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New Economic Policy and Indian agriculture (a case of 30 years.)

Dr. Satyawan Jatain
Asstt. Professor (Economics)
Govt. PG College for Women, Rohtak (Haryana)
e-mail: satyawanjatain@gmail.com

Abstract

By now three decades have passed since economic reforms were introduced in India. This much time is sufficient enough for making an objective assessment of these reforms. A review of the impact of economic reforms in India reveals a strange mixture of outcomes. If we look at the performance of Indian economy as a whole, during the period since 1991, we witness the satisfying picture. Indian economy has become the 2nd fastest growing developing economy in the world. In per-capita income also, India has witnessed a remarkable growth rate. On this basis, according to Goldman Sachs, GDP of India will overtake that of USA by the year 2043.

As far as growth in agriculture sector is concerned, a niggardly progress is associated with this. Other two sectors i.e. service sector (contributing 55% to GDP) and industrial sector (contributing 28% to GDP) have led to this overall growth of the economy. Growth rate of agriculture sector has, on the whole, fallen in the post reforms period. The main reason behind such low growth rate (compared to decade before economic reforms) and poor performance in agriculture sector in the post reforms period is the fall in public investment and loss of momentum in Research and Development of new inputs for agriculture sector, especially seeds. Due to this lesser growth rate in agriculture sector, the gap between the rich and the poor in rural areas has been increasing because of the inequality in their capacity to take advantage of the opportunities initiated by the economic reforms. According to **Acharya,** reforms are market friendly but market is not poor friendly. The main reason for the rural poverty is the agriculture sector which is the main source of employment in rural areas and no longer able to absorb all the new entrants into rural labor force.

Introduction

New Economic Policy started in India in 1991 after the installation of Congress government under the leadership of PV Narasimha Rao. Basic aims of this policy were

(1) To correct macro imbalances caused during the late 1980s like shortage of foreign exchange, high rate of inflation, unsustainable fiscal and current account deficit and mounting debt.

(2) To accelerate the overall economic growth. It consists of two major sets of measures: (a) stabilizing the economy at macro level and (b) structural adjustment in the economy.

According to a World Bank study, macro-economic stabilization refers to short term measures and structural adjustment refers to measures relating to enhancement in the productivity of labor and capital. Macro-economic stabilization measures includes cutting in fiscal deficit, control of inflation and rate of exchange and devaluation to boost exports. Structural adjustments refer to adjustments in the structure of various sectors of economy. Main structural changes in the context of new economic policy in India are deregulation of domestic as well as external market transaction. To be more specific these are Liberalization, Privatization, Globalization and Marketization.

Objective of study

The present study is to analyze the state of Indian agriculture after the economic reforms were introduced in 1991. What has been the farm policy during this period of 30 years? To study the impact of structural adjustment in non agricultural sector and macroeconomics stabilization programs. Study of impact of globalization on agriculture is also to be analyzed. Role of MNCs in the development of agriculture and linkage of privatization and agriculture has also been part of the objective of the study.

Need of the study

As more than 30 years has been passed since the initiation of economic reforms, it becomes imperative to study the state of Indian agriculture post economic reforms. There has been many changes in the various policies of our country affecting the agriculture sector directly or indirectly. This study was necesssary to understand the shift in occupational structure in agriculture sector. Changing trends in public and private investment after economic reforms need to be studied in separate context to agriculture

Review of literature

To have better results in any research, it is worth mentioning to go through the earlier work done on the topic or area one wish to have research on. Literature on economic reforms and their impact on agriculture were reviewed to get a thorough understanding of the study related to post economic reforms and their impact on agriculture during the period of 30 years.

New Economic Policy and Agriculture

Initially when New Economic Policy was introduced in 1991 it appeared that agriculture sector was not covered by these reforms. Some structural changes in agriculture sector in draft policy were announced in 1995 and the draft agriculture policy resolution was adopted by states in 1997.

