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# Impact of Economic Reforms on Agriculture For Poverty Reduction in India

Kirti
MBA, Department of Management Studies
Bharath Institute of Science and Technology,
Selaiyur, Chennai, Tamil Nadu 600 073
Bharath Institute of Higher Education and Research

## ABSTRACT

Economic reforms were initiated in mid-1991 due to problems such as insurmountable external debt, unmanageable balance of payments situation, high possibility of acceleration in the rate of inflation and the underlying fiscal problems. The external factors like the Gulf war and the collapse of the Soviet economy have also contributed a bit to this crisis. With a view to tide over the unprecedented economic crisis and ensuring the sustainability of the growth process, it was considered necessary plan to introduce certain major policy reforms on industrial, trade and public sector fronts, almost simultaneously with measures of stabilization for reduction in fiscal and current account deficits.

## 1. INTRODUCTION

The paper deals that the decline in the post-reform period in poverty is not higher compared to like pre-reforms period in spite of overall growth. Apart from other factor, an increase in equality seems to have slow down the rate of reduction of poverty in the post-reform period. However, there are two remarkable conclusion. One is that there is no evidence of a higher rate of reduction in poverty in the post-reform period as a whole compared to the pre-reform period. Secondly, higher inclusive growth that increase agriculture and non-agriculture growth, and a reduction in regional, rural-urban and social disparities and important for a faster reduction in poverty. The following objectives of the further study.

## 2. OBJECTIVES OF STUDY

- To analyze the trends in poverty in India in the post-reform period as compared to the pre-reform period.
- To analyze the role of agricultural and non agricultural sector growth, food prices, access to subsidised food, and other factors on poverty in India.
- To analyze the trends in consumption, expenditure inequality in India in the pre and post-reform period.

## 3. REVIEW OF LITERATURE

Lewis (2012) was one of the first of many development economists attempting to explain the paradox. He viewed economic development as a process of relocating factors of production from an agricultural sector characterized by low productivity and the use of traditional technology to a modern industrial sector with higher productivity. He also explained that interpreted as advocating industrialization and used to justify government policies that favored protection for domestic industries and, explicitly or implicitly, taxed the agricultural sector.

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Bresciani and Valdes (2015) frame their analysis in terms of three key channels they say links agricultural growth to poverty: 1) labour market, 2) farm income, and 3) food prices. They provide a theoretical framework for investigating the quantitative importance of those various channels and then report findings from six country case studies. They conclude that when both the direct and indirect effects of agricultural growth are taken into account, such growth is more poverty reducing than growth in non-agricultural sectors.

Bresciani and Valdes (2010) also explained that agriculture contribution to poverty reduction is consistently greater than is agriculture contribution of GDP. For their study countries, agriculture contribution came mainly through the labour market channel. They caution however that growth strategies based on such findings may not be valid in circumstances where the agricultural output mix does not feature labour intensive crops and livestock activity. Equally problematic for such a strategy is that much progress in agriculture historically has come from the introduction of labour saving technical change.

Ligon and Sadoulet (2012) explained that combine time series and cross-section data to estimate regression coefficients connecting consumer expenditures by decline to agriculture and non-agriculture GDP. Their findings are consistent with claims that agricultural sector growth is substantially more important than non-agricultural sector growth for those households in the lowest deciles of the income and expenditure distribution, i.e., the poorer division of the population. They find the opposite result for richer households, i.e. that the expenditure elasticity non-agricultural growth is much higher than for agricultural growth leading them to conclude that their findings are consistent with claims that agricultural sector growth is pro-poor.

Christiaensen and Demery (2016) point out that the contribution of economic growth to poverty reduction might differ across sectors because the benefits of growth might be easier for poor people to obtain if growth occurs where they are located. This reasoning implicitly assumes that transferring income generated in one agricultural sector or geographic location to another sector or location is difficult because of market segmentations or considerations of political economy. They too find that growth originating in agriculture is on average significantly more poverty reducing than growth originating outside agriculture sector.

## IMPACT OF ECONOMIC REFORM ON AGRICULTURE & POVERTY REDUCTION IN INDIA

The impact of Economic Reform also been changes in real expenditures between any two time periods will reflect changes in income or prices between those two periods. If, per capita income increases, expenditures on goods and services will also be increase. The mathematical relationship between consumer expenditures and income, the marginal propensity to consume, tends to be higher for poor than for rich people. Thus, as the incomes of poor people increase some of them begin to spend more than the threshold expenditure per day leading in turn to a lower poverty head count and poverty rate. Likewise, a reduction in consumer prices permits consumers to purchase more goods and services with the same budget and will also show up as an increase in real expenditures leading to a lower number of people judged to be in poverty.

