

Growth and the poor farmer: why is it so important to reform agriculture?

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Growth in Agriculture

There has been a phenomenal 16.9% agriculture growth in the third quarter for 2003 – 2004. This after a healthy 7.4% in the previous quarter. More than 65% of the population is directly affected by this growth which meets the food requirements of a vastly populated nation. Food grain production will register an all-time high of 212.2 million tonnes this year. Exports of agriculture and processed food products have also risen by over 35% to touch Rs 13,828 crores. It is primarily because of this growth in Agriculture that the overall GDP growth is set to reach new heights. This also shows how the economy is intrinsically agriculture based and will be so for a long time.

GDP and Agriculture growth rates

(Percent)

Year	GDP*	GDP (Agriculture and allied sectors)
1992-93	5.1	5.8
1993-94	5.9	4.1
1994-95	7.3	5.0
1995-96	7.3	-0.9
1996-97	7.8	9.6
1997-98	4.8	-2.4
1998-99	6.5	6.2
1999-00	6.1	0.3
2000-01	4.4	-0.4
2001-02	5.6	5.7
2002-03	4.4	-3.1
2003-04**	8.2	5.4

Source: Economic Survey

* At 1993-94 Prices

** Estimates

India's economic history over the last sixty years has been a mix of the good, bad and ugly. Growth rates have increased and per capita incomes have gone up. Liberalization and deregulation have yielded impressive results, and the economy is increasingly integrated to the world. However, agriculture continues to be the backbone. And all is not well in this sector. Productivity¹ gains were sustained in the 1990s after the liberalization process began, the yield rates for most of the agricultural products in India are far below a number of other countries. Except in the case of sugarcane, tea, coffee and jute, India's yields are lower than the world average. India is ranked second both in area and output for sugarcane production and is the largest producer of tea and jute in the world. Even in the case of wheat average yields in the Netherlands and Ireland are more than three times India's yield rates. In all other major crops, India's productivity is lower than world averages.

What are the problems?

Out of 100 million holdings in India, more than 80 million have less than 1 hectare of land. By 2020, the number of such marginal holdings will increase to something like 100 million. Access to technology has been low and alternative distribution channels for marketing, seeds and technology have not evolved. Farmers organizations remain weak, as do rules and organizations. Irrigation has not been given due importance and utilization of irrigation resources, at 85%, is below optimal.

However, input availability continues to be sub-optimal. Only 40% of net sown area is irrigated and this constrains use of inputs or modern technology. Adequate seeds are not available. Adequate pesticides are also not available. Standards are not enforced. Reservations for the small-scale industry (SSI) sector have hindered development of farm machines and implements. Flow of institutional credit is also a constraint. Although 18% of priority sector lending is supposed to be for agriculture, agriculture's share in net bank credit has been more like 12%. States lack resources and this has adversely affected development of agricultural infrastructure. Public investments in irrigation, roads and technology upgradation have been affected.

¹ Labor productivity in India's farm sector has grown by an average of 0.5% over the past two decades, compared with productivity growth in East Asian farming of over 2% a year (IMF, 2003).

In the 1990s, the quality of agricultural research, technology development and extension services has deteriorated. There are too many marketing controls on foodgrains and other crops. And the list of problems with in agriculture goes on - preponderance of old and uneconomically sized orchards and poor management practices, perishable horticulture produce, high post-harvest losses, lack of modern and efficient infrastructure facilities and poor post-harvest management practices, underdevelopment of marketing infrastructures, absence of adequate standards, inadequate research and extension support, expensive imports², large-scale variations in credit support and tax structures for different commodities, instability of prices, poor risk management and inadequate information about sanitary and phyto sanitary (SPS) standards.

Given this context, the importance of freeing up Agriculture³ and the need for markets, both domestic and foreign⁴, cannot be neglected any more. The growth rate needs to be sustained and given the pervasive role of agriculture, it is axiomatic that reforms in the agriculture sector are imperative. Input subsidies leading to misuse and over use, support prices causing market distortions and the absence of market information are some of the urgent issues that need to be tackled.

