

Research Papers



## Effects of Economic Reforms on Poverty

**Dr. Dattatray Sitaram Bagade**

Asso. Professor and Head Business Economics,  
Shankarrao Mohite Mahavidyalaya,  
Akluj, Dist- Solapur,  
Maharashtra pin -413101

### Abstract

*Indian economy is depends upon agriculture. However, agricultural sector does not provide full time jobs to total population. About 69 % of population depends upon the agricultural sector. It's contributes about 16.1 % in the GDP. Since 1991 Indian economy is changing very fast. In 1990-91 per capita income was Rs. 11,535 it is increased to Rs. 41,129 in 2010-11. The house hold saving was Rs. 1,04,789 in 1990-91 it is increased to 12,61,332 in 2010-11. FDI was 18 billion US \$, it is increased to 245 billion US \$ n 2010-11.*

### Introduction:

The poverty line is called minimum level of food requirement, clothing, footwear, fuel and light, educational and medical requirement etc. are determined for subsistence. The accepted average calorie requirement in India is 2400 calories per person per day in rural areas and 2100 calories per person per day in urban areas. The main cause of poverty is high growth rate of population, less job opportunities, low growth rate of income, income inequalities, unequal distribution of land and production sources, lack of proper implementation of development policies etc. India is a nation with over 300 million poor people. It has declined since last three decade. Poor population is reduced by 27.4 % from 54.9 % in 19973 to 27.5 % in 2004 . Since 1991 the in new economic era poverty declined fast. It was 36.0 % in 1993 it is declined to 27.5 % in 2004. There is a reduction from 36 % to 27.5 % in the people living in BPL during 1993 to 2004. In case of rural area it is declined to 37.3 % to 28.3 % and in urban area 32.3 % to 25.7 % in 1993 to 2004 respective. Due to New Economic Reforms it helps to improve standard of living across the country. But till 27.5 % of population is living in BPL.

In the economy total labour force was 478.3 Million in 2009. Out of this labour force 52 % is from agricultural sector, 14 % contributes industry sector and 34 % contributes of service sector. But till about 10.8 % unemployment and about 25 % population living in BPL. Indian economy faces many problems. The census projection report shows that the proportion in the working age group (15-59) in increasing from 58 % in 2001 to more than 64 % in 2021.

India there is interrelationship between economic reforms and poverty. So it is believed that economic reforms process mostly affects reducing poverty level and also helps economic development, to helps to increase trade, increase investment and employment opportunities. It can be said that if there

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is high level of economic reforms there is a decline in the poverty rate.

**New economic policy:**

Since, independence Indian economy was inspired by the economy of the soviet union which socialist practices, large public sectors, high import duties and less private participation etc. However, India adopted free market principles and liberalization in 1991. Since, 1991 continue Indian economy moved towards a market based economy. Economic reforms and better economic policy accelerated Indian economic growth rate. The reforms did away with the License Raj, reduce tariffs and interest rates, ended many public monopolies, allowing approved of foreign direct investment in many sectors, reducing agricultural subsidies, reforming labour laws, reducing the state control, increasing financial liberalization etc. Due to this the growth rate of Indian economy is increasing. This has resulted by the increasing in literacy rate, increasing life expectancy, food securities and increasing employment opportunities and decline on number of BPL families.

**Table No.01 India's Growth Rate in GDP ( 1993-94 prices factor cost)**

Year	1991-92	92-93	93-94	94-95	97-98	98-99	99-00	00-01	01-02
GDP	1.3	5.1	5.9	7.3	7.8	4.8	6.1	4.4	5.8
Year	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11
GDP	4.0	8.5	7.5	9.5	9.6	9.3	6.8	8.0	8.5

