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ECONOMIC REFORM POST 1991 - AGRICULTURE

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ABSTRACT

Since 1951, India has fully-fledged as a planned economy. The first few plans focused on growth with strengthening of the manufacturing and industrial sector to form the backbone of the Indian economy. Other principal areas of planning were agriculture, poverty alleviation, employment generation, social development etc. Back in 1991, India saw itself battling its most critical economic and currency crisis ever, but after economic reforms and adopting the policy of LPG (Liberalization, Privatization, and Globalization) Indian economy performed well. Then again due to global financial crisis in 2008 Indian economy again interrupted and going through another turbulent phase. This paper analysis Indian economy from 1991-2014. Agricultural development in post-independence India is marked by a historic failure of the state to resolve the agrarian question, i.e., ending the extreme concentration of land ownership and use and weakening the factors that fostered disincentives in investment and technology adoption, tied workers to a social system with considerable pre- modern features and compressed purchasing power. While this failure has shaped the pattern and nature of agricultural growth in India after 1947, the implementation of economic "reforms" after 1991 has introduced new dimensions to the contradictions of the earlier regime. In the 1990s and 2000s, some of the fundamental contradictions of the post-independence agrarian economy have persisted; on the other hand, some of the pillars on which the earlier regime rested have been undermined. This paper deals with the performance of India's agricultural economy in the post- independence period, with specific emphasis on the period of economic reforms. It critically analyses the official agricultural policy after 1991 and attempts to relate the outcomes of policy shifts to the patterns of growth across time and concluding section.

KEYWORDS

economic, reforms, liberalization, globalization, privatization, green revaluation.

INTRODUCTION

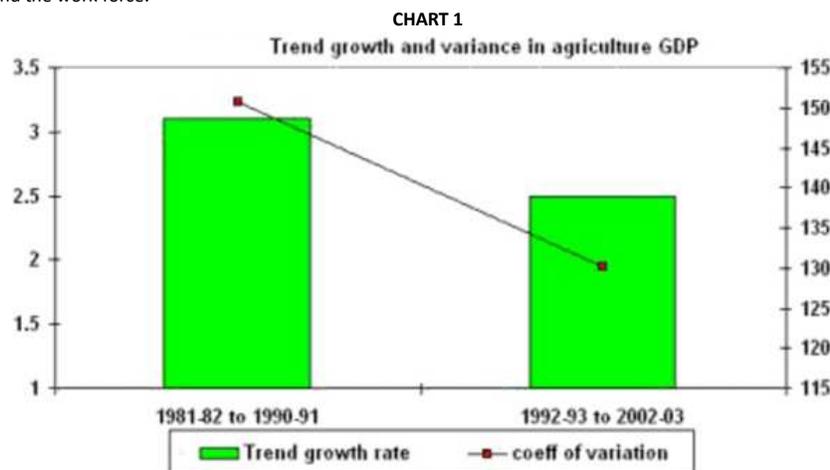
Data from the Ministry of agriculture(MOA) show that five phases of growth could be delineated in the evolution of India's agricultural economy. The first is the period of British colonialism from the 18th century up to India's independence. The second is the period of the first fifteen years after national planning began in 1950-51 till 1964-65. The third phase – often called the "early green revolution phase" – roughly spans the period between the mid-sixties till the beginning of the eighties. The fourth phase – called the "late green revolution phase" – begins from the early eighties till the early nineties. The fifth phase covers the period after 1991-92, when there were major changes in the agricultural policies towards domestic liberalization and integration with the global economy. Over the fifty years that preceded independence in 1947, food grain output in India grew at a meagre 0.1 per cent per annum (1966). In the period following independence, agricultural growth in India began to pick up. Between 1949-50 and 1964-65, the index of agricultural production (IAP) grew by 3.1 per cent per annum, driven by high growth rates in both food grain and non-food grain production (Table 1). The growth rate of IAP, however, fell to 2.3 per cent in the period between 1967-68 and 1980-81. There was a recovery in the growth rate of IAP in the period between 1981-82 and 1991-92, with the IAP growing at 3.4 per cent. In the final period between 1992-93 and 2005-06, the growth rate of IAP fell to a meager 1.2 per cent. Significantly, for the first time after independence, the rate of growth of IAP fell behind the rate of growth of population in the last period. The above periodisation remains valid when we consider the GVO data from CSO also.

