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Agriculture and Inclusive Growth in India

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ABSTRACT

The agriculture sector is playing a crucial role in the overall growth of the Indian economy despite its structural shifts towards the service sectors during recent decades. Although the contribution of agriculture has declined drastically from 55.1% in 1950-51 to 17.4% in 2016-17,this sector remains as a major source of employment in the rural sector. Improving agricultural productivity has been the main strategy for economic development and poverty alleviation for several decades .However ,it has now been realized that the share of agriculture in national output declines much faster than the share of agricultural employment in total employment and widening the income disparity between agricultural non agricultural sectors. The government aimed at promoting inclusive growth as high national income alone did not address the major challenges of the economy .This paper looks into the challenges in attaining inclusive growth and development in agricultural sector.

KEYWORDS: Inclusive growth, agricultural productivity, income disparity.

OBJECTIVES

- To investigate the long run relation between agriculture and economic growth
- To find out the challenges in attaining agricultural inclusive growth.

METHODOLOGY

The study uses secondary data from various sources like Central Statistics Office, Agricultural Census, RBI

1. INTRODUCTION

The experience of developed countries show the transfer of labour force from agriculture to non agricultural sector , in particular to the manufacturing sector during their early stages of growth and development. This resulted in enhanced productivity, growth in agriculture, and hence higher income. However, India’s manufacturing sector witnessed volatile growth and its share in GDP has almost remained stagnant at around 16 per cent for the last two decades. Further, given the fact that the pattern of current economic growth is driven by the services sector, labour absorption outside agriculture will be slow unless rural education improves and the people move out of farming.

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Alternately, farming needs a fillip so that it can connect to markets as avenues of growth, which will sustain that growth. For this, agriculture needs to be empowered so as to function as a market led commercial enterprise.

The agriculture sector is crucial for achieving objectives of agriculture and inclusive growth. At the time of independence, the share of agriculture in total GDP was more than 55 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 Government.

Lack of progress in agricultural development and limited opportunities available for the rural poor in non-farm activities have forced the rural poor to migrate to urban centres in search of productive employment. The need to strengthen rural economies and ensure that the rural poor can benefit from growth processes is fundamental to inclusive growth.

STRUCTURAL CHANGE IN INDIAN ECONOMY

Indian economy when it embarked on the development process after Independence in 1950, with about 60 per cent of GDP accounted for by agriculture, industry contributing about 13 and services about 27 per cent. In respect of the share of labour force in different sectors: agriculture accounted for about 75 per cent, industry for about 11 and services 16 per cent of total employment in 1950, in India. What India has achieved in terms of structural transformation in income in a span of years is much quicker than what developed countries have taken in the historical course. The share of agriculture in GDP in India has declined from around 60 per cent in 1950-51 to 36.38 per cent in 1983 and further declined to 14 per cent in 2010-11. That of industry increased from 13 to 24 and reaches to 28 per cent and of services from 28 to 40 and further rises to 58 per cent. The difference is while most developed countries entered the phase of predominance of services in their economies after going through a phase of industrialisation, India's industry failed to show similar growth and it arrived into service sector dominance straight away. The share of population depending on agriculture for its livelihood consists of landowners, tenant farmers who cultivate a piece of land, and agricultural labourers who are employed on these farms. Agricultural output has been volatile over the past 10 years, with annual growth ranging from 8.6% in 2010-11, to -0.2% in 2014-15 and 0.8% in 2015-16.

AGRICULTURE DEVELOPMENT AND POVERTY REDUCTION

Agriculture contributed a little more than 51 per cent of total output of India's economy in early 1950s. Its share has steadily declined over time Transformation of Indian economy from agriculture to non-agriculture got a strong push after 1980-81. These changes are consistent with the processes of economic growth and development experienced in developed countries. The proportion of the workforce dependent on agriculture has also declined over time but the rate of decline has been much slower as compared to its share in the GDP. In 1952, agriculture was the principal occupation for more than 72 per cent of India's labour force.

The decline in agriculture's share in work force is much lower than the decline in its share in output. The slow absorption of the workforce in the non-agricultural sector raises concerns

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when seen along with the change in the structure of the national gross domestic product. The asymmetry
between the income and the employment shares between agricultural and non-agricultural sectors
implies a widening gap between the incomes of agricultural and non-agricultural workers. This has become a major source for growing rural-urban divide and inter-sectoral disparities.

