

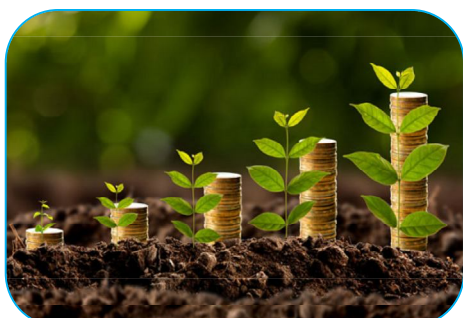


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ROLE AND IMPORTANCE OF AGRICULTURAL POLICY FOR THE DEVELOPMENT OF INDIAN ECONOMY

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ABSTRACT:

My paper deals with agricultural policies adopted from time to time in India and the context in which they were adopted. My acquaintance with agricultural situations in other Most Seriously Affected Countries (MSA) is very limited, and I felt that one should refrain from expressing views on countries and people with whom one's emotional and intellectual involvement is, at best, remote. The theme of this session covers a wide field - The Relationship Between

Agricultural Policy, the Economy and Economic Policy, on the National Level in Different Economic Systems and at Varying Stages of Economics Development. I have taken the view that a detailed account of the agricultural policy of a country, describing the nature of conflicts and the choices available in the context of specific situations, and a critique of the decisions made by the policy-makers, will implicitly serve the purpose of the program; and that it is not necessary to refer every time to the varieties of relationships mentioned in the theme. For example, during the latter half of the 1960's, when the food situation was critical and the High Yielding Varieties of cereals became available, the policy-makers in India faced a conflict; The adoption of HYV's would augment food production but was likely to aggravate inter-class and inter-regional disparities. India's agricultural policy, and perhaps that of most LDC's, has often been criticised for its "neglect" of agriculture. The criticism acquires legitimacy because of what is generally characterised as the "failure" of agriculture. The alleged failure may have a reference to either the growth of agricultural production or the promotion of social justice, or both. It is, therefore, necessary to get a more precise idea of the performance of Indian agriculture in both these fields and identify policies related to this performance.

KEYWORDS: *agricultural policies , Most Seriously Affected Countries.*

INTRODUCTION

Indeed, in years to come, India will have to do much better than its best performance in the past. According to the "medium" projection, by the end of the century India's population will be about 1000 million. Presumably reflecting the world

to save, whom to abandon" life boat analogy, he has warned: "India, along with some of its neighbours in South Asia, is seldom considered a candidate for salvation". Let us revert to the post-Independence period, and briefly review agricultural policies germane to agriculture's performance. We shall confirm our review of agricultural policy in India to a few specific issues which have figured prominently

These may be listed as below:

- (a) inadequacy of plan investment for agricultural development,
- (b) price policy and terms of trade,
- (c) urban bias,
- (d) "Green Revolution" and in egalitarian growth, and
- (e) failure of agricultural policy to make significant contribution to the reduction in rural poverty and unemployment.