There were also important crop-specific differences in the growth of production in the 1990s and 2000s compared to the 1980s. While the growth rate of index of production and GVO for cereals, paddy and wheat declined significantly in the 1990s, the corresponding growth rates for coarse cereals like jowar and ragi were negative. The index of production as well as GVO for pulses and oilseeds recorded negative growth rates between 1992-93 and 2002-03; after 2002-03, there appears to have been a moderate recovery that pushed their growth rates into positive figures, though still less than 1 per cent between 1992-93 and 2006-07.

POLICIES, FACTORS AND PROCESSES

At the time of independence, India had an increasingly lopsided agricultural economy, marked by low, and at times declining, yield of crops, low share of irrigated area, large extent of cultivable land left fallow, deterioration of soil quality and the use of poor quality seeds and poorly yielding livestock (1947). Food grain availability per head, which was about 200 kg at the triennium ending in 1918, fell to about 150 kg by 1947.

The reasons for the deteriorating state of agriculture under colonialism are many and complex. Nevertheless, the one overarching reason was the backward and oppressive relations of production in agriculture. Big landlordism was the dominant feature of agrarian relations. All the land systems of British India, though diverse in their features, were however united in their outcomes: sub-division and extreme fragmentation of operated land, sub-infatuation of holdings, insecurity of tenures, rack-renting, illegal ceases and usury. There was an increase in landlessness among rural households alongside an increase in the share of agricultural laborers in the population and the work force.



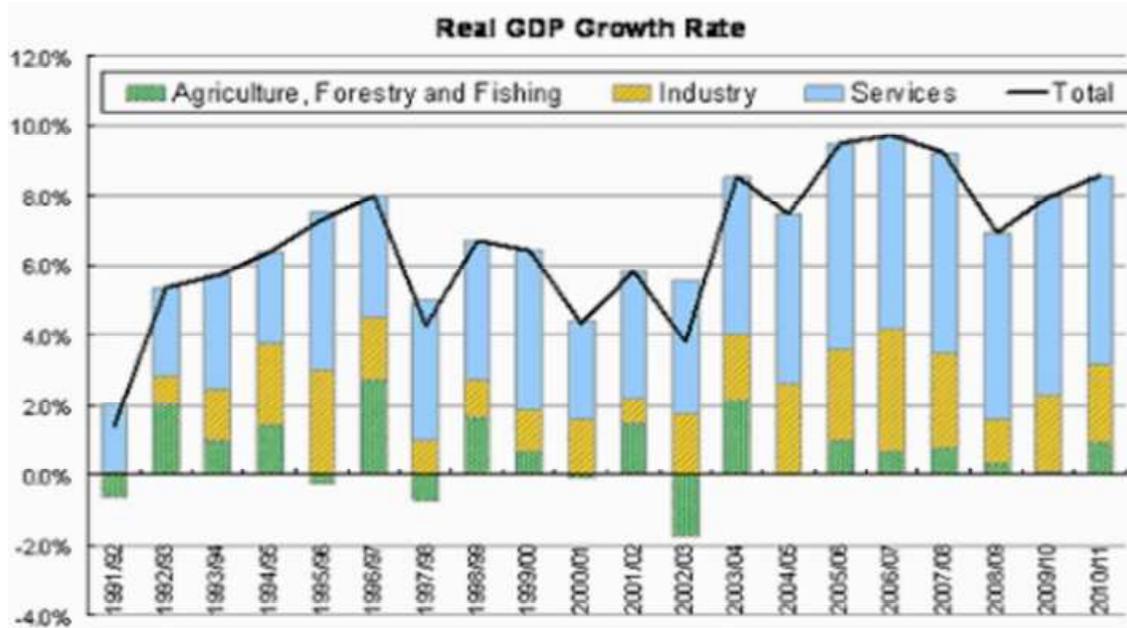
THE ADVOCACY FOR LIBERALIZATION IN THE 1990s

