CHAPTER IX
CONCLUSION AND RECOMMENDATIONS

This study has sought to examine the economic impacts of liberalization and adjustment on the economically exploited classes in a situation of high overall economic growth. This final chapter presents a summary of the study and its general conclusions. We begin with a brief overview of the objectives, methodology and data sources of the study, proceeding to the analytical results of the secondary data and then to the results drawn from the field study. The study concludes that economic policies of liberalization and adjustment undertaken in India have been detrimental to the well-being of the poor even in such a high-growth state as Gujarat. For this purpose data has been collected and analysed from two of the poorer districts of the state to appreciate the profile of economic distribution in regions peripheral to the growth centres in the state. This data is analysed in the backdrop of secondary data on trends in sectoral growth, poverty and employment in the state over the pre-liberalisation and post-liberalisation years.

Chapter 1 gives an overview of the global impacts of liberalisation in terms of growth and welfare, and outlines the liberalisation policy undertaken by India and Gujarat. It explains how the formerly colonised countries, unable to screen themselves from external economic shocks, entered into Structural Adjustment Programmes with the IMF, and were compelled to cut down so-called 'unproductive' expenditure on programmes of health and education, subsidy and support for the poor, and reduce the fiscal deficit. With the reduction in government expenditure, employment and income growth rates declined and even became negative in some countries. These programmes thus had a deflationary impact whereby purchasing power, standards of living, and nutritional standards of those living near the margin declined drastically. The same programmes have been implemented in India since 1991 and have had a deleterious impact on levels of poverty and employment in the country. Specifically in the agricultural sector, the earlier food policy based on state control in production, pricing and distribution was slowly diluted, in favour of a policy based on open international trade. At the domestic level the effectiveness of the Public Distribution System of food grain was called into question and the Targeted Public Distribution
System was introduced. Thus the policy related to food security changed drastically after 1991, from one prioritising food self-sufficiency to one prioritising saving of costs. In Gujarat, economic policy in both pre- and post-independence eras, even before liberalisation, has been in favour of high growth and industrialisation. The attempt by the Indian state to ensure a more equitable distribution of land was scuttled by the middle castes in the state. This led to the creation of a class of dominant middle peasants, and the poor and landless were in fact immiserised due to the land reforms. The rising class of middle peasants and large peasants gave an added impetus in developing profitable commercial crops on a large scale. Therefore, the state has always favoured commercial crops over food crops, and growth of agriculture as well as industry has always remained highly concentrated both in terms of classes and regions. The liberalisation policy in agriculture, implemented in Gujarat as the Agro Vision 2010, portrays Gujarat as having the potential for vibrant agricultural development stressing on agro-industries. In line with this, the emphasis is now on the development of technology which will enable the state to specialise in marketable commercial crops, and on the development of agro industries. No provisions have been spelt out in the new initiative to benefit the small and marginal farmers or the landless in terms of employment, and to enable the spread of its gains into the areas beyond the Golden Corridor.

Chapter 2 surveys the relevant literature and introduces the methodology followed in the study. The debate on liberalisation in India is extensively discussed. Scholars who favour the liberalisation policy opine that it promotes allocative efficiency within the agricultural sector as well as between sectors. Moreover they feel that ‘a clean sweep to dismantle all controls’ would promote rapid growth and bridge the gap between the expected high demand and the slow increase in supply. They maintain that free trade would not have any adverse impact on India since India has negative values of the AMS and will therefore not be forced to reduce it. Another group of scholars questions specific aspects or impacts of the liberalisation policy, without categorical rejection of the overall model. These authors mainly state that the policy would have a negative impact on agricultural growth, or that international terms of trade are against agriculture. The ‘large country’ argument is used to conclude that terms of trade will worsen for India when it enters the international market. As prices of imported
manufactures increases, the cost of living and wage goods prices would increase, pushing down standards of living.

However, critics of the liberalisation model reject it in its entirety, on the grounds that it undermines the state's autonomy in taking egalitarian economic decisions. The obligatory reduction in state support for welfare and development resulted, as seen across the world in countries that adopted adjustment, in loss of employment, incomes and food security. The judgement of pro-liberalisation authors is based on an assumption of unchanged distribution of income, but income distribution has worsened post liberalisation in India due to public expenditure-contracting reform policies and falling global prices, in fact leading to a contraction instead of the predicted growth in demand. The liberalisation policies have caused the 'agrarian crisis' – decline in growth rates of food and non-food crops to levels below the population growth rate, declining share of the primary sector in GDP without a parallel decline in the share of population dependant on primary sector for employment, and decline in global agricultural prices leading to large-scale farmers' suicides. Open international trade means that Indian farmers have to face competition from large-scale subsidisation of goods by developed countries and volatility of international agricultural prices. Indeed, after 1996 international food grain prices crashed, leading to fall in domestic prices as well, and large scale losses for Indian farmers.

