



## AGRICULTURE AND INCLUSIVE GROWTH

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### ABSTRACT

*India's agriculture sector continues to be the lifeline of people and a central factor in the economy's overall productivity. Historically, India's agriculture growth has lagged growth in the overall economy. Consequently, India has just managed to maintain its per capita growth in food and non-food crop production. Increasing profitability in agriculture through higher productivity has been an important goal in developing countries like India. It has become relevant in recent years due to limited scope for expansion of arable land. Increasing yield to their technically highest level may be feasible, through adequate investment in infrastructure and technology i.e. irrigation, land development, storage, markets, etc. Besides appropriate pricing of inputs and outputs, availability of credit and extension services would facilitate access to available technology, like most of other developing countries; India has predominantly been an agrarian economy, with agriculture sector contributing the largest share to gross domestic product and employment. Under the colonial regime, Indian agriculture was geared towards the production of commercial crops (tea, coffee, rubber, cotton, etc.). After independence, India depended heavily on imports of food grains as it inherited a stagnant, low-productivity, food-crop sector. This paper analyses the dynamics of structural transformation of the Indian economy and major drivers of transformation, giving an overview of the past achievements and the future challenges in Indian agriculture, finally identifying the key policy issues and strategies to accelerate sustainable growth in the agriculture sector in the country.*

**Keywords:** Sustainable Agriculture, Inclusive Growth, Dietary Consumption, Institutional Credit, Agricultural Price Policy.

### Introduction

At the time of independence, the contribution of agriculture in total GDP was more than 5.5 per cent and about 70 per cent of the population was dependent on the agriculture sector for their livelihood. In the post-independence era, stagnant production, low productivity, traditional technology, and poor rural infrastructure were the major challenges for the

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Government. It was not surprisingly that food self-sufficiency became a key national policy goal. To achieve this goal, agricultural development received the highest attention and in the First Five Year Plan, about 17.5 per cent of the plan outlay was allocated to agriculture and about 22 per cent to irrigation, multi-purpose irrigation, and power projects. While in the Second Five Year Plan, the emphasis shifted from labour-intensive agriculture and small scale production to large-scale capital-intensive heavy industry. Consequently, food grains production during the first three Five Year Plans remained stagnant, and India faced crisis in food production. The introduction of high yielding varieties i.e. HYV, technology, commonly known as Green Revolution, in mid-1960s yielded spectacular results and the production of food grains increased from about 83.4 million tons in the triennium ending (TE) 1964-65 to 104.4 million tons in TE 1971-72. The country became one of the largest producers of many agricultural commodities such as rice, wheat, pulses, fruits and vegetables, etc., thus being self sufficient in staple foods. Today, about 407 million people in India live below poverty line and about 42 per cent of all children less than 5 years suffer from malnutrition. Increase in demand for food due to increasing population, rising income levels, and other demographic changes will require continuous increase in agricultural production. Agriculture and allied Sectors are critical sectors for inclusive growth of India, says India's Finance Minister P Chidambaram. The agriculture growth rate for the 11<sup>th</sup> Plan has been targeted at 3.3 per cent as compared to 2.2 per cent achieved during the 10<sup>th</sup> Plan period, the Finance Minister added. The Finance Minister was making his introductory remarks during his first pre-budget meeting with stakeholders from agriculture sector.

### **Agriculture: The backbone of Indian economy and food security**

India is principally an agricultural country. The agriculture sector accounts for about 18.0% of the GDP and employs 52% of the total workforce. There is a continuous steady decline in its contribution towards the GDP, and the agriculture sector is losing its shine and anchor position in Indian economy. The problems with which the Indian agricultural scenario is burdened in present times are many but this in no way undermines the importance of the sector, and the role it can play in the holistic and inclusive growth of the country. Agriculture contributes significantly to export earnings and is an important source of raw materials for many industries. Its revival is being taken on priority, through various interventions at different levels, because of its potential in reducing poverty and food insecurity. The global experience of growth and poverty reduction shows that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture. Agriculture is and will continue to be the engine of the national growth and development.

