INDIAN AGRICULTURE

The gloomy picture

Inadequate irrigation infrastructure leaves India's agricultural sector highly susceptible to vagaries of nature, more than 50 years after independence, says Kunal Kumar Kundu, Senior Economist, Indo-German Chamber of Commerce.

The common refrain now is that, the Indian economy will grow at a rate of more than 7% during the current fiscal year. This makes it the second fastest growing economy in the world, a shade lower than the expected growth rate of the Chinese economy in the current year. Our service sector is growing at a fast pace. The manufacturing sector seems to have got a new lease of life. Everybody seems to be enamoured of the palpable 'feel-good' factor. Suddenly India seems to be among the most happening places. The quality and the quantity of India's intellectual capital, which was introduced to the world, following the phase of the so called 'brain drain', is the talking point in the universe, as India's manufacturing sector is getting a more than an appreciative glance, despite our prowess in the service sector. The IT sector anyway keeps on calling the shot. The country seems to have gone overboard by a recent news item, eulogizing the big domestic names in the IT services space, not only for their technical capability, but also for their employment capacity. There seems to be a feeling that a real solution for India's unemployment problem is at hand, as some of these companies are reported to have outnumbered their manufacturing counterparts in sheer number of employees. 'Happy days are here again' jingle (or is it the fizz) seems to be getting louder by the day. It's time to rejoice, right? No, wrong.

While every basis point addition to growth is welcome, the fact remains that the 'trickle down' theory of growth, never did and never will work. Despite the service sector becoming India's engine of growth (accounting for more than 50% of India's GDP), there's no gainsaying of the fact that India is still an agrarian economy with close to 70% of the population, depending on this sector. Whether we like it or not, even swings in the agricultural sector decide the movement in India's GDP. For example, a 0.4% decline in the agricultural sector in 2000-01 resulted in the GDP growth rate dipping to 4.4% from 6.1% in the previous year. Similarly, during 2002-03 a 3.2% decline in this sector led to a fall in the GDP growth rate from 5.6% to 4.3%. Even in the current fiscal year, it is the better than average monsoon that, lifted up the sentiment and led to a re-rating (if I may use the term) of the Indian economy. The graph, which traces the growth rate of the GDP along with the three sectors, clearly shows the influence that the ups and downs of the agricultural sector have on the GDP growth.

As can be seen in the graph, the line representing agricultural growth more or less follows the same pattern as one representing the GDP growth. Despite the service sector accounting for majority of India's GDP, the sharp movements of the agricultural sector temper India's GDP growth.

Despite the importance of this sector in India's economic fortune, much needs to be done to ensure economic emancipation of the people directly engaged in this sector. The sectoral composition of the Indian economy unfolds a bizarre circumstance of a developing economy showing symptoms of a developed economy, as service sector continues to rule the roost. Ideally, shifting of importance from one sector to another should result from maximum exploitation of the potential of the sector. This, unfortunately, is not the case with India. Employability in the service sector, for example, requires a floor level of skill. Thus, if we draw a skill continuum of even the present day India, those belonging to the lower level of the continuum (and that's a substantial number) automatically get excluded as potential service sector employees. Hence, even if the per capita income of India increases, a major part of the population will continue to earn way below the average. Economic growth should be a means to the end of economic freedom for all. India cannot afford to grow with starving millions. The future social cost for such skewed growth would be unaffordably large.

If we consider the fact that, at the time of independence, India's population was about 33 crore, is it not ironical that close to one independent India is officially declared as poor? Make no mistake, the majority of the BPL (Below Poverty Line) population lives in the rural areas.

No doubt, agricultural production has increased by leaps and bounds after the 1960s, making it highly self-sufficient. The employment of new technology in farming, high breed varieties of seeds, use of fertilizers etc., have brought about a total transformation on the food front.

Despite these welcome developments, there is, even today, the anomaly of hunger amidst plenty. Baffling though it is, it signifies something basically wrong in the system.

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India's agricultural infrastructure still leaves a lot to be desired. The case in point is the havoc that the drought caused during the last financial year. Inadequate irrigation infrastructure leaves India's agricultural sector highly susceptible to vagaries of nature, more than 50 years after independence. This is also a sector that can hardly command adequate credit, that too, at competitive rates. Added to that, is the inadequate credit delivery mechanism.

The fact, that there has not been much headway in terms of penetration of rural credit can be gauged from the statement even in the recent Monetary and Credit Policy of the RBI that, "In order to progress further in meeting the credit needs of the agriculture sector, it is proposed to constitute an Advisory Committee to suggest short and medium-term measures to enhance credit flow to this sector. It would suggest appropriate changes in the institutional and procedural arrangements for the smooth flow of credit to agriculture. The committee is expected to help in capturing technological developments in the cause of improving credit delivery."

The growth of commercial banks' lending to agriculture and allied activities saw a substantial decline in the 1990s compared to the 1980s. Agriculture's share in scheduled commercial banks' total outstanding credit as on March 31, 2002, was only Rs. 64,008 cr (9.8%). The comparative figure in 1991 was 15.3%.

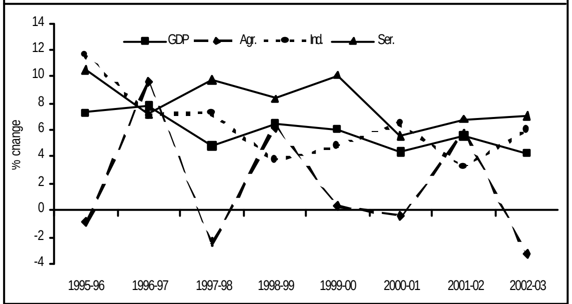
Spread of micro-credit is still inadequate. So far, the success on this front has been mostly restricted to South which accounts for about $64 share.

Another fallout of the inadequate infrastructure is the flourishing of middlemen, leading to vast difference between the producer's price and the final marketed price.

The subsidies for the agricultural sector hardly reach the needy. Majority of the benefit is pocketed by the rich farmers, aided by a corrupt subsidy delivery mechanism. Moreover, the major portion of subsidies and innumerable benefits are given across the board without regard to the size of holdings and, as a natural corollary, goes to a small number of big farmers with land-holdings of four hectares and more. In reality, more than 70% of people in agricultural occupation have very much less than two hectares.

Added to that is the fact that, the agricultural income remains untaxed. Thus, a minority section of the farming population corners all the benefit, while the truly needy farmers (read small and landless farmers) emaciate. It is gross inequity to exempt these rich farmers from paying any income-tax or wealth tax on their large agricultural incomes. There is no rationale either ethically or economically, to leave them out of the tax net and allow the poorer sections to wallow in poverty for want of resources.

India's GDP and other Sectoral Growth



India's PDS system is also a major drain on the exchequer. While targeted PDS should have been the answer, corrupt practices ensure that it's a non-starter. Even the existing scheme suffers from leakages and low coverage of poor. Even where the benefit is available, the poor people just do not have the money to buy the badly needed supplies.

Clearly, the dice is still loaded against a sector that accounts for about 70% of the population but only around 25% of the GDP. We can talk about our economy being among the largest in the world in purchasing power parity terms now or in nominal terms by 2050 (as per the recently released research report of Goldman Sachs); the economic giant would truly be able to command a pride of place only through an all round growth. And, for that to happen, India's agricultural policy needs more than a cosmetic surgery to unleash the true potential of the sector.

The views of the article are those of the author and not of his organization.

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