Good agricultural performance operates to reduce poverty through both the income and the price channels. Because a high share of the poor depend on agriculture for their incomes, it is natural to think that an increase in farm income would be poverty reducing, perhaps as findings from previous research suggests, even more so than a general increase in income. Similarly, because

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food constitutes such a high contribution of consumer expenditures by the poor it is also tempting to think that lower food prices, such as might accompany increased food production per capita, would be poverty reducing in developing countries.

Economic growth was observed by many economists as the only sustainable cure for poverty. Unsurprisingly then, the majority of the developing countries in our list experienced positive per capita income growth during the years when their poverty rates were reducing. Some countries posted reductions in poverty even though per capita incomes were falling. In some cases, e.g. Tajikistan, this may be explained by differences in coverage of the poverty and income data. It could well be the case that achievements in poverty reduction occurred during sub-periods when per capita incomes were increasing even if they fell when considering the total range used in calculating income growth rates. Additionally, as already point, economic growth is not strictly necessary action for a country to achieve progress in reducing poverty.

The agricultural GDP per worker series is, as the name implies, the ratio of total GDP for the sector divided by the estimated number of economically active workers claiming agriculture as their main source of income. Non-agricultural GDP per worker was defined residually, i.e. as the difference between total national and agricultural GDP divided by the difference between total national and agricultural employment. So the agriculture income returns as comprise the land labour and capital used in agriculture. It constitutes a good indicator of farm income trends assuming farmers own most of the land and capital and supply most of the labour used in the sector.

The payoff from investments in agricultural research, development, extension and education comes in the form of sustained increase in agricultural productivity. Comparisons of agricultural performance among countries and over time are frequently made using partial productivity indicators such as output, e.g. per unit of land, or head of livestock or agricultural worker. However these indicate only the trends in output relative to one input and can be misleading in cases where the input mix is changing or, especially, where there are technical advances allowing increases in output for a given level of input use.

The green revolution marked an important role of India's agricultural development during which there was a structural change in the trend rate of agricultural growth. Due to the bad famine years of l965-66 and l966-67 and their after effects, the benefits of the green revolution were transparent only after l967. Even a visual examination of the time series data reveals that the incidence of poverty measured in terms of the HCR or Sen's Poverty Index, except for the fifties, generally showed an upward trend and reached high levels between l965 to l968, and thereafter recorded a decline. The post-reform period also marked an important shift in the policy environment towards the poor when owing to economic and political compulsions following a split in India's ruling congress party, then Prime Minister Indira Gandhi in a bid to fulfil her 'Garibi Hatao' (Banish Hunger) slogan sought to give a pro-poor content to her party's programmes.

The post-reform period the government of India has been implemented so many welfare programme for reduce the poverty among the poor segment of people, through the government institutional intervention such as the Integrated Rural Development Programmes (IRDP), National Rural Employment Programmes (NREP), Food for Works Programme (FWP), Mahatma Gandhi National Rural Employment Guarantee Schemes and Minimum needs programme etc,.

Population growth, poverty, and the environment are closely interlinked. Rapid population growth impacts on poverty in many ways. It can offset the beneficial effects of economic growth on