India's agriculture growth been very Slow. In fact, long-term average growth in agriculture has been close to 2%. India's population has been growing at 1.4%. Consequently<sup>2</sup>, India has just managed to maintain its per capita growth in food and non-food crop production. Given

such a precarious demand-supply position, one year of drought leads to food prices shooting up. This is what we are seeing at this time of the year. With growth in per capita incomes, the supply constraints will hit India even harder in the future.

To begin with, agriculture has received only 7% of budgetary allocation in the recent past, down from about 20% in the 1980s. Considering the demand-supply imbalances and its importance as a source of livelihood for the rural economy, the budgetary allocation to agriculture should improve. On top of this, investment in the agriculture sector is 2.3% of gross domestic product. With an investment to GDP ratio in the country of more than 35%, the Finance Minister has to engage the private and public sector in higher investments in agriculture. The long-term target should be close to 4%. The central government has limited scope to contribute to agricultural reforms through the budget as agriculture is largely a state subject.

India has every reason to push for agricultural research and disseminate such knowledge and practices to farms across the country. If the growth story in India is to be inclusive, farm productivity has to rise for income levels to increase. The research should focus on better farm practices, optimal use of fertilizers and pesticides, productive seed varieties i.e. GM crops, multiple crops in the same land etc. Equally important is the dissemination of such knowledge to farmers. Another area which needs an urgent revamp is the supply chain. India's vegetable productions increased by 5% this fiscal year but vegetable prices have increased a lot. Better crop planning, demand estimation, transportation, warehousing facilities i.e. both normal and cold storage should be targeted and achieved. The government can also design tax incentives like tax holidays for setting up agricultural supply chains to boost private infrastructure development. The government has taken measures in the last few budgets to increase credit disbursement to the farm sector, resulting in a tripling of lending in five years to about 2.5 lakh crores. It has also promoted crop insurance; however, crop insurance has generally seen dismal results in countries across globe. As a better risk management tool, the government should promote weather insurance primarily due to its transparency, objectivity and ease of administration. These measures call for increased outlays. Agriculture needs to be accorded higher importance in the nation's development. India should have hard targets to increase productivity in the farm sector. At the same time, wastage should be removed. It would be a good idea to have a national distribution channel. However, for this, private sector capital and technology should be encouraged.

### **Policies for Raising Agricultural growth**

There are three goals of agricultural development.

1. Achieve 4% growth in agriculture and raise incomes by increasing productivity, diversification to high value agriculture and rural non-farm by maintaining food security.
2. Sharing growth (equity) by focusing on small and marginal farmers, lagging regions, women etc.
3. To maintain sustainability of agriculture by focusing on environmental concerns.

The policies needed to achieve the above goals. There are basically seven factors which need focused reforms in the short and medium terms. These are: (a) price policy; (b) subsidies And investments; (c) land issues; (d) irrigation and water management; (d) Institutions have to be developed in all these aspects .

### **(a) Price Policy**

The major underlying objective of the Indian government's price policy is to protect both producers and consumers. Currently, food security system and price policy basically consists of three instruments:

- 1) procurement prices/minimum support prices,
  - 2) buffer stocks
  - 3) public distribution system i.e. PDS.
- One criticism of procurement policy is that it is limited to few crops and few states.
  - The cost of cultivation is increasing due to increase in input prices. Particularly agricultural wages have increased due to National Rural Employment Guarantee Scheme i.e. NREGS in several states. They want to resort to mechanization due to labor shortages in peak season.
  - Farmers respond to prices as shown by increase in yields of wheat in Punjab and other states with significant increase in MSP.
  - Provision of electricity has to be raised in order to exploit ground water in Eastern region. In the context of globalization, tariff policy becomes important for agricultural commodities.