The most detrimental impact of the liberalisation policy has been on food security. Developed countries during their process of industrialisation depended on imports of wage goods and raw materials, which they earlier obtained through colonial exploitation and in the present through diversion of agricultural lands of the developing nations to export crops. Since land is limited, such export crops were produced at the cost of domestic consumption. Neither could the developing nations compensate through yield increases since the structural adjustment policies reduced investment in yield-improving technology. The same adjustment programmes also forced cutbacks in public expenditure, deflating incomes and so there was little demand for imports of foodgrains. Despite declining per head output levels, large reserves of food built up in India after 1997 because of the lack of purchasing power and because large numbers of households were excluded in the faulty process of
‘targeting’ of the PDS. The official explanation of dietary diversification on the one hand and excess procurement of foodgrains due to too high MSP on the other ignored the reality of falling purchasing power and nutrition levels of the lower income groups, a fact quite consistent with overall diversification of diets. Various questions have been raised regarding the inefficiency of the PDS, the need for targeting and size of buffer stocks, and the rationale for MSP. These are based on the understanding of the PDS as a commercial venture, which it is not. ‘Efficiency’ of the PDS must be measured keeping in mind its indirect benefits in terms of increasing the aggregate demand and consequently the supply response for foodgrain. Excluding households from the PDS on the basis of an arbitrary poverty measure undermines the real rationale of the system. Overall, liberalisation has weakened the institutional base of state support for the vulnerable, and has acted to undermine the standards of living of the poor in most developing countries, including India.

In the background of the impact of liberalisation, chapters 3 and 4 deal with secondary data on sectoral changes and the trends in poverty and employment in Gujarat. Data on sectoral changes cover the period from 1960-61 (when the state was formed) to 2003-04, while that for poverty starts from 1973-74 and that for employment from 1972-73 (when NSS started collecting data on these subjects) and goes up to the latest NSS large-sample Round in 2004-05. Data on the NSDP shares of various sectors indicates that the state undertook structural change since its inception. There is a definite increase in the share of the secondary and tertiary sectors in NSDP and a reduction in the share of the primary sector. After 1990, there is an increasing relation between the primary and the secondary sectors, indicated by the value of the correlation coefficients of output from the two sectors. Since the share of foodgrains in total agricultural production in the state has declined, it is reasonable to conclude that this relation is indicative of an increased role of agriculture not in terms of wage goods but as industrial inputs. This is also supported by the fact that growth rate of the secondary sector has increased after 1991. Thus there is a demand for agricultural products as industrial inputs; but agricultural production in the state remains fluctuating. Production of fruit, vegetables and commercial crops gained prominence in the 1990s, but overall there remains a shortage of agricultural production, seen in the declining trend in the ratio of real NSDP from agricultural to non-agricultural sectors together with the increasing trend in the agricultural/non-
agricultural price ratios. Gujarat has undertaken agro-industrial development and is encouraging commercial agriculture; however fluctuating agricultural output levels mean that supply – and consequently incomes in the agricultural sector – remain uncertain.