TRENDS OF AGRICULTURAL GDP

Agricultural growth has been fairly volatile over the past decade, ranging from 5.8% in 2005-06 to 0.4% in 2009-10 and -0.2% in 2014-15. Such a variance in agricultural growth has an impact on farm incomes as well as farmers' ability to take credit for investing their land holdings.

GROWTH RATE OF GVA AT BASIC PRICE AT CONSTANT (2011-12) PRICES (IN %)

INDUSTRY	2012-13	2013-14	2014-15*	2015-16#	2016-17 @	2017-18 (1ST AE)
I. Agriculture	1.5	5.6	-0.2	0.6	6.3	2.1
II. Industry	3.3	3.8	7.0	9.8	6.8	4.4
Mining & quarrying	0.6	0.2	9.7	13.8	13.0	2.9
Manufacturing	5.5	5.0	7.9	12.8	7.9	4.6
Electricity, gas & water supply	2.7	4.2	7.2	4.7	9.2	7.5
Construction	0.3	2.7	4.3	3.7	1.3	3.6
III. Services	8.3	7.7	9.8	9.6	7.5	8.3
Trade, hotels, transport, communication & services related to broadcasting	9.8	6.5	9.4	10.3	7.2	8.7
Financial Services, real estate & professional services	9.7	11.2	11.0	10.9	6.0	7.3
Public administration, defence and other services	4.3	3.8	8.3	6.1	10.7	9.4
GVA at basic price	5.4	6.1	7.2	8.1	7.1	6.1

TABLE NO 1

*: Third Revised Estimates,#:Second Revised Estimates,@:First Revised Estimates.
AE: Advanced Estimate

SECTORAL SHARE IN GVA AT BASIC PRICE AT CURRENT PRICES (2011-12 SERIES) (IN %)

INDUSTRY	2011-12	2012-13	2013-14	2014-15*	2015-16#	2016-17 @	2017-18 (1ST AE)
I. Agriculture	18.5	18.2	18.6	18.2	17.7	17.9	16.4
II. Industry	32.5	31.8	30.8	30.0	29.8	29.3	28.5
Mining & quarrying	3.2	3.1	2.9	2.7	2.4	2.4	2.3
Manufacturing	17.4	17.1	16.5	16.3	16.8	16.8	16.3
Electricity, gas & water supply	2.3	2.3	2.5	2.5	2.7	2.6	2.5

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Construction	9.6	9.2	8.9	8.5	7.9	7.4	7.4
III. Services	49.0	50.0	50.6	51.8	52.5	52.8	55.2
GVA at basic price	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE NO 2

*:Third Revised Estimates (New Series); #:Second Revised Estimates;@:First Revised Estimates; AE: Advanced Estimates
Source: Central Statistics Office.

We see a declining trend in both in terms of growth rate as well as sectoral share in Gross Value Added (GVA). The growth rates of agriculture & allied sectors have been fluctuating at 1.5 per cent in 2012-13, 5.6 per cent in 2013-14, (-) 0.2 per cent in 2014-15, 0.7 per cent in 2015-16 4.9 per cent in 2016-17 2.1 per cent in2017-18. The uncertainties in growth in agriculture are explained by the fact that more than 50 percent of agriculture in India is rainfall dependent which aggravate the production risks.

CHALLENGES FACED IN ATTAINING AGRICULTURAL INCLUSIVE GROWTH

INCREASE IN SMALL HOLDINGS

140 million hectare of land is used as agricultural area, as of 2012-13. Over the years, this area has
been fragmented into smaller pieces of land. The number of marginal land holdings (less than one hectare) increased from 36 million in 1971 to 93 million in 2011. Marginal and small land holdings face a number of issues, such as problems with using mechanisation and irrigation techniques.

AGRICULTURAL HOLDINGS (MILLIONS)

Holding	1970-71	1980-81	1990-91	2000-01	2010-11
Marginal	36	50	63	75	93
Small	13	16	20	23	25
Medium	19	21	22	21	20
Large	3	2	2	1	1
All Sizes	71	89	107	120	138

TABLE NO 3

Marginal: up to 1 hectare, Small: 1-2 hectares, Medium: 2-10 hectares, Large:over 10 hectares
Sources: Agriculture Census 2011

ACCESS TO AGRICULTURAL CREDIT & INSURANCE

Access to agricultural credit is linked to the holding of land titles. As a result, small and marginal
farmers, who account for more than half of the total land holdings, and may not hold formal land

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titles, are unable to access institutionalized credit. Farmers with land holdings of less than a hectare primarily borrow from informal sources of credit such as moneylenders (41%), whereas those with land holdings of two or more hectares primarily borrow from banks (50% or more).