The farm policy: It sought to

(i) Globalize the Indian agriculture by exporting more agricultural product.
(ii) To reduce the burden on land by developing agro based industries.
(iii) To insure more of both investment and credit flow to agriculture, all this to make agricultural profession more profitable by raising productivity and remunerative prices both.

Leaving MSP, this policy envisages that market forces should govern various allocation decisions in agriculture. This policy targets for more exports and FDI in agriculture along with stepping of public investment for infrastructure in agriculture. The implementation of new economic policy in agriculture got a setback due to change of government at the centre in 1998. NDA government announced its own agriculture policy in 2000. This policy included the commitment of government

(i) To promote participation of the private sector in areas like agricultural research, management, HRD, post harvest management, standardization, grading, packaging, marketing and regulation of imports of agriculture commodities.
(ii) To encourage inflow of private capital and technology transfer to the agriculture.
(iii) Other measures to restrict the role of government agencies in buying agriculture commodities.

In 2004 when UPA government replaced NDA at the centre no significant changes were announced in the economic reforms to the agricultural sector. Agriculture policy was implemented partially i.e. allowing foreign companies to develop agro based processing industries. With the setting up of World Trade Organization in 1995, under the policy of globalization, the imports and exports of agriculture commodities were to be regulated by the rules agreed upon by the member countries. But still few measures of new economic policy have not been implemented like input subsidies which were needed to be withdrawn or at least reduced for correcting fiscal deficit. Under such circumstances, at this juncture, it is difficult to make exact assessment of impact of economic reforms in the aspect of agriculture development.

The impact of new economic policy on agriculture can be discussed in the following order:

(A) Impact of structural adjustments in the non agricultural sector on agriculture.
(B) Impact of macroeconomic stabilization program on agriculture.
(C) Impact of the extension of structural adjustment programs to agriculture itself.

First of all it could be termed as indirect affect of new economic policy on agriculture. Reduction in tariff on finished goods would end the discrimination against agriculture and finally terms of trade would move in favor of agriculture. And likewise the reduction in excise duty also favors the agriculture sector resulting in flow of capital. Patenting of research will also boost the private investment for research though it increases the cost of adopting new technology. Expansion of industrial sector through measures of new economic policy also help agriculture sector in many ways like absorbing labor for more job and supplying inputs to agriculture sector at lower cost. Development of infrastructure also enhances the productivity in agriculture.

In macroeconomics stabilization measures i.e. to reduce fiscal deficit and the explicit and implicit devaluation of money help increasing agriculture exports and decreasing imports by making them cheaper and dearer respectively in India. Fiscal deficit also affect the agriculture development in the economy. Greater the fiscal deficit, greater will be the inflationary pressure on the economy affecting the saving and investment adversely. More fiscal deficit means more debt serving. At the time of starting new economic policy fiscal deficit was about 7% of GDP in 1991 and now it hovers around 8% of GDP (centre and state taken together) which should be about 3% of GDP. To lower fiscal deficit, government needs to reduce expenditure and increasing revenue. Expenditure can be decreased by reducing subsidies on inputs and food grain sold at lower police prices to certain sections of the society.

According to a study of **Rao and Gulati** in early 1990s, the amount paid as subsidies (open or hidden) on fertilizer, irrigation, power and credit had reached the level of total productive investment (public and private) in agriculture. A recent study by International Food Policy Research Institute reveals that though the Government of India spends more on agriculture compared to any other country in Asia, the lion's share of this expenditure is incurred on subsidies. White paper issued by government of India in May 1997 about various subsidies given for non merit economic services suggested that these subsidies should be abolished in a phased manner.

There are reasons for the withdrawal of inputs subsidies and also for continuing these subsidies as well.

Overall conclusion with regard to input and food subsidies.