The Green revolution revisited

In the twentieth century, agricultural growth stagnated as a result of a series of droughts and famine. The Green Revolution in the 1960s raised productivity levels on the one hand, but was rather harshly criticized for widening income disparities between rich and poor farmers on the other. The late 1960s and early 1970s witnessed a modernized agriculture with new equipment and farm technology. New fertilizers

² India has set a ceiling rate for its agricultural tariffs at very high levels, ranging from 100% for food grains to 150% for meat and fish. Some are as high as 300%, such as for coconut and palm-oil products (*Gulati, 1998*).

³ The removal of export controls on rice and wheat is a landmark policy change clearly beneficial to farmers (World Bank, 1997). Given that rice alone accounts for 40% of Indian agricultural production, it is a major step forward. However, several restrictions remain. For instance, the import duty on non essential goods such as almonds remains at 50%. The grain sector is still regulated by canalizing agencies, to safeguard against food shortages.

⁴ Agricultural growth averaged 3.3% per year in the last two decades the twentieth century. India has achieved self sufficiency in food production; but it has yet to exploit its potential to export agricultural goods — today, only 1% of world agricultural trade comes from India.

led to high yielding varieties, tractors replaced cattle and the immediate result was that the production of crops such as wheat and rice increased remarkably. But growth was far from uniform.

States such as Haryana and Punjab, well endowed with irrigation and fertile soils, benefited. Secondly, large framers were better placed to invest in new technology. Smaller farmers lacked capital. Many were displaced. Government policies reacted by compensating small farmers by heavily subsidizing inputs and credit in the agricultural sector. Free electricity and water was provided in some states. And in these fortunate states, farmers benefited from public spending on infrastructure and support services.

But subsidies breed inefficiency and capture even by the non-agricultural user, for example in the case of diesel. In the case of the irrigation subsidy, “most of the actual expenses ended up financing the state’s irrigation departments salary and wage payments to a bureaucracy with limited accountability for the operation and maintenance of government schemes.” (World Bank, 1997). Subsidies also led to environmental and production distortions. The literature on fertilizer subsidy went to show that it caused serious nutrient imbalances in fertilizer application. Irrigation and rural power subsidies distorted cropping patterns and promoted promoting crops that needed lots of water in dry regions.

In a price sensitive political economy, the government was faced two conflicting priorities. The urban consumer wanted cheap food, and the farmer high prices. What ensued was a clear bias towards the more articulate and homogenous urban voter, and the farmer was surely getting penalized. Farm prices were kept below world market levels in order to ensure food supply at affordable rates to people in towns. On the other hand, industrial prices were high as tariff barriers protected domestic manufacturing. Between 1971 and 1988, the protection offered to agriculture was half of what went to industry (Sharma, 1996).

This protection raised input prices for the farmer. Machinery imports were hurt as the rupee was over valued increasing the costs of imports. In the 1980s agricultural

prices fell by 25% in relation to the industrial and services sectors, and investment in agriculture stagnated (World Bank, 1997; Rao, 1994). Agricultural trade was severely regulated. Exports were controlled by state owned enterprises called “canalizing agencies”. The movement of produce was curtailed and controlled stocks and regulated distribution further reduced efficiency.

The small farmer

Who is a small farmer? For this it is important to look at land holding pattern in rural India. Data from the Department of Agriculture shows that

- Marginal land holdings (less than 1 hectare) were 50 per cent of the total in 1971 and in 1991 constituted 30 per cent of the total
- The average size of marginal holdings works out to 0.40 hectares
- Total number of holdings in India have gone up from 71 million in 1971 to 106 million in 1991
- In the same period area operated increased from 162 million hectares to 166 million hectares
- Of the 71 million farm holdings, 36 million were held by small farmers in 1971
- In 1991, of the 166 million, the number of small holdings went up to 62 million
- The number of small holders (between 1 and 4 acres) in the same period went up from 24 million to 34 million
- The average size of small holdings is roughly 2 hectares
- The overall average size of holdings in India has dropped from 2.28 hectares in 1971 to 1.57 in 1991
- In states like Jammu and Kashmir, Kerala, UP and West Bengal, the average is less than 1 hectare. Jammu and Kashmir's average is at 0.33 hectares
- When compared to the developed world, the reality is stark
- The average size of land holdings in the UK and US are 55 and 158 hectares respectively.