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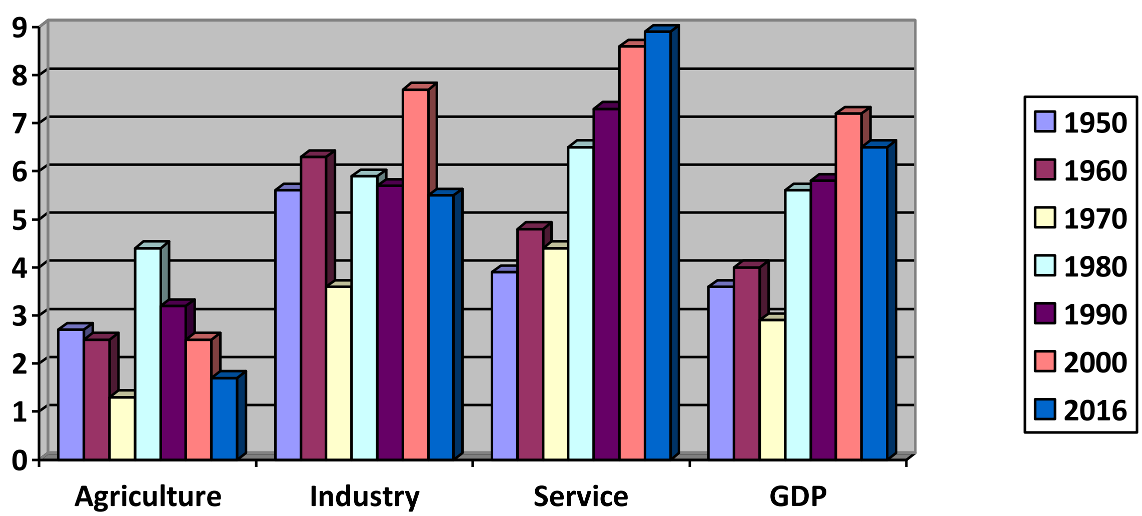
poverty as experienced by some South Asian countries. Moreover, poverty intertwined with rapid population growth exercises intense pressure on scarce environmental resources resulting in environmental degradation through overexploitation of fragile resources, all of which have an adverse effect on poverty. The role of this factor also needs to be studied.

**TABLE- 1 GROWTH IN REAL GDP(%) PER ANNUM**

| Period | Agriculture | Industry | Service | GDP |
|---|---|---|---|---|
| 1950 | 2.7 | 5.6 | 3.9 | 3.6 |
| 1960 | 2.5 | 6.3 | 4.8 | 4.0 |
| 1970 | 1.3 | 3.6 | 4.4 | 2.9 |
| 1980 | 4.4 | 5.9 | 6.5 | 5.6 |
| 1990 | 3.2 | 5.7 | 7.3 | 5.8 |
| 2000 | 2.5 | 7.7 | 8.6 | 7.2 |
| 2016 | 1.7 | 5.5 | 8.9 | 6.5 |

Source: Central Statistical Organization- Various Year

**FIGURE 1- GROWTH IN REAL GDP(%) PER ANNUM**




The table 1show that growth rates of GDP increased significantly in the post – reform period led by service sector growth. The trend rate of GDP growth in the 25 year reform period has been 6.5 percent per annum. The growth rate was nearly 9 percent per annum during 2003-2004 to 2007-2009. In the last one and half decades the growth was 7 to 9% per annum in the last two and half decades. Industrial sector growth was the highest in 2000s. On other side, agriculture growth in the last one and half decades was lower than those of 1990s and 1980s. The average growth of the last five years in agriculture was around 1.7% per annum.

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**TABLE-2 POVERTY LINE-2011-12, ALL INDIA (RS)**

| | TENDULKAR COMMITTEE | | | RANGARAJAN COMMITTE | | |
|---|---|---|---|---|---|---|
| | Monthly per capita | Monthly per house hold | Per year per house hold | Monthly per capita | Monthly per house hold | Per year per house hold |
| Rural | 860 | 4080 | 48,960 | 972 | 4860 | 58320 |
| Urban | 1000 | 5000 | 60,000 | 1407 | 7035 | 84420 |

Source: GOI (2014)

The poverty lines in the year 2011- 12 for all India are presented in Table- 2 for 2011 -12 for rural areas the national poverty line using the Tendulkar Methodology is estimated at Rs. 816 per capita per month and Rs. 1,00 per capita per month in urban areas. Thus, for a family of five the all India poverty line in terms of consumption expenditure would amount to about Rs. 4,080 per month in rural areas and Rs. 5,000 per month in urban areas. Per year it would amount to Rs. 48, 960 in rural areas and Rs. 60,000 in urban areas. Similar numbers are given for estimates based on Rangarajan Committee Methodology. The poverty lines based on Rangarajan Committee are higher than those of Tendulkar Committee. For a family of five, the expenditure would amount to Rs.4,860 in rural areas and Rs. 7,035 in urban areas.