LAND HOLDINGS AND SOURCES OF AGRICULTURAL CREDIT (AS OF 2013)

SIZE OF LAND (HECTORS)	COOPERATIVE SOCIETY	BANK	MONEY LENDERS	TRADERS	RELATIVES	OTHERS
0-1	10%	27%	41%	4%	14%	4%
1-2	15%	48%	23%	2%	8%	6%
2-4	16%	50%	24%	1%	6%	4%
4-10	18%	50%	19%	1%	7%	6%
10+	14%	64%	16%	1%	4%	2%

TABLE NO 4

Report of the Committee on Medium-term Path on Financial Inclusion, Reserve Bank of India; PRS.

AVAILABILITY OF WATER

Currently, about 51% of the agricultural area cultivating food grains is covered by irrigation. The
rest of the area is dependent on rainfall (rain-fed agriculture). Sources of irrigation include groundwater (wells, tube-wells) and surface water (canals, tanks).

SLOW REDUCTION IN THE SHARE OF EMPLOYMENT

The decline in agriculture's share in work force is much lower than the decline in its share in output. Agriculture accounts for almost 50 per cent of aggregate employment in India. Employment in agriculture is rural-based but it is depressing to note that in the rural sector the rate of growth of agricultural employment is abysmally low.

POLICIES INITIATIVES BY GOVERNMENT

Government Initiative for inclusion in Agriculture National Agriculture Market (NAM) A Central Sector Scheme for Promotion of National Agricultural Market through Agri-Tech Infrastructure Fund was approved on 2nd July 2015. The Government plans to integrate 585 wholesale markets across India by setting up an online platform and has earmarked Rs. 200 crore for three years from 2015-16 to 2017-18. There will be electronic auctions for price discovery. The impact will be that the entire state will become a market and the fragmented markets within the states would be abolished.

SOIL HEALTH SCHEME

The scheme involves sample collection, sample analysis, training of chemists, staff and farmers, ICT investment. Mobile soil testing laboratories are set up and soil health cards are issued to farmers. On the basis of this card, instead of using Urea or some other fertilizer blindly, a farmer can decide the exact needs of his soil. This may not only reduce his cost

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significantly, but also save the health of his/her soil. And this may help in identifying the best crop suited for his soil.

PRIME MINISTER KRISHI SINCHAYEEYOJANA (PMKSY)

PMKSY is to achieve convergence of investments in irrigation at the field level, expand cultivable area under assured irrigation (Har Khet ko pani), improve on-farm water use efficiency to reduce wastage of water, enhance the adoption of precision-irrigation and other water saving technologies

Price stabilisation fund The government has established a price stabilization fund with a corpus of Rs. 500 cr. Commodities will be procured directly from farmers or farmers' organizations right at the farm gate or mandi levels and be made available at reasonable prices to consumers using the fund Agriculture credit.

FINDINGS

Agriculture plays a crucial role in poverty alleviation in any developing country. Even though the contribution of agriculture to GVA have declined drastically distribution of work force in agriculture sector is declining at much slower rate still having the largest share of employment.
There exist a long term relationship between agriculture and economic growth.
Although there policy initiatives by the government, inclusive growth have been penetrating at a very slow rate.

2. CONCLUSION

Major challenge for India is to make its agricultural sector more prolific and more sustainable. Agriculture still accounts for 17% of India's GDP and about half of total employment. Two-thirds of India's population depend on agriculture and related activities for their livelihood. In the last two decades, agriculture-related growth is sluggish as compared to in non-agricultural sectors, contributing to the widening of inequality.
To shift public expenditures towards productivity enhancing investments that support the long-term competitiveness of the agriculture sector, improve agriculture innovation systems, including research and development, technology adoption and transfer, education, and farm training and extension services. This huge task cannot be done by government alone. Industry and civil society must partner with government to drive inclusive growth. Issues like income disparities and growing aspirations of the people must be collectively resolved by the government and society.

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