India is one of the developing countries in the world. Mostly development and economic strength of the nation is indicated by the GDP growth rate. In India the growth in investment in industries and stock markets, recruiting new employment, increasing trade, development of agricultural and allied sector and service sector, resulted in growth rate of GDP is increased. In the year of 1991-92 the GDP growth rate is only 1.3 %. It is increased to 5.1 % in 1992-93. The trend of GDP growth rate is increasing. It is 7.3 % in 1994-95 and 7.8 % in 1996-97. After that the GDP growth rate is declined in the period of 1997-98 i.e. 4.8 % and in 2002-03 it is 4.0%. In this period some major problems facing by the Indian economy are agrarian crisis, slow down, jobless economic growth etc. After that the GDP growth rate is increased by 9.5 % in 2005-06 and 9.6 % in 2006-07. Since, 2008 many countries faced economic slowdown crisis. Therefore, the GDP growth rate is declined to 6.8 % in 2008-09. In this situation, growth rate of GDP is increased to 8 % in 2009-10 and 8.5 % in 2010-11.

**Table No. 02 Industrial Growth Rate of GDP**

Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1999-00	2000-01	2001-02
Growth Rate %	-0.6	4.0	5.2	10.2	11.6	7.1	4.3	4.8	6.5	3.6
Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Growth Rate % (2004-05 Price)	6.6	6.6	10.3	9.7	12.2	9.7	4.4	8.0	7.9	NA

Indian economy is one of the world fastest growing economies. Industry accounts for 28 % of GDP and employ 14 % of the total work force. The Indian industrial sector underwent significant change as a result of economic reforms of 1991. Economic reform change import restrictions, built of competitiveness, led to privatization of certain public sector industries, elimination of Monopolies and Restrictive Trade Practices (MRTP) Act, Electric power generation has been opened up for private

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investment, investment promoting the small scale sector, liberalized the FDI regime, development of infrastructures, improvement in production of consumers good etc.

Above table No.02 shows the industrial growth rate. In 1991-92 the growth rate of industries growth rate has (-) 0.6 %. After liberalization period the growth rate of industries was increased. In 1992-93 it was 5.2 %, it was 11.6 % in 1995-96. The trend of industrial growth rate declined since 1996-97, it was 4.3 % and in 1997-98 and 3.6 % in 2001-02. It is increased in 206-07 i.e. 12.2 %. Since 2007-08, due to global recession the growth rate of industrial sector is decline. In 2007-08 it was 4.4 % and 7.9 % in 2010-11. But in the economic reforms period industrial sector achieved faster growth. It's positive effect is the increase in employment opportunities of skilled and non skilled workers.

**Table. No .03. GDP of Agricultural and Allied Sector (%)**

Year	1951	1965	1976	1985	1991	1999	2007	2009	2010	2011
Percentage of GDP of Agricultural	52.2	43.6	37.4	32.8	28.3	24.4	17.4	15.7	14.6	14.2

Indian agricultural is the most important sector for the economy. It contributes to the GDP, share in employment, share in internal and external trade, supply of food grain for growing population, raw material for industrial, Agriculture remains the predominate sector in terms of employment and livelihood with more than half of Indian work force is engaged in it as principal occupation.

Since 1960, agricultural has changed in favorable infrastructure, technology, expansion and modern cultivation, service, marketing etc. This resulted in Green Revolution in 19967-68. Due to use of modern technology food grain production and farm yield increased.

In the LPG period agricultural sector improve productivity efficiency by ensuring the increasing exports and value added activities using agricultural produce. Therefore, there is an improvement in demand to domestic as well as international markets. Due to LPG policy the secondary and service sector of the economy is growing very fast. The share of GDP of agricultural is decalined. In 1951 it was 52.2 %, it was declined to 28.3 % in 1991, it was 16.8 % in 2007-08, 14.6 % in 2009-10 and 14.2 % in 2010-11.

Gross Capital Formation (GFC) ( Public sector and Private sector) was 8.5 % in 1990-91 to 1995-96. It is increased 7.9 % in 1995-96 to 1999-2000. It is increased to 11.1 % in 2001-02 and 12.5 % in 2006-07.