**TABLE -3: RATES OF POVERTY REDUCTION IN INDIA**

| | RURAL INDIA | URBAN INDIA |
|---|---|---|
| Year | Annual Poverty Reduction In Percentage Points | |
| 1970-1971 to 1980-1981 | -1.24 | -0.79 |
| 1990-91 to 2014-2015 | -0.64 | -0.59 |
| | Annual Poverty Reduction In Percentage Points | |
| 1970-1971 to 1980-1981 | -2.19 | -1.60 |
| 1990-1991 to 2014-2015 | -1.30 | -1.10 |

Source: Planning Commission In India- Various Year

The Table 3 reveals that the actual rates of poverty reduction according to official estimates over the two periods that can be broadly described as per and Post Economic Reforms periods. It is evident that rural poverty reduction in particular was much more rapid in the earlier period, characterized by relatively slower growth and continued state intervention in the productive sectors of the economy.

**TABLE-4: OVERALL FUND REQUIREMENT POVERTY REDUCTION IN INDIA**

| S NO | | FUND REQUIREMENT | | |
|---|---|---|---|---|
| | Programme/Scheme | 11th plan 2008-2009 to 2011-2012 | 12th plan 2012-2013 to 2015-2006 | Total |
| 1 | Restructured SGSY in mission mode | 52,000 | 35,000 | 87,000 |
| 2 | Rural skill development & placement mission | 11,250 | 11,250 | 22,500 |
| 3 | National social Assistance programme | 58,400 | 58,400 | 11,6800 |
| | Total | 1,21,650 | 1,04,650 | 2,26,300 |

Source: Planning commission of India-various years

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**FIGURE-2 OVERALL FUND REQUIREMENT POVERTY REDUCTION IN INDIA**

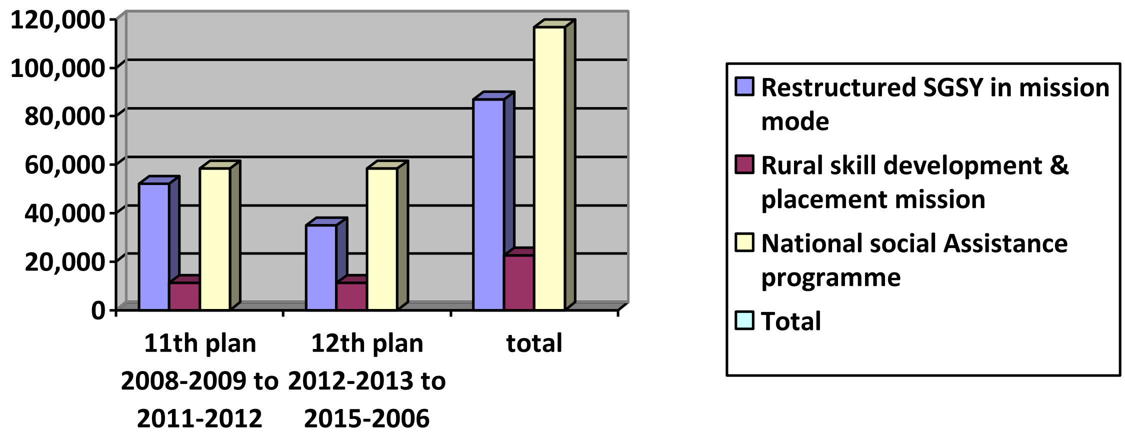


Table 4 cleared that The Government of India has been the implementation of aforesaid scheme in mission mode by the Ministry of Rural Development was involve the total financial implication of Rs. 2,26,300 crore during the period 2008-2009 to 2014-2015. In addition to this, an amount of 1,40,000 crore would also been required bank credit. The ministry of Rural Development has also been implemented programme like NREGA, PMGSY, IAY etc the reduction of poverty in India.

