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AGRICULTURAL DEVELOPMENT IN INDIA

By: Neena Kaushik

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QUESTION PAPER

(June – 2019)

(Solved)

AGRICULTURAL DEVELOPMENT IN INDIA

Time: 3 Hours]

[Maximum Marks: 100

Note: Answer the questions from each section as directed.

SECTION – A

Answer the following questions:

Q. 1. State *five* reasons for the need of irrigation in India. Mention the *three* major modes of irrigation, run on project basis in India. Indicate the main concerns about groundwater usage.

Ans. Ref.: See Chapter-3, Page No. 20, Q. No. 8, Q. No. 9 and Page No. 21, Q. No. 11.

Q. 2. Do you agree with the assertion that ‘Institutional Development means economic development’? Identify the ‘Genesis of Panchayati Raj Institutions’ in India.

Ans. Ref.: See Chapter-6, Page No. 42, Q. No. 5 and Page No. 43, Q. No. 7.

Q. 3. State any *two* pro-agricultural developmental policies which have also contributed to unsustainable use of groundwater resources. For what reason is it claimed that the green revolution (GR) benefits has resulted in the widening of economic disparities ?

Ans. Ref.: See Chapter-11, Page No. 74, ‘Depletion of Ground Water Resources’, Page No. 76, Q. No. 8, Q. No. 9 and Page No. 74, ‘Widening Disparities’.

Q. 4. What are the special characteristics of agricultural marketing which distinguishes them from other markets ? What strategies are suggested to cope with the marketing needs of small farmers ?

Ans. Ref.: See Chapter-16, Page No. 113, Q. No. 2, Q. No. 3, Page No. 106, ‘Special Features of Agricultural Markets’ and Page No. 107, ‘Marketing Need of Small Farmers’.

SECTION – B

Answer the following questions:

Q. 5. Mention the *four* major plans of land reform legislation in India. What factors contributed to a poor performance of the implementation of ceiling on ‘land holding laws’?

Ans. Ref.: See Chapter-5, Page No. 30, ‘Efforts Made Through the Plans’, Page No. 35, Q. No. 9, Q. No. 10 and Page No. 36, Q. No. 13.

Q. 6. Do you agree that the implementation of rural industrialization policy in India has not been as much ‘inclusive’ in its character as it ought to have been ? What in your opinion, should now be done to rectify this error in the coming years ?

Ans. Ref.: See Chapter-10, Page No. 70, Q. No. 14, Page No. 66, ‘Impact of Government Policy’ and Page No. 67, ‘Strategy For Future Policy’.

Q. 7. How would you say that in the matter of advancing institutional credit to small farmers there could be an inherent bias against them ?

Ans. Ref.: See Chapter-18, Page No. 127, ‘Other Initiatives and Issues’ and ‘Critical Issues and Role of State’.

Q. 8. In which type of region is the practice of ‘Contour farming’ followed? In what way this method is helpful in minimising production/ environmental losses?

Ans. Ref.: See Chapter-14, Page No. 97, Q. No. 10.

Also Add : Some advantages of contour farming is that it focuses on preserving topsoil by reducing erosion from water runoff. The major benefits of this methods is the preservation of the nutrients in the field, resulting in less fertilizer and less need for artificial irrigation. The practice has been proved to

reduce fertilizer loss, power and time consumption, as well as to increase crop yields and reduce erosion. Ploughing and planting across slope contours create man-made water breaks that not only allows enough time for the water to enter the soil, but also to settle the topsoil without washing it down the slope. On slopes with no contours, water runoff quickly without the soil properly absorbing it and carrying the top fertile soil with it, therefore, leaving a non-fertile land up the slope. Contour farming also creates water breaks that reduce the formation of gullies and rills when a place experiences heavy rains and water runoff which is the leading cause of soil erosion. For contour farming to be effective, the resulting curved furrows around the slope ought to be on equal levels. Contour farming can have one crop on the farm or a mixture of several crops through strip cropping.

Q. 9. Explain the five important reasons for the deceleration of public investment in agriculture. Point out the five important factors which affect the private investment in agriculture.

Ans. Ref.: See Chapter-15, Page No. 105, Q. No. 14, Q. No. 16, Page No. 102, 'Reasons for Decline in Public Sector Capital Formation' and 'Determinants of Private Capital Formation in Agriculture'.