opinion and employing "whom" | in the literature on the subject. |

PLAN EXPENDITURE ON AGRICULTURE

The "neglect" of agriculture for which the Indian policy-makers have often been criticised is generally identified with the failure to allocate an adequate share of public expenditure to agriculture. Every one was happy that agriculture was given pride of place in India's First Five Year Plan (1951-1956). The share of agriculture and community development in the Public Sector¹ Outlay in the First Five Year Plan was 15.1 per cent, as against 6.3 per cent for industries and minerals. The Second Five Year Plan reversed the ranking by allocating 14.4 per cent to "industries" and 11.8 per cent to "agriculture". Apart from this, the major sin of the Second Plan was alleged to be its preference for "rapid industrialization with particular emphasis on basic and heavy industries". We shall not discuss here whether for a country of India's size and geo-political situation it would have been wiser to ignore the establishment of basic industries. Apart from that, the accent on rapid industrialization does not ipso facto prove neglect of agriculture; modernization of agriculture is incompatible with such a sectoral view. In any case, the importance attached to a sector should not be judged by its share in the public sector outlay. The absolute quantum of public expenditure on agriculture in the Second Plan was raised to Rs 568 crores from Rs 357 crores in the First Plan. Besides, it may as well be argued that the First Plan "neglected" industrial development, as the planners were not yet ready with a plan of industrial development and allocated to it a meagre share of 6 percent. Had the First Plan provided for a steel mill or better still a few power generation units and fertiliser factories, the allocation to "industries" in the First Plan would have been larger and the appearance of reversal of priorities would have been avoided. Besides, industry-agriculture linkages make it inappropriate to talk in terms of "shares" of sectors in public expenditure. What is relevant is investment for agriculture, rather than investment in agriculture. Our contention is not that investment on agriculture has been adequate. Our submission is that the charge on inadequacy needs a more substantial proof. There is no sector of Indian economy which has not – perhaps justifiably – complained about inadequacy of public investment, be it power, transport, family planning, education, social services, and even coal, cement and steel. Scarcity of investible resources is chronic in all developing countries and no sector of the economy should use inadequacy of funds to explain away its poor performance. In fact, it should look inward and examine whether it has used the resources made available to it efficiently. This imposes an unpalatable self-scrutiny and needs more rigorous analysis than a populist demand for more funds.

AGRICULTURE PRICES

One of the most persistent criticisms of agricultural policy in India and other poor countries is that they have been deliberately "forcing producers' prices down". In 1964, T. W. Schultz asked: "Why are so many poor countries (including India) placing a low economic value on their farm outputs?" Edward Mason wrote that the prices of food grains and some other farm outputs were held down by Government action. Michael Lipton asserted "farm prices have been systematically kept down since 1960 in India". He reiterates the charge in his most recent article and quoting S. R. Levis avers that in Pakistan, in the early 1960's, producers' food prices were forced down by as much as two-thirds of their real value. An exactly opposite view is expressed by Walter Falcon: "With the new wheat-fertilizer technology and a government-guaranteed price in West Pakistan almost double the world market price at official exchange rate, wheat was extremely profitable. The Government tied up more than \$75 million in supporting the prices of wheat. These funds delayed, perhaps even precluded, other expenditures that were more productive". Writing about the same time as Lipton, Keith Griffin [5] complains that "in many cases the cost of innovation has been heavily subsidised by the government. The innovating farmers have not only high prices for their products but also low prices for their inputs". And more specifically, "at the moment, however, the governments of several countries, e.g. Pakistan and India, are supporting domestic grain prices at levels which exceed world prices by a considerable margin". Whom should one believe? In any case, it seems that both those who allege high prices and those who allege low prices are agreed that LDC's are following a wrong price policy. While considering the question of price policy it is necessary to examine carefully the price effect on (a) production and

(b) income distribution. While it is true that a change in the relative prices of two substitutable crops is likely to have a favourable effect on the production of the crop in whose favour the price is changed, it will simultaneously have an adverse effect on the production of the competing crop. In other words, the aggregate supply elasticity for the agricultural sector as a whole is considerably lower than that for individual commodities. Thus in a situation such as that prevailing in India where almost all agricultural commodities are in short supply - and also the critical inputs, including land - price is not an appropriate. More important for our present purpose is the income distribution effect of the increase in food grains prices. Mellor has shown that an increase in food grain prices actually reduces the income of small farmers belonging to the lowest three deciles of expenditure classes, as they are not purchasers of food grains. (Many Western writers probably do not know that the majority of rural households are net purchasers of food, otherwise they would not have confused consumer bias with urban bias). Income transfers resulting from increased prices of food grains cause the largest declines in the income of low income consumers and the largest increase in the income of high income producers instrument for augmenting agricultural output.