**TABLE.5 POVERTY BY SOCIAL GROUPS IN POST-REFORM RERIOD**

| Social Groups | Share in Population | Percent Population Below Tendulkar Committee Poverty line | | | Percentage Poverty Reduction | Point |
|---|---|---|---|---|---|---|
| | 2014-15 | 1990-2091 | 2004-2005 | 2014-2015 | 1991-91 to 2014-2015 | 1990-91to 2014-15 |
| | Rural | | | | | |
| ST | 11.1 | 65.09 | 62.3 | 45.3 | 3.7 | 16.9 |
| SC | 20.8 | 62.04 | 53.5 | 31.5 | 8.9 | 22.0 |
| OBC | 45.0 | 40.0 | 39.8 | 22.7 | 9.0 | 17.1 |
| FC | 23.0 | 44.0 | 27.1 | 15.5 | 8.0 | 11.6 |
| All | 100.0 | 50.3 | 47.8 | 25.4 | 8.5 | 16.4 |
| | Urban | | | | | |
| ST | 3.5 | 41.1 | 35.5 | 24.1 | 5.6 | 11.4 |
| SC | 14.6 | 57.7 | 40.6 | 21.7 | 11.1 | 18.8 |
| OBC | 41.6 | 28.2 | 30.6 | 15.4 | 5.8 | 15.2 |
| FC | 40.3 | 49.0 | 16.1 | 8.1 | 5.3 | 8.0 |
| All | 100.0 | 31.9 | 25.7 | 13.7 | 6.2 | 12.0 |
| Rural+Urban | | | | | | |
| ST | 8.9 | 63.87 | 60.0 | 43.0 | 3.7 | 17.0 |
| SC | 19.0 | 60.5 | 50.9 | 29.4 | 9.6 | 21.5 |
| OBC | 44.1 | 30.5 | 37.8 | 20.7 | 81.1 | 17.1 |
| FC | 28.0 | 31.5 | 23.0 | 12.5 | 11.1 | 10.5 |
| All | 100.0 | 45.7 | 37.7 | 22.0 | 8.0 | 15.7 |

Source: Economic Survey-Various years

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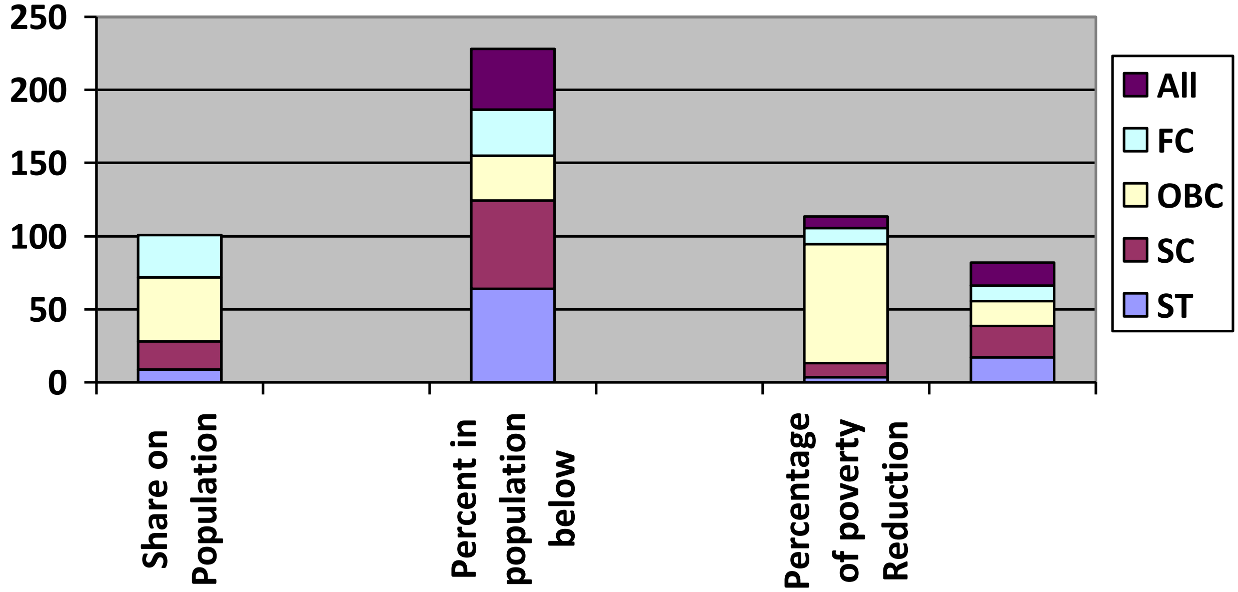
**FIGURE-3 POVERTY BY SOCIAL GROUPS IN POST-REFORM PERIOD (RURAL & URBAN)**




Poverty Reduction Much Faster for all the Social groups during the Post-Reform Periods (1993-1994 to 2014-2015) as Compared to the period 1993-1994 to 2014-2015. The table 5 shows that the rate of Reduction of Poverty is this highest for SC. The reduction in Poverty SC and OBCs exceeded the national average during the Period 2004-2005 to 2014-2015.Poverty decline for ST was more or less similar to that of national average. It looks like SC, ST, and OBC benefit equally or more in the high growth phase of 2004-2005 to 2014-2015. However, the poverty levels are higher for ST, and Sc compared to others groups. Particularly the poverty ratio of ST, was two times to that of national average in 2014-2015. There is a need to focus on Policies relating to ST, for reduction in their poverty.