Chapter 4 analyses the apparent contradiction between the trends in poverty and other development indicators in the state. While poverty levels according to the official NSS data have shown sharp decline, especially in the urban sector, other indicators of development viz. employment and foodgrain availability, show negative trends. This is the same contradiction as is seen at the all-India levels, but Gujarat appears to have a better performance in terms of urban poverty than the all-India level. The situation in the rural sector is precisely the opposite. Between 1993-94 and 2004-05, rural poverty has decreased by 3.02 percentage points, compared to the previous five years (1987-88 to 1993-94) when it declined by 6.49 percentage points. Rates of employment growth have declined. After 1999-00, rural male usual status employment has actually declined and the share of casual labour in rural usual status male employment has increased. The majority of the rural population is still dependent on agriculture for employment – 77.3% of those usually employed in the rural sector (primary + secondary employment) were employed in agriculture. This number has not registered any significant decline from the 50th Round in 1993-94. Since, as seen in chapter 3, the share of agriculture in the NSDP has declined, the per capita income from the agricultural sector has certainly declined. The uncertainty of agricultural production and incomes therefore affects the large mass of the rural population, while secondary and tertiary sectors still occupy only a minor place in rural employment. The secondary sector, while it has been the engine of growth in the state, has failed to provide diversification of employment in rural areas. Rural unemployment has actually increased between the 55th and 61st NSS Rounds. While it is not possible to calculate foodgrain availability figures at the state level, there are indications that foodgrain availability for the lower deciles of the population has at best stagnated especially after 1993-94. State-level foodgrain production per capita is highly fluctuating and consistently below the national average, and there is a sharp decline in PDS distribution of foodgrain after 1993-94. While there is no data on private interstate trade of foodgrain, such private import from other states would not provide low-priced foodgrains to augment the diet of the poor. Even if per capita
availability of foodgrain has increased, its distribution is skewed in favour of the upper income deciles. These declining figures for rural employment and foodgrain availability seem contradictory to the (albeit slowly) declining poverty figures. Keeping these contradictions in mind, the chapter has analysed poverty from the perspective of calorie intake, since nutrition can be said to be the single most important aspect of well-being; the official specification of the poverty line was initially based on nutrition norms. The divergence between the direct estimates of poverty (based on calorie intake) and its indirect estimates, based on various price indices, has been noted by a number of scholars. This chapter has calculated the trends in calorie-based poverty levels in Gujarat from 1977-78 to 2004-05. As with the figures at the national level, in Gujarat also there is a marked increase in percentage below the caloric RDA from 65.19% to 88% in the rural areas and from 50.47% to 71% in the urban areas. The direct method of calculating poverty therefore gives results consistent with the negative trends in employment and foodgrain availability. In fact the gap between poverty estimated by the indirect and the direct methods is greater for Gujarat than for all-India. Even in urban sector, poverty by the direct method is 71%, up from 50% in 1993-94, which belies claims of urban poverty alleviation post liberalisation.

The reason for this is that the official poverty line makes the assumption of a constant poverty line consumption basket, whereas in reality there is a shift from food to non-food items as a percentage of total expenditure at the poverty line. This change in the poverty line commodity bundle over time is not captured by the simple upgradation of the poverty line by a price index. The chapter addresses the issue of why the lower income groups, in spite of declining calorie intake levels, reduce the share of food in their total expenditure. Various reasons put forward include destruction of village commons, increasing monetization of economic transactions in the rural areas (payments in cash instead of in kind), and increase in food prices. In the absence of adequate data, the first two reasons cannot be tested. However, we find that food prices have risen faster than the general price level; CPIAL (food) has always remained higher than CPIAL (general), and that this gap has increased after 1987-88. The impact of more rapidly rising food prices has been disproportionately felt by the lower-MPCE classes, who spend a relatively larger proportion of their total income on food, and who find it therefore impossible to increase their food consumption. In fact
deflating food expenditure by CPIAL (food) shows that food consumption of the poor has stagnated. Rapidly rising food prices have changed expenditure patterns of the poor towards non-food, a pattern which is not reflected in the upgradation of the poverty line by the general CPIAL level. High and rising unemployment and the lack of adequate subsidized food for the poor have created a situation where the poor have no means of protecting themselves against the fall in real income in terms of food.

The next four chapters (chapters 5 to 8) consolidate the findings from the secondary data by analyzing the situation of poverty defined in terms of economic classes, in two poor districts of Gujarat. Chapter 5 describes the method of sample selection and classification for analysis. The districts of Banaskantha and Dangs have been purposively selected for having predominantly rural and agricultural populations, and high concentration of SC and/or ST population, which is taken as a proxy for vulnerability. Both these districts lie at considerable distance from the state capital and also from large industrialized urban centres. Within each of the districts we have selected two villages based on the standard ‘development’ criteria of distance from district headquarters. A sample of 50 households from each village was selected stratified on the basis of landholding, and the data was analysed on the basis of the labour exploitation criterion (Patnaik 1987). The labour exploitation criterion defines class structure based on hiring of labour and leasing of land. The households were classified on the basis of landholding and extent of labour use, and it was found that there is no clear direct relation between the two criteria. This brings out the fact that the size distribution, which is the most popular in classifying rural households, is not adequate to measure production relations. The chi-square test used to test the independence of the two attributes – landholding and labour use – reveals that there is little or no association between the two attributes viz. operated area and labour use.