The input subsidies cannot be totally abolished but there is a scope for their reduction. In that case small and marginal formers must be protected. Subsidy should not be cut down on fertilizer alone but all the heads must be affected. Reason being that the contribution of fertilizers to increase agricultural output is more than that of other subsidized inputs. According to the study of **Hanumantha Rao**, demand for fertilizers is price elastic while demand for water and power is rather inelastic. As such rise in price of fertilizers, through withdrawal of subsidies can cause a fall in agriculture production whereas withdrawal of subsidies on power and water not. Government has to be a less subsidy load on imported fertilizer when compared to domestically produced fertilizer. Practice of green manuring is to be popularized to reduce use of fertilizer. Simultaneously effort should be made to improve the efficiency of fertilizer industry to reduce production costs. Major part of fertilizer subsidy goes to meet the loss of inefficient units. The impact of subsidies on inputs and resultant production has been different in different parts of country. To have impressive increase in agricultural output, rate of reduction in subsidies should be different for the different regions of the country. Also food subsidy must be reduced in Public Distribution System through a proper screening of beneficiaries. Only needy should be benefited from it. Withdrawal of subsidies should not be instant but in a phase manner.

Fiscal deficit and public investment in agriculture

The other way to reduced fiscal deficit through a cut in the expenditure by government for the agriculture sector is related to public investment in agriculture sector on infrastructure like irrigation, power, storage and marketing. But it is not advisable to cut down the expenditure on investment to lower down fiscal deficit. As per study off **Bhalla, Aacharya and many others**, the public investment is going down in agriculture since the introduction of economic reforms. Real public investment (at 1993-94 prices) was rupees 7301 crore in 1980-81 but decreased to 5322 crore in 1995 -96 and further 4950 crore in 2002- 2003. According to **Acharya** it had fallen by 25% from 1994-95 to 2000-01. Private investment has increased in agriculture sector after the introduction of new economic policy. It is important to note that where as in 1981 share of public investment in total investment in agriculture was 51.3%, it came down to 23.24% in 2002-03. Studies by international Food Policy Research Institute point out that while the gross total capital formation in agriculture in India in 1981 was 17.7% of gross capital formation for the country as a whole, it decreased to 5.6% in 2001 -2002 and further down in 2020-21. According to study by **Ramasami** share of capital formation in agriculture (public+ private both) in total capital formation in the country was 14.5% during 1970's 10.4% during 1980 and 8.04% 1990s. But to increase production for self consumption and for exports especially those with high value added contents under new economic policy to change structure of crops for high value food will also necessitate more capital for agriculture. For this we must increase public and private investment both because these two investments are not substitute of each other. Private investment is made for self fixed assets whereas public investment is made for common assests like on the canals, roads, land and soil research etc. We must affirm that public investment only stimulates the private investment. In short, we can say that fiscal deficit need to be decreased but it is not a wise step to reduce public investment for achieving this objective. Another measure to lower down fiscal deficit is to increase the contribution of agriculture sector to increase the revenue of the government. Suggestion of imposing income tax on agriculture seems viable (which stands to about 25000 crore). But the problem is same as in the case of withdrawal of input subsidy. Government need to increase revenue from agriculture sector by increasing in some other taxes especially in stamp duty on transfer of land is quite visible.

Structural adjustments in the agricultural sector:

The Indian agriculture has passed through many structural changes during last 30 years in the form of marketization, liberalization, privatization and globalization.

Marketization: It implies that the decision making process in agriculture should be governed by the market forces only means unobstructed operation of market forces in various fields of agriculture. During the last 30 years, no doubt the MSP of many crops is determined by government, but we have moved forward to connect the prices of agriculture produce to market especially in the fields of vegetables, fruits and some spices. Purchase of inputs is also market oriented. Government provides some subsidy to inputs initially. A lot more need to be done in giving subsidies like only small and marginal formers must be given subsidy and rich farmers should be convinced to forgo the subsidy in order to bring down the fiscal deficit to desirable level. Likewise only poorest sections of the society be given food subsidy. A study by **Johl** suggests that procurement prices should completely be dispensed with. Sometimes these procurement prices are lower than perspective market prices resulting in government to keep private buyers off the market. To connect the farmers with market prices government should done away with the procurement prices. But few economists are of the different opinion. They put forward that procurement prices indirectly impose a partial responsibility on the rich farmers to feed the weaker sections of the society. **Dantewada** even opines that rich farmers may be taxed for subsidizing the poor. He also added that paying higher procurement prices will only increase the food subsidy. Purchasing of the food grain for central pool at prevailing market prices will give undue liberty to the functionaries of the system to fix the purchase prices which are likely to promote corruption. After the introduction of new economic policy, government is purchasing more crops at procurement prices for the public distribution system and central pool to cover the maximum population for the food security.