**Table. No. 04. GDP Growth Rate of Agricultural**

Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1999-00	2000-01	2001-02
Growth Rate %	-1.65	6.22	4.10	5.10	-1.10	10.10	-2.80	-0.10	-0.40	6.50
Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Growth Rate % (2004-05 Price)	-8.00	10.30	0.1	5.1	4.2	5.8	-0.1	0.4	6.6	

Ref. Data book for DCH, Nov 2011

**Table No. 05. Import - Export growth (in US\$)( 1993-94 price)**

Year	Import Growth (in US\$)	Export Growth (in US\$)
1991-92	-19.4	-1.5
1992-93	12.7	3.8
1993-94	6.5	20.0
1994-95	22.9	18.4
1995-96	28.0	20.8
1996-97	6.7	5.3
1997-98	6.0	4.6
1999-2000	17.2	10.8
2000-01	1.7	21.0
2001-02	1.7	-1.6
2002-03	19.4	20.3
2003-04	27.3	21.1
2004-05	42.7	30.8
2005-06	33.8	23.4
2006-07	24.5	22.6
2007-08	35.5	29.0
2008-09	19.8	13.7
2009-10	-5.0	-3.5
2010-11	20.0	31.6

**Ref. Data book for DCH, Nov 2011**

Above table shows that the Import - Export growth (in US\$ at 1993-94 price). Since 1991, Indian international trade has increased sharply with the contribution of the total trade in goods and service to the GDP rising from 16 % in 1990-91 to 43 % in 2005-06. India's major trading partners are European Union, China, and U.S and United Arab Emirates. Major import commodities include crude oil and related products, machinery, electronic goods, gold and silver, and major export commodities include engineering goods, petroleum products, chemical and pharmaceuticals, gems and jewellery, textile and garments etc.

Share of India's trade in the world was 0.59 % in 1995, it is increased to 1.44 % in 2010. Since 1991, Indian imports and exports is continuously increasing. In 2003-04 total export was 63,843 US \$ million, it is increased to 1,03,091 US \$ million and 2,38,112 US \$ million in 2010-11. Export is increased as well as import also increased. In 2003-04 total import was 78,149 US \$ million, it is increased to 303,696 US \$ million and 340,086 US \$ million (Provisional) in 2010-11.

Above table shows that the Import - Export growth (in US\$ at 1993-94 price). Growth of import was (-) 19.4 US \$ in 1991-92. It is increased to 12.7 US \$ in 1992-93. It is increased to 28 US \$ in 1995-96. Due to global recession (2000) India exports and imports declined by 29.2 % and 39.2% respectively in 2009. Because of 60 % of Indian's export to U.S. and member of European Union. In 2001-01, growth of import is 1.7 US \$ it is increased to 42.7 US \$.

In 2004-05. After 2005-06 the global recession impact was seen on Indian import and also export. In case of import, it declined in 2006-07 i.e. 24.7 US \$ and in 2008-09 it is 19.8 US \$. It is negative in 2009-10 i.e. (-) 5.0) US \$. In case of export growth, in 1991-92 it was (-)1.5 US \$, It is increased to 20.8 US \$ in 1995-96. In the recession period it is mostly declined to (-) 1.6 US \$ in 201-02. Again it increased to during 2002-03 to 2007-08 i.e. 20.3 US \$ and 29.0 US \$ respectively. In 2009-10 it is negative i.e. (-)3.5 US \$.

In the economic reform period import is increased. As a result that the industrial growth is increased. Implementations of modern techniques in the industrial sector, they produced export oriented products and exported them. So therefore, the employment opportunities are increased in the

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liberalization era.