Chapter 6 deals with the distribution of assets in the sample households. We find that there is a greater inequality of landholding – both in terms of area owned and operated – in the sample that at the overall district level. There is not much difference in the patterns of distribution of area owned and operated, though leasing in and out works to reduce inequality to a minor extent. The distribution of irrigated land is more unequal than that of land in general; the extent of disproportionality keeps decreasing as we move from the exploiter to the self employed and the exploited classes.
Classification of non-land assets also shows a clearer pattern according to economic class rather than landholding. Value of assets does not show any clear relation with the landholding size, but when we classify households by economic class, a clear pattern emerges, both in terms of value and type of assets owned. Livestock assets decline in proportion to the total asset value as we move upwards in economic class, and proportion spent on irrigation increases. The poor peasant household spends as much as 75.5% on livestock, but just 2.59% on tractors, wells and borewells. The rich farmer households have invested the maximum in irrigating their land, and have the character of the pure capitalist farmer. On the other hand small and middle peasants own the largest proportion of non-agricultural assets, indicating their diversification into non-agricultural means of income.

In chapter 7, we have examined the distribution of inputs and output among the various landholding groups and economic classes. There is a positive, but not monotonic, relation between the value of total inputs used and the size of landholding, and also between the purchased inputs and size of landholding. Inputs and output — especially purchased inputs — are monotonically related, which is as expected. Analysing the data by classes, the rich peasant class is found to use the largest proportion of purchased inputs, which decreases for the middle and small peasants. However poor peasants and the landless, who have little or no resort to farm-produced inputs, are compelled to buy them. The declining value of purchased inputs as we move from the exploiting to the exploited classes indicates that the degree of monetisation is related not to landholding but to the appropriation of surplus. The nature of input use, however, does not change with change in scale of production and economic class. There is no change from use of wages to material inputs as the scale of production increases, or for higher economic classes. In other words, larger production does not result in labour-displacing technology. While monetisation (use of purchased inputs) is definitely a function of class, the type of inputs used has very little relation with either scale of production or economic class. Monetisation has also brought about efficiency in production; the exploiter classes, especially the rich peasants, have the maximum output of both crops and livestock per household as well as per hectare. The same difference in efficiency is seen when we analyse the value of output per unit of material input used; the landless labourers and poor and small peasants have a much lower output level than input cost, while the output per
household for rich peasants is higher than the cost of material inputs. When we analyse output per family worker, we find it to be the highest in case of rich peasants; this is indicative of the contribution of hired labour for production in case of the exploiter classes.

Chapter 8 winds up the examination of class in poor districts of Gujarat. We discuss in this chapter the varying levels of income and surplus of the various classes and landholding groups. We apply the concepts of Farm Labour Income and Farm Disposable Income introduced in Patnaik (1987). The Farm Labour Income, defined as 'the value of gross output less all the actually paid out costs of production, whether incurred in cash or in kind', is the value of output from the primary sector (agriculture and livestock) net of production expenses. The Farm Disposable Income (FDI) reflects the amount of actual disposable income available to households, subtracting all commissions and other indirect costs incurred in the process of production. Farm labour income is found to be directly related to the class i.e. it is higher for the exploiter classes and becomes a minuscule amount for the poor peasant and landless classes. Middle peasants have input costs substantially higher than that of the small peasants, which pushes down their level of FLI. This is because this class earns the highest proportion of income from non-agricultural sources. Their income from agricultural sources is in fact lower, and their total income only 9% larger than that of small peasants. The middle peasant households have diversified their occupation to non-agricultural activities, probably in the expectation of earning larger incomes in the non-agricultural sector. However the data indicates that their expectations have not been realized. Middle peasant households in the sample, though holding a higher class position, are not significantly different from small peasants in terms of their actual economic situation. Other classes show predictable results in that the value of FLI and FDI decrease as we move from labour exploiting to self employed and then to exploited classes.