By the late-eighties and the early-nineties, the official policy on agriculture followed until then came to be criticized. This critique of the earlier policy was led by a section of economists as well as international financial institutions, such as the World Bank, all wedded to the ideas of the Washington Consensus. It was argued that the earlier policy deliberately skewed the terms of trade against agriculture through protectionist industrial and trade policies and an overvalued exchange rate. It was argued that once we “get the prices right”, the incentive structure in agriculture would improve, and farmers would respond to higher prices by producing more. If domestic prices were aligned with world prices, average incomes in agriculture in the early-1990s would have been 16 to 25 per cent higher than what they actually were.

Liberalization of agricultural trade was put forward as an important step towards imparting efficiency to Indian agriculture. These arguments were derived primarily from the standpoint of the neo-classical trade theory, in which free trade and openness would maximize efficiency and gains. It was argued that India has major comparative advantages in diversifying its cropping pattern in favor of high value, export-oriented crops like fruits, vegetables and flowers. Further, restrictions on private stocks and internal trade should be eliminated, which would help to evolve a national market in agriculture.

Terms of trade was biased against agriculture also because the policies of input subsidies and output support prices had suppressed domestic prices. According to one author, subsidies in agriculture were “fiscally unsustainable...inefficient and costly to farmers”. In this view, the long term decline of public investment could be reversed by cutting down on subsidies. The government should gradually retreat from the functions of procurement of food, as “government cannot manage commodity trade in an efficient way”. The large buffer stocks of food should be gradually brought down. In its place, private trade could be relied up on to “import or export..., build or shed inventories, as and when they expect tightness or slack in the domestic market”. the optimal private holding of stocks would be greatly assisted by the “creation of futures markets” for agricultural products. It was also argued that food subsidies should not be universally accessible, and need targeting.

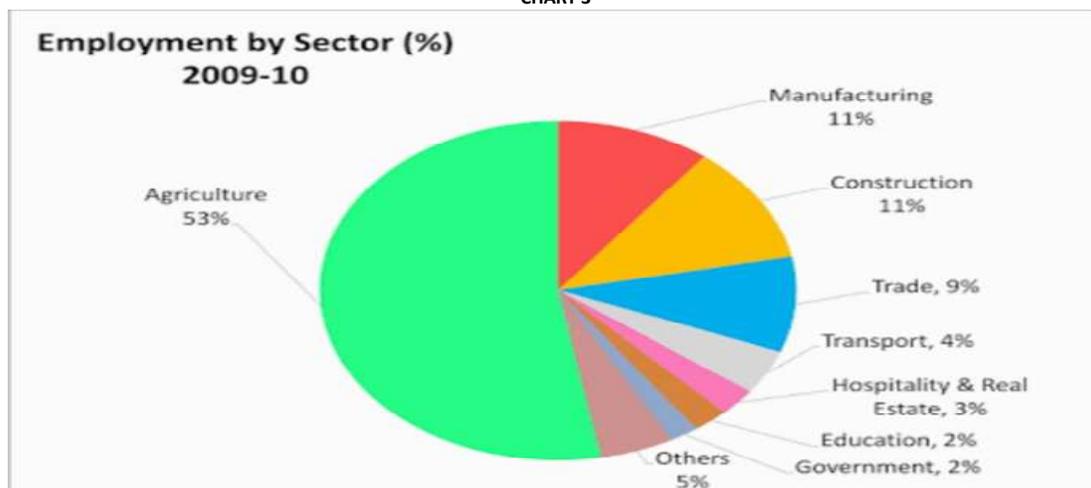
CHART 2



(Source: Central Statistical Organization)