**Table No.06. Sector wise share of employment (Current daily status %)**

Particulars	1983	1993-94	1999-2000	2004-05	2006-07
Agriculture	65.42	61.03	56.64	52.06	50.19
Mining and quarrying	0.66	0.78	0.67	0.63	0.61
Manufacturing	11.27	11.10	12.13	12.90	13.33
Electricity, water	0.34	0.41	0.34	0.35	0.33
Construction	2.56	3.63	4.44	5.57	6.10
Tread, hotel, and restraints	6.98	8.26	11.20	12.62	13.18
Transport, storage and communications	2.88	3.22	4.06	4.61	5.06
Financial insurance and business services	0.78	1.08	1.36	2.00	2.22
Community, Social and personal service	9.10	10.50	9.16	9.24	8.97

Source : Eleventh Five year plan

Above table No.06 shows sector wise share of employment. In case of agricultural sector, the share of agricultural in total employment is 65.42 % in 19982. It is declined to 61.03 % in 1993-94. Since 1993-94, the share of employment of agricultural sector is declined because of economic reforms and LPG, industrial sector and service sector share in to total employment is increased. Due to economic reforms farmers implemented new technology and production techniques in the farm. It result is seen that the employment share of agricultural is declined. In 1999-2000 it was 56.64 % and 52.06 % in 2004-05. It is declined to 50.19 % in 2006-07. But share of self employment in non-agricultural sector is increased to 2.34 % in the period of 1993-94 to 1999-2000 and 5.72 % in 1999-200 to 2004-05.

Share of mining and quarrying was 0.66 % in 1983. It is declined to 0.61 % in 2006-07. Share of manufacturing in the employment is increased. In 1993-94 it was 11.10 %, it is increased to 12.13 % in 1999-2000 and 13.33 % in 206-07. Share of the construction in the employment is notable because in the reforms period more infrastructures is increased. Roads, railway, air port, ports, buildings and expansion of cities and all type of infrastructures developed. Therefore, the share of construction in the employment is increased. N 1993-94 it was 3.63 %. It is increased to 4.44 % in 1999-2000 and 6.10 % in 2006-07.

Secondary sector employment growth rate is increased in the reform period. In 1993-94 to 1999-2000 it was 2.91 % and 4.64 % in 1999-2000 to 2004-05. Share of transport, storage and communication was 2.88 % in 1983. It is increased to 3.22 % in 1994-95 and 5.06 % in 2006-07. Due to industrial and service sector development the share of employment is increased. In case of finance and business services, contribution in the employment is 1.08 % in 1993. It is increased to 2.00 % in 2004-05 and 2.22 % in 2006-07. Total non-agricultural employment growth rate is increased in the period of 1993-94 to 1999-2000 i.e. 2.53 % it is increased to 4.66 % in the period of 1999-2000 to 2004-05.

Per annum growth rate of employment in public sector (organized sector) was (-)0.70 % in 1994-95, it is declined to (-)0.57 in 1994-95 to 2007 and in private sector per annum growth rate of employment was 0.58 % in 1994-95. It is increased to 1.30 % in 1994-95 to 2007. Overall growth rate of employment was (-) 0.31 % in 1994-95 in organized sector. It is declined to (-) 0.03 % in 1994-95 to 2007. Since 1993-94, unemployment rate is increased. In 1993-94 it was 6.06 %. It is increased to 7.31

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% in 1999-2000 and 8.25 % in 2004-05.

The impact of economic reforms is negative on employment generation. Because since 1993-94 the all India unemployment rate is increased.

**Table No.07 Significant Fall in Percentage of Below Poverty Line (%)**

Year	Rural	Urban	Total Combined
1973	56.4	49.0	54.9
1983	45.7	40.8	44.5
1993	37.3	32.3	36.0
2004	28.3	25.7	27.5

Source : Planning Commission

Poverty line is based on the income and consumption levels. A persons is considered poor if his income or consumption level falls below a given minimum level of necessity to fulfill basic needs. Basic needs are different at different time and different country. In India it is necessary to get 2400 calories per persons per day in rural area and 2100 calories per person per day in urban area. The main cause of poverty is less job opportunities and low economic growth rate, high growth rate of population, income inequalities, un equal distribution of land and productive resources, lack of proper implementation of development policies.