URBAN BIAS

Before commenting on urban bias in India's (and all LDC's) agricultural policy, let us admit that such a bias does exist in several fields of Indian policy, particularly in health, education, and organised labour. In regard to agricultural policy, however, the allegation of urban bias seems to be based on misinformation. On the count of deliberate under pricing of food grains we have adduced enough evidence to dispel the impression of urban bias. We shall here deal with only one more misleading example of urban bias, namely "encouraging farmers to devote more resources - especially land - to rich men's food". Specific instances mentioned are shift from millets to rice (sic), maize to wheat and to milk production. Apart from the facts, which we shall presently cite, it may be mentioned that the most potent factor influencing changes in the cropping pattern in recent years has been the availability of cost reducing technology. In India, the highest increases in agricultural productivity have taken place in wheat and bajra (bulrush millet) - the latter being the most important millet. The rate of increase in the production of bajra has been markedly and consistently higher than that in rice. So much for the shift from "millets to rice". As for maize, the rate of increase in its acreage has been next only to wheat. True, hybrid jowar (Sorghum) has not been a success, and in pulses there is complete stagnation. The failures in these crops are mainly attributable to the non-availability of suitable high yielding varieties. According to our information, however, neither funds nor scientific efforts have been lacking for evolving suitable varieties. Milk no doubt is a rich man's food at present, but in areas where milk production has increased, consumption of milk in poor households has increased both in rural and urban households. Milk consumption is not a mere urban luxury; it is an important source of income and employment to the poor households in rural India and a valuable source of animal protein in near future, if the discernible trend in lowering the cost of production and distribution of milk is maintained. There would be little hope for the small farmers if they were restricted to growing poor man's food. With state-sponsored irrigation, extension and marketing facilities, they should be encouraged to grow what is most profitable for labour intensive small-scale farming. In India cattle are fed with fodder and oilcakes (and seldom with inferior cereals) and the encouragement of milk production does not involve any significant diversion of land capable of yielding more calories (or nutrition) per acre of land. It may also be pertinent to mention that in Kerala whereas the per capita availability of rice from internal production remained most stationery, the production of tapioca (poor man's potato) increased from 1.6 million tones in 1961-62 to 5.4 million tonnes in 1971-72. An authentic report from Kerala states : "The drop in the availability of cereals (mainly rice) would have produced under-nourishment among the low income families, say, even the middle class families, who could not afford to buy sufficient quantities of rice at the going price. The sharp increase in the output of tapioca has not only averted a deterioration of the situation, but even improved the average level of calorie intake in the State". It adds "It may be presumed that, by and large, the increase in the production of tapioca, has made a greater impact on the diet of the lower income households".

The Green Revolution: A Bimodal Development

The two successive severe droughts in 1965-66 and 1966-67, gave rise to international apprehensions about India's capacity to feed her huge and growing population. The harshest critics recommended the application of the "triage" formula to countries like India which were considered beyond redemption. Fortunately for the country, at this very time the High Yielding Varieties (HYV) of cereals became commercially available. India's policy-makers plumped for it with alacrity. The Pearson Report characterized the speedy adoption of HYV as "one of the authentic marvels of our time". Others described the process of agricultural transformation as "one of the most amazing stories of our time". While this was the general observation, the economists, who had neither anticipated the Green Revolution nor played any part in its adoption by way of even policy advice, did not take kindly to it. Highest priority had to be assigned to augmenting food production and the HYVs offered an excellent means of doing so. The possibility of its egalitarian effects - assuming that these could be clearly perceived at that time - had to be weighed against the obvious in egalitarian effects of food shortage and high prices, under which the poor suffer the most. Did the adoption of HYV technology increase food production? It is contended that "the so-called Green Revolution has failed to raise the overall rate of growth of agricultural output in the country above the level achieved in the 15 years prior to 1965". It is also asserted that "despite technological changes, the growth of agricultural output in India slowed down in the 1960's compared to 1950's". Such statements are, at best, half truths based on selective time spans. Let us accept the suggestion that "the comparison of output between successive peaks (in production) would give an idea of output growth adjusted for weather". Nanumantha Tao maintains "there are reasons to believe that even without the Green Revolution, the growth rate would have been maintained at 2-2.5 per cent per annum". The reasons he adduces are: "The growth of population at about 2.2 per cent per annum has been exerting an upward pressure on prices of agricultural commodities. This would have provided incentives to the farmers for expanding output and would have induced the Government to invest in irrigation, fertilizers, etc". Apart from the fact that under static technology, high prices have little impact on aggregate production, it is surprising that one so deeply concerned with the poverty of the Indian masses should recommend, or prefer to rely on, high food price path of growth of production instead of welcoming the cost reducing technology for achieving increased production! Besides, his argument that "some of these inputs including fertilisers which were known before the onset of the Green Revolution would have been used at a certain rate even in its absence" is equally questionable. As is well known, application of higher doses of fertilisers to the traditional seeds was unremunerative, since it resulted mainly in vegetative growth and subsequent lodging and did not increase output. Thirdly, there is clear evidence to indicate that the growth in cropped area was slowing down, from 2.1 per cent per annum during 1949-50 - 1960-61 to 0.6 per cent during 1960-61 - 1970-71. Under the circumstances, adoption of the HYV's was the only solution to the food problem of the country. Many studies of the distribution of gains of technological changes are vitiated by the fallacy of single factor analysis. There are at least two components which determine the additional gains of different classes of producers over time: (1) change in production and (2) change in prices.