Development of a competitive domestic product market: Complete marketization of agriculture, not only implies that absence of administered prices and subsidies but also removal of various impediments responsible for making the market non-competitive. This is possible by making sure that there is no hindrance in the interstate movement of agricultural commodities. There should be proper infrastructure and regulation of agriculture produce marketing committees. Further there should not be any interference of the government in the determination of prices. After the implementation of the new economic policy in agriculture, there has been much improvement in the infrastructure but the prices of most of the commodities are still determined by the government. Inter-state movement of the commodities is left free subjected to certain regulations. Government is trying to make balance for better MSP for the farmers and food security for the poorer sections of the society. Sometimes there is misconception about marketization of abnormal increase in the prices. Take the case of onion in 1998. During 1998 shortage of onions by only 15% led to an increase in their prices by 700%. Strict measures to control such and unsocial activities are necessary even when the objective is to develop a free market economy.

Supplementary role of non price factors: There are many other factors then price which determine the level of marketization and growth. Increased profit due to marketization must provide incentives to increase production. Investment should be made in sectors like infrastructure, power, roads, storage, marketing of agriculture crops, research and human development and irrigation for the growth of agriculture sector resulting in overall economic development. Institutional reforms like those in the land tenure and credit will also supplement these measures. Measures to prevent floods, droughts, cyclones and disease must be made which are main maladies effecting Indian agriculture. In this regard, it is interesting note that according to **Bhalla Desai and Namboodari,** response to agriculture production to higher prices alone has been found to be lower than that to be the development of infrastructure and irrigation.

As far as marketisation of land is concerned, under The Land Reforms Act in India, a ceiling has been imposed on the personal ownership of land. Imposing such restrictions, according to the **Johl,** are against free market economy and restrict the adoption of new agricultural technology. Converting of small land holdings to big farmers is not advisable in case of Indian agriculture. Many economist do not agree to the suggestions of a free land market because three fourth of total farmers in India are small or marginal.

Credit plays an important role in agriculture sector especially in case of small and marginal formers. **Rao** makes a suggestion that instead of converting small and marginal farms into bigger ones, government should extend long term loans on liberal terms particularly to those who do not have land and willing to cultivate. After the introduction of NEP, the amount of loan extended to farmers has shown tremendous increase to improve the conditions of farmer.

Also there is a strong case for freedom of lease in and lease out of the land for farmers. This practice will not hamper the interest of small and margin farmers.

Globalization of Indian agriculture

Globalization is an important constituent of India's new economic policy. This has encouraged the foreign investment in agriculture and also connected the agriculture according to the rules laid down by World Trade Organization. Government takes many issues in consideration in the interest of the Indian farmers and having pros and cons for the multinational corporations also. Government ensures that investment in agriculture must add to the development of the economy and also does not lead to any adverse social or political

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repercussions in the country. Government also has to examine from security and employment point of view.

Role of multinational corporations in the development of agriculture: This can be understood in three stages.

In the first stage of pre farm production of various inputs like fertilizer, insecticides, machinery etc. is not undertaken by multinational corporations. These only little bit add to construction of roads, electricity and irrigation facilities. These types of facilities are provided by our own government. The research and development of new seeds covered in the first stage have least scope of foreign investment. There is always uncertainty about the profitability in case of research project because of its probability of failure. In the field of generation of electricity foreign companies invest on the basis of build own and transfer principle. Reason for not much investment in roads and electricity is that these two falls in the category of public utility services and as such government has to ensure that prices paid for this services are quiet reasonable. There is yet another field where the foreign companies can be invited to invest in the construction of the dams and irrigation canals. But chances of investment in these fields are very limited. It is quite clear that there has not been any remarkable investment in this field since the introduction of NEP.

