS

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ABSTRACT

Though economic liberalization in India can be traced back to the late 1970s, economic reforms began in earnest only in July 1991. A balance of payments crisis at the time opened the way for an International Monetary Fund (IMF) program that led to the adoption of a major reform package by the then government of India. Though the foreign-exchange reserve recovered quickly and ended effectively the temporary clout of the IMF and World Bank, reforms continued in a stop-go fashion. In this context the PV Narasimha Rao Government, in 1991, started the economic reforms in order to rebuild internal and external faith in the Indian economy. The reforms intended at bringing in larger cooperation of the private sector in the growth method of the Indian economy. Policy changes were proposed with regard to technology up-gradation, industrial licensing, removal of restrictions on the private sector, foreign investments, and foreign trade. The essential features of the economic reforms are: Liberalisation, Privatisation, and Globalisation, commonly known as LPG. Economic reforms were introduced in India because of poor performance of the public sector, adverse BoP or imports exceed exports, fall in foreign exchange reserves, huge debts on government, inflationary pressure and finally terms and conditions of the World Bank and the IMF. After economic reforms established in the country the reforms created jobs and reduced poverty, there are still concerns about job quality and income inequality. The reforms also integrated the Indian economy into the global economy, increasing trade and investment flows, with India's share in global trade rising from 0.5% in 1991 to around 2% in 2022. The reform process had significant effects on the Indian economy, leading to an increase in foreign investment and a shift towards a more services-oriented economy. Therefore, Dr. Manmohan Singh, former Prime Minister of India called PV Narasimha Rao as 'Father of Economic Reforms in Indian'.

Keywords: Indian Economy, Economic Reforms, Liberalisation, Privatisation, Globalization.

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INTRODUCTION

As a distinguished scholar and statesman, Narasimha Rao Garu served India extensively in various capacities. He is equally remembered for the work he did as Chief Minister of Andhra Pradesh, Union Minister, and a Member of Parliament and Legislative Assembly for many years. His visionary leadership was instrumental in making India economically advanced, laying a solid foundation for the country's prosperity and growth.¹

Former Prime Minister P.V. Narasimha Rao was posthumously awarded the Bharat Ratna, India's highest civilian honor on Friday. This recognition was a testament to his pivotal role in reshaping India's economy during his tenure as the 10th Prime Minister from 1991 to 1996. Rao's administration was marked by economic reforms that liberalized the Indian economy, steering it away from the brink of collapse and setting it on a path of growth and global integration.²

Former Prime Minister P.V. Narasimha Rao was a “great son of the soil” and he can truly be called the father of economic reforms in India as he had both the vision and the courage to push them forward, Manmohan Singh, who was Finance Minister in his Cabinet.³

P.V. Narasimha Rao: Early days and Political Life

Born on June 28, 1921, in Karimnagar, Telangana, Rao remained a loyal member of the Congress party throughout his career that spanned over six decades. In addition to his mother tongue Telugu, the lawyer possessed linguistic versatility, being fluent in seven languages such as Urdu, Sanskrit, Tamil, English, and Spanish. In the book "To The Brink and Back," senior Congress leader Jairam Ramesh highlighted that Rao's command over Sanskrit stood out during his parliamentary speech in July 1991, particularly during the vote of confidence faced by the government at that time. (Baru S, 2016)⁴

Joining the All India Congress Committee (AICC) in 1951, Rao entered the Andhra Pradesh Assembly in 1957, securing victory in the Manthani constituency. He continued to represent the same constituency in subsequent elections held in 1962, 1967, and 1972. Assuming ministerial responsibilities in the Andhra Pradesh government in 1962, Rao's political journey progressed, and he ascended to the position of Chief Minister in 1971. His tenure in this role continued until 1973. In 1977, Rao made his foray into national politics by securing victory in the parliamentary election from the Hanamkonda constituency in Andhra Pradesh. (Kumar, Shashi. (2017).⁵

In 1990, Rao became aware of Congress chief Rajiv Gandhi's intentions to initiate a transition to a younger Cabinet. The Man Who Remade India: A Biography of PV Narasimha Rao by Vinay Sitapati highlights that these murmurs aligned with Rao's own weariness with politics. Having triumphed in eight consecutive elections and at the age of sixty-nine, he felt the toll of continuous political engagement. Following the assassination of Rajiv Gandhi on May 21, 1991, Rao assumed the leadership of the Congress party. In the subsequent month, after the party secured 232 out of 487 seats in the Lok Sabha polls, Rao was appointed as the Prime Minister (Pradhan R. D, 2014).⁶

PV Narasimha Rao is acknowledged for initiating significant economic reforms in the country, particularly dismantling the License Raj. Upon assuming the role of Prime Minister, Rao faced a severe economic crisis that posed a threat to the macro-economic stability of India. His government swiftly implemented various economic reforms, and it was during Rao's tenure that Manmohan Singh took on the role of Finance Minister. (Sachs, et al.,1991).⁷

He was the first Prime Minister from non-Hindi-speaking South India, known for his scholarly pursuits and linguistic abilities. Rao's administration oversaw historic events, including the 1991 economic reforms, the Babri Masjid demolition, and the 1993 Latur earthquake. He was the first Prime Minister outside the Nehru-Gandhi family to complete a full five-year term in office. His political journey began in Andhra Pradesh, where he held several important ministerial portfolios, showcasing his versatility and leadership skills.⁹