**TABLE-6 INEQUALITY OF CONSUMPTION EXPENDITURE ALL- INDIA**

| Sector | 1987-1988 | 1993-1994 | 2004-2005 | 2014-2015 |
|---|---|---|---|---|
| Rural | 0.299 | 0.286 | 0.304 | 0.311 |
| Urban | 0.350 | 0.344 | 0.376 | 0.390 |

Source: GOI (2014)

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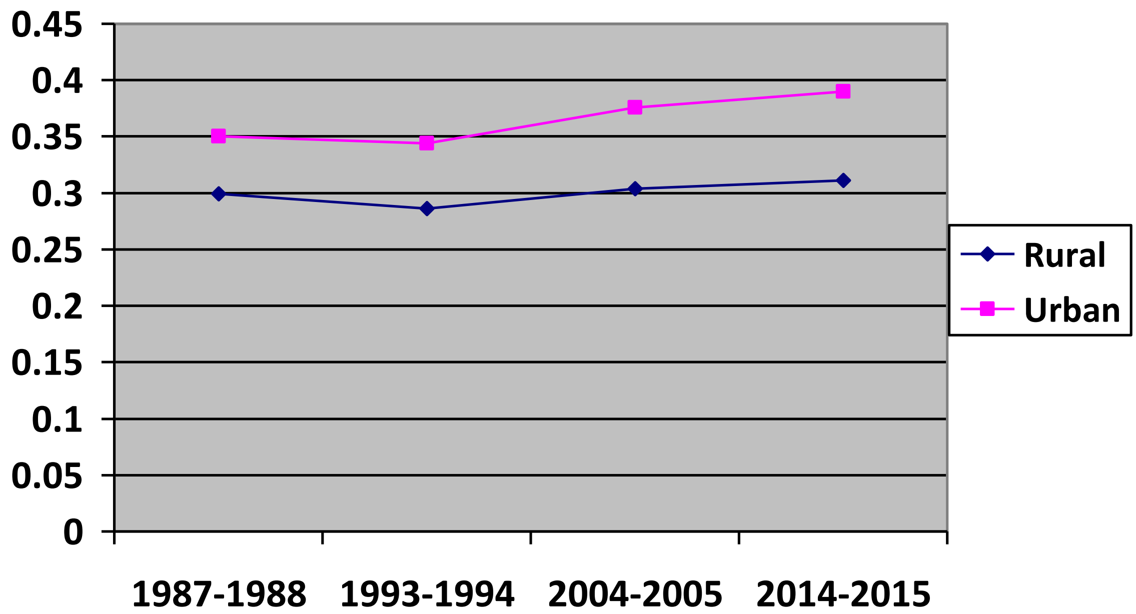
**FIGURE-4 INEQUALITY OF CONSUMPTION EXPENDITURE ALL- INDIA**




The table 6 shows that inequality represented by the data in we used only marginal in rural area over time particularly in 2014-2015. In the case of urban areas, inequality increased in 2009-2010 and 2014- 2015. Inequality consumption may be estimated as NSS data may not be capturing the consumption of the rich adequately. Inequality in income would be much higher than that of consumption. It may be note that if we consider access to education and other public services like health, electricity, drinking water, the inequality could be much higher.

## 4. CONCLUSION

During the Economic Reform public expenditure on agricultural research in the few selected developing countries has been increasing particularly and significantly faster then in the OEDC region. Perhaps as a reflection of the additional investment in developing countries where agricultural contribution to rapid progress in poverty reduction, total factor productivity increased, and at a rates generally higher than other countries in their respective regions and globally.

Poverty declined faster in 2000s compared to that of 1990s. But still India has more than 300 million poor population and some of the non-poor also false under vulnerable categories. Creation of productive employment is crucial for reduction in poverty. Inequality in consumption seems to have increased particularly in urban areas. There are significant inequalities by sector, region, gender and social groups. The new generation wants basically equality of opportunity in all fields and quality public and private sector.

Economic Reforms has been brings the structural weakness of the agriculture sector reflected in low level of investment, exhausting of the yield potential of New varieties of wheat and rice, unbalanced fertilizer use, low seeds replacement rate, an inadequate incentive system and post harvest value addition were Manifest in the lack luster agricultural reforms during the New Millennium.

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