There could be a third, namely changes in the shares of different classes of growers in the total area cultivated. The second and the third have nothing to do with the technological change per se. They reflect the effects of (imperfect) market structure or market behaviour of different classes of growers and the land market. There is substantial evidence which indicates that big farmers obtain much higher prices for their produce either because of their bargaining power or capacity to withhold stocks in a rising price situation. But even if the same price is obtained by all classes of producers, the gain from the price rise which was substantial in the post-Green Revolution period and had nothing to do with it - would be much larger for the big farmers because of the higher percentage of their marketable surplus.

INPUT REVOLUTION

The contribution of HYV technology should not be judged exclusively in terms of the increase in output which is often distorted by the vagaries of the weather. Its impact on the behavioural response of farmers judged by a sharp step-up in investments in irrigation and increased purchases of modern inputs is an equally relevant criterion for judging its contribution. It is estimated that expenditure by agriculture on modern inputs in real terms (1960-61 prices) increased from Rs 207 million to Rs 734 million during the first decade ending 1960-61. In the second decade ending 1970-71, it went up to Rs 4,355 million and has further gone up to Rs 6,181 million in 1972-73. The percentage of expenditure by agriculture on modern inputs to total expenditure on all inputs at constant (1960-61) prices, has increased sharply from 6.19-21% . There is, therefore, no doubt that the Green Revolution has made a significant contribution to the modernisation of Indian agriculture. Reverting to the issue of the egalitarian effects of the strategy of agricultural development in India, let us accept that it has led to the acceleration of (a) inter-regional and (b) inter-class disparities. When one refers to the aggravation of inter-class or inter-regional disparities in the context of the Green Revolution, let it be clearly understood that the Green Revolution per se has not made any class or region poorer than what it was or would have been in its absence. As a matter of fact in several regions many small farmers have adopted the HYV's and improved their incomes. In many districts of Punjab, for example, the adoption rate has been as high as 90 per cent. Besides, the fact that HYV's are technologically - as distinct from economically - neutral to scale has lowered the threshold of non-viability. Similarly, there is hardly any region which has not benefited at least to some extent from the HYV's. All that the charge of inegalitarian distribution effect of technological change means is that the better endowed farms and regions have benefited relatively more than small farms (farmers) and regions with low irrigation and/or low rainfall. It is in the very nature of all innovations that they tend to be adopted first by the more resourceful or, more simply, the rich. This by itself need not be a cause of alarm, provided the innovation is inherently capable of more universal adoption, if not autonomously through a deliberate public policy. As regards the aggravation of inter-regional inequalities brought about by the Green Revolution it is obvious that the disparities arise from differences in natural endowments like soil, climate, underground water and river flows which could be harnessed for canal irrigation. It is admitted that there are limits to what public policy can do to reduce the inequality arising from natural endowments. "Public investment in irrigation including the exploitation of ground water potential" is suggested as having "the largest prospect" for equalising opportunities of growth. Subject to technical feasibility and a judicious view of social benefits and costs, we would fully support the plea for larger investments in flow and lift irrigation. But a few facts about irrigation in India may be noted. During the last 25 years, public investment of around Rs 3 5,000 million has been made in the construction of major irrigation projects. Apart from the fact that there is considerable underutilization of the irrigation potential, "costly irrigation waters, impounded at great expense to the community, have not only not yielded the benefits expected of them, but have in many cases been allowed to destroy or lower the fertility of large tracts of land". Approximately 7 million hectares of once fertile land have been affected by waterlogging and salinity or alkalinity. Besides, "the gap between the (irrigation) potential created and "utilised" is over 3.8 million acres. Considering the fact that the cost of creating irrigation potential works out on an average at Rs 900 per acre, the unutilized potential of 3.8 million acres represents an investment of nearly Rs 3,500million, on which no return is being presently obtained". Our purpose in drawing attention to these facts is to emphasize better planning and management of investments.