Economic Reforms

Narasimha Rao's tenure as Prime Minister was a period of significant transformation, earning him the title 'Father of Indian Economic Reforms'¹⁰. His most significant contribution was the 1991 economic reforms, which dismantled India's License Raj, transitioning the country to a market-oriented economy. The idea of economical reforms was not out of blue but it was there in the Congress election manifesto, which was prepared under Narasimha Rao's astute supervision (Shiva Shankar, 2012)¹¹. Teaming up with Finance Minister Manmohan Singh, Rao's policies saved India from economic collapse and opened up the Indian economy to foreign investment (Remya Nair, 2021)¹². The bold policies of Narasimha Rao laid the foundation for India's economic growth in the subsequent decades, leaving a lasting impact on the country's development trajectory.¹³

Need of Economic Reforms brought in 1991

The economic reforms of 1991 were triggered by the economic woes during the period, during which the country faced the balance of payment (BoP) crisis where it's for ex reserves were able to cover only 15 days of imports.¹⁴

Causes of Balance of Payment (BoP) crisis in 1991

Fiscal Deficit: The country's fiscal deficit during 1990-91 reached as high as 8.4 per cent of GDP. The fiscal deficit is the difference between the total expenditure and revenue of the government. It is an indication of the total borrowings that are needed by the government.

Gulf War I: In 1990-91, the domestic economic situation was further aggravated by the geopolitical crisis in West Asia. The prices of crude oil surged due to Iraq's invasion of Kuwait.

High Inflation: India's inflation during the period also rose sharply. It accelerated from 6.7 per cent to 16.7 per cent due to a rapid increase in money supply, thus making the country's economic situation worse.¹⁵

Features of 1991 Economic Reforms

In order to get the country out of this deep economic mess of 1991, former Prime Minister Manmohan Singh, who was the then finance minister, launched India's biggest economic reforms under the prime ministership of P V Narasimha Rao. The historic reforms to open up the economy were based on the LPG model of liberalisation, privatisation, and globalisation.

Liberalisation: Under this, industrial Licence Raj was abolished. Only a few hazardous industries, like chemicals, now required a licence. Except for those, every other industry could be set up without any licence. Commercial banks were allowed to decide on interest rates, etc.

Privatisation: Under this, banking reforms were brought in. Markets were de-regularised. Private sectors were introduced. PSU shares were allowed to be sold to private entities.

Globalisation: Import duties were reduced. The Indian rupee became partly convertible. All capital and intermediate goods were released from the import constraints list. The economy was opened up for international trade and foreign investment.¹⁶

Role of Economic Reforms (1991) under PV Narasimha Rao on Indian Economy

Former prime minister P V Narasimha Rao will be honoured with the Bharat Ratna, Prime Minister Narendra Modi said on Friday. He said Rao's visionary leadership was instrumental in making India economically advanced and laid a solid foundation for its prosperity and growth. Know about India's historic economic reforms of 1991 that were undertaken under the prime ministership of Rao. Thus, Prime Minister Narendra Modi noted 'Narasimha Rao tenure as Prime Minister was marked by significant measures that opened India to global markets, fostering a new era of economic development'¹⁷.

Foreign Policy and National Security

Rao's administration also made strides in foreign policy, launching the Look East policy and revitalising India's diplomatic relations with Europe, China, and the US. On the national security front, his government introduced India's first anti-terrorist legislation and successfully managed the security situation in Punjab and Jammu and Kashmir. Narasimha Rao was a man of many talents, known for his scholarly pursuits and linguistic abilities. He was fluent in multiple languages and was a prolific writer and translator. His intellectual depth and understanding earned him the reputation of being a "scholar Prime Minister," reflecting his unique blend of academic acumen and political astuteness. Despite his pivotal role in India's economic transformation, Rao's legacy has been overshadowed by intra-party politics. His contributions to the economic reforms, often attributed to Manmohan Singh, have been a subject of debate and controversy.¹⁸

PV Narasimha Rao receives Bharat Ratna

On February 9, 2024, PM Narendra Modi announced that PV Narasimha Rao would be honoured with the Bharat Ratna, India's highest civilian award which is conferred to people in recognition of their exceptional service in any field without distinction of race, occupation, position or sex.¹⁹

"Delighted to share that our former Prime Minister, Shri PV Narasimha Rao Garu, will be honoured with the Bharat Ratna, As a distinguished scholar and statesman, Narasimha Rao Garu served India extensively in various capacities. He is equally remembered for the work he did as Chief Minister of Andhra Pradesh, Union Minister, and as a Member of Parliament and Legislative Assembly for many years. His visionary leadership was instrumental in making India economically advanced, laying a solid foundation for the country's prosperity and growth," he shared.²⁰

PV Narasimha Rao's tenure as Prime Minister was highly eventful and important for modern India. His role in the country's economic reforms and his diplomatic and national security initiatives have left a lasting impact on India's trajectory.²¹

CONCLUSION

Adopted to avert the impending 1991 economic crisis, the reforms progressed furthest in the areas of opening up to foreign investment, reforming capital markets, deregulating domestic business, and reforming the trade regime. Rao's government's goals were reducing the fiscal deficit, privatisation of the public sector and increasing investment in infrastructure. Trade reforms and changes in the regulation of foreign direct investment were introduced to open India to foreign trade while stabilising external loans. Rao wanted I. G. Patel as his Finance Minister. Patel was an official who helped prepare 14 budgets, an ex-governor of the Reserve Bank of India and had headed The London School of Economics. But Patel declined. Rao then chose Manmohan Singh for the job. Manmohan Singh, an acclaimed economist, played a central role in implementing these reforms. (Prasad P. V. R. K, 2012)²²

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