We have then calculated the poverty levels in the sample based on the FLI and the given official poverty line in the state as well as the poverty line based on calorie consumption. The state level poverty line officially used is a MPCE level of Rs. 254 in rural areas. FLI of various classes indicate that the landless and poor peasants — forming 9% of the sample — earn an income below this level. However this poverty
line has not been updated by the CPIAL (though simple upgradation does not reflect the true situation of poverty, as seen in chapter 4) after 1998, and its value when it is so updated is approximately Rs. 279.40. Once the poverty line is so updated, we find that middle peasants and petty rentiers are also pushed into the category of the poor. Thus with the poverty line updated taking into account the CPIAL, 31.5% of the households have a class-specific average income lower than the class-specific poverty line. However, the indirect method of poverty calculation – updating expenditure levels by an index – does not reflect the true changes in poverty. Following from this we have calculated class-specific poverty lines on the basis of household size for the various classes and with calorie consumption based on the 2000-calorie and the 1800-calorie norms (which are still below the RDA of 2400 calories for rural areas). Class wise household poverty income levels calculated and compared to the actual average class wise incomes reveal that all classes except the rich peasants fall below the poverty line. Thus, with the 14 rich peasant households above the poverty line, we find that the average income of 93% of the sample households is lower than their class-specific poverty line. The surplus is calculated by subtracting the value of family labour from the FLI, leaving the value of output generated purely by the labour of others. There is largely a correspondence between class position of households and the values of surplus/ deficit. Rich peasants form the only class which registers significant values of surplus after family labour is subtracted. Adding the value of non-agricultural income does not change the previous trends in class distribution. In all cases the size of the deficit is reduced or the size of the surplus is increased, and with the inclusion of non-agricultural incomes, all classes now register a surplus. With the addition of non-agricultural incomes, income of some of the classes is pushed above the poverty line, but the landless and poor peasant households still remain below the poverty line. Small peasant households move somewhat above the nutritional poverty line (2000 calories, which is below the RDA of 2400 calories) with the addition of non-agricultural incomes, while middle peasants move above the 1800 calorie mark but still do not reach 2000 calories. This is not an anomaly, since middle and small peasants are quite similar in terms of their actual economic positions. The overall situation in terms of poverty is therefore somewhat alleviated with the addition of non-agricultural incomes, but it still leaves more than 30% of the sample households with incomes below their class-specific poverty lines.
Liberalisation and adjustment policies are based on the understanding that opening up of markets enables allocative efficiency between and within sectors. In a situation of overall high growth such as in Gujarat, there is an implicit assumption that the benefits of such efficient allocation would seep down to the poor. This study has questioned this assumption, in the light of the direction of growth of the state. While the non-agricultural sectors form the bulk of the state-level income, the population employed continues to be significantly from the primary sector. Per capita income in the agricultural sector therefore continues to stagnate. The stress on commercial crops and on agriculture as a means of industrial input rather than as a wage good means that there is less emphasis on self sufficiency of foodgrain production. The state is therefore dependant on interstate trade and subsidised public distribution of foodgrain for the poor. The official data indicating that poverty has declined, especially in the urban sector, is used to rationalise the weakening of the PDS. But this so-called decline in poverty is belied by the decline in calorie intake in both rural and urban areas. Rural employment and foodgrain availability have declined, especially after 1993-94. Since the majority of the rural population continues to be agricultural, a study of incomes in the agricultural sector is relevant. The study of two poor districts indicates that inequality of asset ownership is quite high and that diversification into non-agricultural occupations has not yielded secure income. For the majority of the population in the poorer districts, agriculture still forms the main means of income, but agricultural incomes are so low that the large majority of the population remains below the poverty line in terms of nutrition.

The study raises serious questions regarding the agro-industrial policy of the state in which the role of agriculture is merely to provide industrial inputs and not as a means of foodgrain self sufficiency. Such a policy reflects the interests of the middle and rich peasantry who have been the main beneficiaries of the land reforms in the early years of the state's formation. Gujarat is a prime example of landlord-led reforms, where the poor tenants and landless have in fact had to face greater inequality and where the middle classes/castes have profited. In Gujarat, liberalisation has merely consolidated the capitalist growth trends by removing all obstacles to the unequal capital accumulation. The stress on commercial crops to support capitalist profitability was a feature of agriculture in the state right from its initiation, and has come at the cost of foodgrain self sufficiency. However the minimal protection
provided to the poor through the public distribution of foodgrains is also being undermined since liberalisation. While the development of commercial crops is definitely to the economic benefit of the state, it is essential that this benefit be spread to all classes. There is need for greater investment in irrigation infrastructure to reduce instability and ensure regional equality in agricultural production, which will enable adequate provision of inputs to the agro-industrial sector. It should be ensured that this growth is regionally decentralised and also adequately labour-intensive to provide non-agricultural employment. At the same time foodgrain availability to the poor has to be improved in the light of increasing nutritional deficiency. The withdrawal of the state from the so-called ‘unproductive’ rural development programmes and from the PDS has serious consequences for food security and needs to be reversed. At the same time there is need to develop foodgrain production, especially the production of coarse and staple cereals, alongside commercial crops, to ensure a minimum of foodgrain self sufficiency. This needs a serious rethinking of the agricultural and overall development policy in the state.