The agenda for the liberalization of the agricultural sector included a few additional components. First, as part of the larger program of financial liberalization, the policy on agricultural credit underwent significant changes towards deregulation. Secondly, it was argued that the existing laws on agricultural marketing discriminated against farmers by not allowing them to interact directly with the big buyers. Contract farming was seen to be beneficial to farmers in their efforts at crop diversification. It was argued that land ceilings have to be raised so that rich peasants and agri-business firms can freely lease in land. The underlying belief was that if permitted, land leasing could provide economies of scale by attracting potential investors, including corporate players, into agriculture. Thirdly, though the official policy often reaffirmed its commitment to encourage public agricultural research, private sector research was to be promoted in a large number of sectors. An IPR regime was to be endorsed in agricultural research. Fourthly, the agricultural extension system was to be reorganized by encouraging more public-private ventures as well as NGO-based extension networks.

CHART 3



We have already noted that the period of implementation of the liberalization policies in agriculture in India have also been the period of a significant slowdown in agricultural growth. Rate of growth of food grain production, especially rice and wheat, slowed down significantly. The per head food grain availability (the sum of domestic output, net imports and change in stock) fell from about 175 kg in the triennium ending 1992 to 163 kg in the triennium ending 2001. The availability per head of pulses and coarse cereals also fell in the period after 1991-92.

The argument of the proponents of the new policy has been that once terms of trade improve, price incentives would generate a significant supply response. However, the vast literature on the supply responsiveness of farmers has shown that the relationship between prices and output is very weak. There are, of course, major issues related to the accuracy of economic models used to estimate supply response in agriculture, such as the measurement and control of different effects. Yet, the range of long run supply elasticity of aggregate agricultural output has historically been between 0.1 and 0.5 in developing countries. Accordingly it was termed as the resulting "efficiency loss is quite small".

Pulses have been the main source of protein for the poor, who could not afford to consume animal protein sources like milk in adequate amounts. Coarse cereals are richer sources of vitamins, minerals and fiber than rice and wheat, and have historically been the major source of protective nutrients for the poor.

In spite of these obvious adverse outcomes, it is required that each argument raised in the 1990s in favor of liberalization of the agricultural economy be examined more closely.

CONCLUSION

In conclusion we can say that Indian economy performed well after 1991 but currently Indian economy going through another turbulent phase. It is hard to believe the fact that, we have definitely grown since 1991 but the main imbalances then -fiscal deficit and current account deficit- are in reckoning again and have become the main concerns of today. People have started drawing parallels based on similarities in the economy like - Current Account Deficit in 2012 is 4% as compared to 3% of 1991. Fiscal Deficit is 6% in 2012 as compared to 8% in 1991.

In Indian agriculture, which continues to provide livelihood for more than half of the population, Washington Consensus-type policies after 1991 have had acute adverse effects. The green revolution of the 1960s and 1970s helped Indian agriculture overcome a "ship-to-mouth" existence and achieve self-sufficiency in production. This achievement was built on a platform of state support; there were price supports, subsidy supports, credit supports and marketing supports. The interventionist role of the state in the 1970s and 1980s led to the creation of a network of institutional support structures in rural areas. Given the unreformed agrarian economy with dwindling public investment in critical areas like irrigation, the benefits of these support structures were distributed unequally – across crops, classes and regions.

The spate of farmers' suicides reported from certain parts of the country reflects the distress state of agriculture after 1991. Between 1997 and 2006, there were about 150,000 suicides by "farmers" in rural India.

Economic "reform" after 1991 was based on an explicit rejection of the need to transform the institutional framework of Indian agriculture. It was argued that with increased openness, the barriers to raising agricultural surplus could be overcome by using external trade as an instrument. A firm resolve emerged to repeal land reform laws in many States, in order to encourage private corporate investment.

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