In the second stage where the farm production takes place, investment by foreign companies basically involves actual purchase of land for cultivation. After initiation of new economic policy, few MNCs have shown interest in tea and coffee estates like before the pre independence era. The present condition, no large chunk of land is available for estate farming. It will be extremely difficult for a multinational corporation to purchase land from farmers as more than 80% of such owners are small or marginal formers. And also according to laws, foreigners are not allowed to purchase land in India.

The third and last stage covers the marketing of agriculture produce, setting up of agro processing and agro based industries. Marketing of agriculture produce is a petty job for multinational corporations but in case of setting up of industries have not been taken by multinational corporations so remarkable after 1991 like the same condition of pre-1991. Also there is a case that our country is not only self sufficient in the commodities produced by these Industries but is also exporting them. Both kind of food processing and non food processing in the Indian investment capital is self sufficient and have not attracted any new investment by multinational corporations after the introduction of new economic policy. As far as developing fruit and vegetables process industries is concerned, our government has laid extraordinary emphasis on this.

Multinational corporations food processing industries and contact farming:

Industrial plant needs raw material at large scale for a longer time especially by the multinational corporation because of huge loss in case of shutdown of plant in absence of raw material. Since agricultural commodities are produced on annual basis according to its relative profitability. Since crop mix is changed frequently by farmers, so there is no guarantee that multinational corporations will get continuous supply of raw material. Another point of investment in agriculture by the multinational corporations is the pricing and market for its product being processed in the firm. To get regular supply of raw material, companies get into contract with farmers. Farmers also get stipulated price for their produce. To honor the contract some panel clauses for non compliance of the agreement are also included in such a contract.

There has not been any remarkable progress in the area after the introduction of new economic policy in 1991. There are many obstacles which hinder the entrance of multinational corporations in agriculture sector in India. Backwardness in technology and small holdings are the major reasons of absence of multinational corporations in agriculture sector. Sometimes small level entrepreneurs in India may be crowded out because of latest technology and large scale production by multinational corporations.

Privatization and Indian agriculture

Privatization as part of the new economic policy has been defined as the process of dismantling of the public sector. It does not mean cessation of all government activities but it only mean closing down of government undertakings being run for the earning profit or their transfer to private sectors. Government ceases to act as an entrepreneur. In case of agriculture in India already private sector exists as the land is owned by the peasant or the Zamindars. Only activities like research, training, supply of irrigation water, power, storage, market infrastructure, soil conservation, reclamation of land etc are undertaken by government, which private individuals or companies hesitate to undertake. After new economic policy the investment in the production of agricultural inputs has, no doubt, increased.

Liberalization and Indian agriculture

Liberalization is complete freedom of entrepreneurs, reduction in government regulations for economic activities to the minimum and reduction in tariffs and taxes. In this direction, agriculture is already liberalized from many angles. After the Inception of the new economic policy laws relating to land holdings have been amended to more liberal. There is complete freedom to the farmers to produce anything. There is complete freedom of movement of produce from one part of the country to another. Export Import of agricultural commodities has already been liberalized, under the rules framed by World Trade Organization according to new economic policy.

Suggestions for improvement

Rao and Ghosh suggested few corrective measures which are an integral part of the economic reforms. These measures needed to be applied by government but it has failed to do so. Due to not complying to the land ceiling, particularly in the southern States has surely increased the income inequalities in rural areas. Finally, inequalities in the income of rural people have increased due to economic reforms and trickledown effect of agricultural development is very weak. Resultantly agricultural development in the country has not shown much improvement in the post reforms period. The rate of growth in agriculture sector itself has started declining after the economic reforms. To sum up we can say that it will not be justified to attribute completely fall in the growth rate of agricultural production after 1991, to economic reforms but also these reforms have not done fruitful to reduce poverty and income inequalities.

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