What does this mean to the policy maker or to the stake holder in Agriculture reform in India?

- Firstly, that small farm sizes will always keep farmers on the margin
- Secondly, agriculture will continue to be un- remunerative if continued as it is
- Some form of consolidation is urgently called for
- This could be in the form of cooperative farming, contract farming or joint farming
- The cluster approach could be one way out
- Farmers in clusters attain better buying power and stronger negotiating stances
- Extension services could be more easily be reached
- Information dissemination and availability becomes easier
- Market access is smoother and distortions kept in check
- Larger constituencies are developed and therefore greater lobbying power is ensured
- Farming communities become less heterogeneous and could exercise their collective power in a democracy

Serious concerns

In this context, it is important to take a look at some of the critical areas of concern where the farmer and agriculture growth are concerned. Firstly, it is important to focus on the skewed nature of agriculture production in India. Despite oft repeated declarations of intent on the importance of crop diversification⁵, the agriculture sector is heavily dependent on food grains. The relationship between foodgrains and food security is so strong that effectively nothing is done towards diversification. As food crops suffer because of monsoons and prices, the economy suffers. On the other hand stocks pile up and lead to some embarrassment for the policy maker. Productivity levels continue to stagnate putting greater pressure on land and other resources. Intensive agriculture gives way to an extensive route and yields do not show any growth.

Secondly, there is a need to look at the rural employment scenario, an issue much neglected so far. The pattern of employment as it has emerged is indeed a cause of concern. In 1951, 70 per cent of the total work force was engaged in agriculture and in 2001, this had dropped to 59 per cent. The proportion of laborers increased for 20 to 27 per cent and cultivators declined from 50 to 32 per cent. However these figures pale in comparison to the developed world. In Australia, 6 per cent and in France, only 7 per cent of the work force is engaged in agriculture. In the US and UK, the percentages are 3 and 2 per cent respectively. Even in Egypt, the work force in agriculture is less than 35 per cent. (FA) Yearbook, 1997

Thirdly, the disturbing trend in exports⁶. Indian Agriculture, according to Tenth Plan estimates, contributes only 14.7% to total export earnings. What is worse is that almost all of this is due to export of primary goods and very little produce is processed. Even within this, there is a predominance of just five or six crops namely, tea, rice⁷, oilseeds, tobacco, spices and sugar. If overall export growth rate should be taken to the target of 25 per cent a year, it is imperative that agriculture exports are increased and that processed food⁸ replaces primary farm commodities in the export basket.

However, these are but three of a large number of issues that confront any student of the agriculture sector. The number of problems is large and has been extensively discussed. Risk mitigation, credit availability, warehousing, infrastructure, marketing support, information issues, irrigation needs, extension services, quality of seeds, rural industrialization, harsh regulation, movement controls and many others continue to haunt the farmer. What is important here is to realize that growth in agriculture and access to markets for the small farmer is critical if the agriculture sector is to grow. Further, this is crucial if the overall growth rate of 8 to 10 per cent is to be sustained. That is why the importance of looking at growth rates and the small farmer.

⁵ According to Hashim (1998) agriculture has developed a degree of immunity against monsoons; partly because of extended irrigation, but more so due to the diversification of agricultural activities.

⁶ The removal of export restrictions has led to an increase in cereal exports, which rose from 12% to 27% of total agricultural exports between 1991 and 1996 (WTO, 1998).

⁷ India accounts for 22% of total world rice production and 4% of world exports. (UNCTAD).

⁸ Although the country is the second largest producer of fruits and vegetables in the world, only 1% of total production is commercially processed and exported to a limited number of markets in South Asia, the Middle East and Eastern Europe (World Bank, 2003).

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