In other words, it is important to monitor exports, imports, global supply and demand and fix tariffs accordingly. There is a need to balance between producer prices and consumer prices by careful calibration of minimum support prices and tariff policy i.e. import duties.

### **b) Subsidies and Investments in Agriculture:**

One major reform needed in agriculture sector relates to reduction in subsidies and increase in investments. Agricultural subsidies are fiscally unsustainable and encourage misuse of

resources, leading to environmentally malignant developments. There is trade-off between subsidies and investments. Public investment declined from 3.4% of agri.GDP in the early 1980s to 1.9% in 2001-03. At the same time subsidies increased from 2.9% to 7.4% of agri.GDP. Rise in public and private investment is crucial for enhancing agricultural growth. Public sector investment has increased significantly during this period. We need 16% agricultural GDP as investment in order to get 4% growth in agriculture. In this context, the announcement of Bharat Nirman programme in 2005 by the Government of India in order to improve agriculture and rural infrastructure is in the right direction. However, the pace of this programme has to be improved.

**(b) Land Issues:**

Some argue that small size of farm is responsible for low profitability of agriculture. Chinese and the experience of other East Asian countries show that it is not a constraint. On land market, the Report of the Steering Committee recommended the following. Small farmers should be assisted to buy land through the provision of institutional credit, on a long term basis, at a low rate of interest and by reducing stamp duty.

At the same time, they should be enabled to enlarge their operational holdings by liberalizing the land lease market. The two major elements of such a reform are: security of tenure for tenants during the period of contract; and the right of the land owner to resume land after the period of contract is over. Basically, we have to ensure land leasing, create conditions including credit, whereby the poor can access land from those who wish to leave agriculture.

**(d) Irrigation and Water Management:**

Water is the leading input in agriculture. Development of irrigation and water management are crucial for raising levels of living in rural areas. Major areas of concern in irrigation are: decline in real investment, thin spread of investment, low recovery of costs, decline in water table, wastages and inefficiencies in water use and, non-involvement of users Both investment and efficiency in use of water are needed.

Major areas of reforms needed in irrigation are: stepping up and prioritizing public investment, raising profitability of groundwater exploitation and augmenting ground water resources, rational pricing of irrigation water and electricity, involvement of user farmers in the management of irrigation systems and, making groundwater markets equitable. New watershed guidelines based on Parthasarathy Committees recommendations were accepted by the Central Cabinet in March 2009. The implementation has to be stepped up in order to obtain benefits in rain fed areas. National Rain fed Area Authority has big responsibility and, water conservation by the community is needed under water management.

## Equity in Agriculture

Regional Disparities: Growth rates in agriculture GDP were high for many states during the period 1984/85 to 1995/96. However, growth decelerated in all the states except Bihar during the period 1995/96 to 2004/05 (GOI, 2007). The deceleration is the highest in the states with greater proportion of rain-fed areas mainly in Gujarat, Rajasthan, M.P., Karnataka and Maharashtra. Recent experience, however, shows that Gujarat recorded the highest growth of around 9 per cent during 2000/01 to 2007/08. During this period, six states viz., Gujarat, Rajasthan, Himachal Pradesh, Andhra Pradesh, Chattisgarh and Bihar recoded more than 4% growth per annum. Public investment in infrastructure like irrigation, power, roads, watersheds, check dams, technology like BT cotton and diversification in agriculture played crucial roles in raising agricultural growth in Gujarat.

## Conclusion

The three key roles agriculture can play in promoting inclusive growth

- 1) stimulating economic growth,
  - 2) reducing poverty,
  - 3) creating employment
- Ways in which agriculture can contribute to or pose a challenge to achieving more inclusive growth through any of these links vary depends on country context, and within country over time

Descriptive tools are useful for what question, but additional tools are needed to address why questions? Some of the why question tools we've discussed: binary or categorical regressions, convergence models, spatial regressions

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