RURAL POVERTY AND UNEMPLOYMENT

In the preceding sections we have attempted to refute some of the charges against India's agricultural policy, such as neglect of agriculture, deliberate under-investment, under-pricing of agricultural commodities and urban bias. We have also contended that the Green Revolution more modestly the HYV's, has helped to step-up cereal production, stimulated investment and substantially increased the use of modern inputs. While it is accepted that the technological change has led to a widening of the inter-regional and inter-class disparities, we are not sure that any region or class would have been in a better position, had the policy-maker decided to forgo it. Besides, its price restraining

effect - more than negated by monetary inflation - has relieved to some extent the burden of poverty. As against these positive aspects, agricultural policy has not contributed significantly to the removal of rural poverty and unemployment or to making the agrarian structure more egalitarian. Thus, while Indian agriculture has slightly improved the per capita consumption of foodgrains, in spite of the addition of 287 million people since 1951, it has failed to provide land or employment to a large segment of the additional labour force. Only one question may be asked: Was it the sole responsibility of Indian agriculture to provide employment to all and as many people born in rural India, or atone for the failures of population policy or for that matter industrial and monetary policy? Our dissent is mainly with this fragmented view which looks at agricultural policy, isolated from the totality of economic policy. The failure of agricultural strategy - and its economic policy content - to make any impact on rural poverty and unemployment or equitably distribute the gains from technological change has been variously attributed to sociopolitical factors such as lack of political will, the elitist composition of political leadership and bureaucracy - no less than that of its critics - structural inequalities in the ownership of land and other assets, a bias in favour of big farmers, etc. There is a strong element of truth in each of these criticisms. Yet perhaps this is not the whole explanation. Agricultural growth has not taken place in many countries where such socio-political factors as inequality and unemployment have been eliminated and more surprisingly agricultural growth has taken place in several countries where social inequality exists in various degrees. While the economists know enough about stimulating growth, perhaps their knowledge and understanding are not adequate enough to suggest solutions to the problems of poverty and unemployment.

CONCLUSION

From this I conclude that Economics is dubbed a dismal science. It would, however, be more appropriate to transfer the epithet to the practitioners of this science. They are a difficult lot to please. At the time when agricultural production in the LDC's was stagnating and dependence on food aid appeared unending, they prophesied doom and advised the USA to apply "triage". When the HYV's of seed held promise of a Green Revolution, they highlighted the consequential accentuation of inter-class and inter-regional disparities. Some even apprehended such abundance as would lead to adverse terms of trade for agriculture and ruin farmers. Some criticised food aid as detrimental to farmers' incentive others considered LDC's desire for self-sufficiency in food as nutritionally damaging to the poor. Low foodgrains prices - a rare phenomenon - were considered as damaging farmers' incentives and an indication of urban bias -though there are more poor consumers in rural areas. Others felt that food prices were being supported at too high a level, tying up funds and delaying, or even precluding other more productive expenditure. Subsidising inputs was denounced as inappropriate pricing, but since profitability should not be "squeezed", restraint on product prices was considered inadvisable. Encouragement of dairy production was exposed as catering to the rich men's food, but others considered concentration on cereals production as inhibiting a cropping pattern with higher employment potential.

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