In India interrelationship between economic reforms and poverty is most important factor to affecting on reducing the poverty level.. Economic reforms to help improving living qualities of living of poor, it helps to economic development, it helps to increasing tread, it helps to increasing investment and savings rate, it helps to creates new employment opportunities. Therefore, if higher level of economic reforms process should have decline the poverty rate.

According to above table the poverty ratio decreased from 54.9 % to 36.0 % in 1973 to 1993.

In 1993 total combined poverty rate is 36 % it is declined to 27.5 in 2004. Due to economic reforms reduce the poverty rate. But after sixty years of independence till 27.5 % of population is living in the BPL. These poor can't cross the poverty line. The consumption of expenditure of rural and urban poor people is increased. Consumption expenditure of per persons per month was Rs. 281.40 of rural peoples in 1993-94, it was increased to Rs.322.83 in 2004-05 in rural area. In urban area it was Rs. 458.04 in 1999-93, it was increased to Rs 549.75 in 2004-05. But till 27.5 % of peoples are living in the BPL. Due to the poverty and unemployment people are migrant rural to urban area.

Nearly 69 % of population is engaged in agriculture sector. Agriculture is not providing full time job for rural people. So, Government of India started various anti-poverty and employment generation programmers, such as SFDA, MFAL, IRDP, NREP, RLEGP,JRY, EAS, TRYSEM, DWLRA, MWS, SGSY, NREGA. etc. many of which have been in operation for several years and have been generated more employment. Due to over all effects of economic reforms and employment generation programme of India the poverty rate is declined.

#### Conclusion :

The poverty line is called minimum level of food requirement, clothing, footwear, fuel and light, educational and medical requirement etc. are determined for subsistence. The accepted average calorie requirement in India is 2400 calories per person per day in rural areas and 2100 calories per person per day in urban areas. India is a nation with over 300 million poor people. It has declined since last three decade. India is reduced poor population by 27.4 % from 54.9 % in 1973 to 27.5 % in 2004 . Since 199, due to economic reforms the poverty rate is fastly declined. It was 36.0 % in 1993 it is declined to 27.5 % in 2004. In case of rural area it is declined to 37.3 % to 28.3 % and in urban area 32.3 % to 25.7 % in 1993 to 2004 respective. Due to New Economic Reforms it helps to improvement of standard of living across the country. But till 27.5 % of population is living in BPL.

Since 1991, Indian economy moved towards a market based economy. Due to economic reforms and better economic policy accelerated Indian economic growth rate and the growth rate of GDP is increased. In the year 1991-92 the GDP growth rate is only 1.3 % it is increased to 8.5 % in

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2010-11. After liberalization period the growth rate of industries is increased. In 1992-93 it was 5.2 %, It is increased to 7.39 % in 2010-11. Share of India's trade in the world was 0.59 % in 1995, it is increased to 1.44 % in 2010. Since 1991, Indian imports and exports is continuously increased. Since 1993-94 the share of employment of agricultural sector is decline because of economic reforms and LPG, industrial sector and service sector share in to total employment is increased. Due to economic reforms farmers implemented new technology and production techniques in the farm. It resulted in to declined the employment share of agriculture. Per annum growth rate of employment in public sector (organized sector) is declined and employment growth of private sector is increased. In India inter relationship between economic reforms and poverty is most important factor which affects on reducing the poverty level.. Economic reforms help the standard of living of the poor. Therefore, poverty ratio is declined from 36.0 % to 27.5 % in 1993 to 2004. But after sixty years of independence till 27.5 % of population is living in the BPL. Government of India started various anti-poverty and employment generation programmes, such as SFDA, MFAL, IRDP, NREP, RLEGP, JRY, EAS, TRYSEM, DWLRA, MWS, SGSY, NREGA. etc. many of which have been in operation for several years and have been generated more employment. Due to over all effects of economic reforms and employment generation programmes, India's poverty rate is declined.

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