Q. 10. In which three areas WTO envisaged to eliminate trade distortions in agricultural products? Explain in what way the WTO-AoA commitments implicate the agricultural sector of developing countries like India?

Ans. Ref.: See Chapter-27, Page No. 215, Q. No. 2, Q. No. 3 and Page No. 210, 'Areas of International Concern in Agricultural Trade'.

SECTION – C

Q. 11. Write short notes on the following:

(i) How does 'information asymmetry' affect agriculture? Briefly indicate with an example.

Ans. Ref.: See Chapter-6, Page No. 42, Q. No. 3.

(ii) State the three contributions of agriculture to the economy suggested by Kuznets.

Ans. Ref.: See Chapter-7, Page No. 50, Q. No. 2.

(iii) What are the three major factors that inhibit the small farmers in India from using the chemical fertilisers in adequate quantity?

Ans. Ref.: See Chapter-14, Page No. 96, Q. No. 3.

Also Add : Most of the small farmers are not able to enjoy the benefits of using fertilizers because they are too poor to be able to buy a sufficient amount of these fertilizers. Also, since these farms are highly dependent on rainfall any loss of crop would mean loss of the investment in fertilizers. Sometimes, market prices also fall rapidly in case of bumper crops, and that also makes small farmers unsuccessful. A benefit, however, is that application of fertilizers is less time consuming, so the farmers have enough time left for other jobs.

(iv) Indicate the three areas in which concerted action is required to ensure food security.

Ans. Ref.: See Chapter-18, Page No. 145, Q. No. 26 and Page No. 141, 'Future Strategy'.



Sample Preview of The Chapter

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AGRICULTURAL DEVELOPMENT IN INDIA

AGRICULTURE AND ECONOMIC DEVELOPMENT

Agriculture and Economic Growth

Chapter - 1

INTRODUCTION

Until recently agriculture engaged the maximum amount of workforce in the country. Though now there are more employment opportunities in the secondary and tertiary sectors indicating a structural change in occupational distribution over the past few years and agriculture contributes a lesser proportion to the national income, a large percentage of population is still dependent on agriculture. Thus the agricultural sector is given a lot of emphasis during policy-making. A study reveals that agriculture has important economic linkages and multiplier effects. A rupee's production in agriculture leads to addition of three rupees in the rural areas due to linkages. The multiplier effects are visible in the other two sectors when growth takes place in construction, industry, transportation, banking, etc. The share of the agricultural sector in the national income has decreased since independence, yet to achieve a double digit growth rate, a robust agricultural sector is very important with a growth rate of around 4%. We shall discuss what conditions are necessary for development of agriculture.

CHAPTER AT A GLANCE

CONDITIONS FOR AGRICULTURAL DEVELOPMENT: THEORETICAL BACKGROUND

Various economic thinkers and schools of thought have discussed about the importance of agriculture in an economy. The physiocrats were the economic thinkers of England who believed that it was only the agricultural sector that created an economic surplus in excess of the

cost of production. Manufacturing and commerce produced only enough to be able to make payments for labour and capital used during production, so they were considered non-productive. Thus, agri-culture was considered the most strategic sector.

After the physiocrats came the classical economists, who believed that the importance of agriculture lay in the impetus that it provides to the industry. In the basic model of the economist Adam Smith, who is considered the father of economics, agricultural surplus is considered to provide support to non-farm production, which is so necessary for economic development. The classical economists believed that there is a 'circularity' in the economy which means an interrelationship between technology, investment and profit; technology is determined by investment, investment by profits, and profits again by technology. In the initial stages of development an economy depends upon agriculture to sustain the labour when economic transition is taking place towards an industrialized economy. They did not consider agriculture as the only important sector but important, nevertheless. In the present context, emergence of food riots has proven the need for more agricultural production in the world as an important requisite for food sufficiency. The concept of development as an exclusive area of study became important only after World War II. In the eyes of the classicists, there was no difference between growth and development. We shall here discuss the theories of Lewis, Fei and Ranis, Schultz-Jorgenson, and the balanced growth approach by many economists in this context.

Two-Sector Economy Model: The Lewis Argument

Lewis proposed his dual sector development model in 1954. It was based on the assumption that many LDCs

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had dual economies with both a traditional agricultural sector and a modern industrial sector. The traditional agricultural sector was assumed to be of a subsistence nature characterized by low productivity, low incomes, low savings and considerable underemployment. The industrial sector was assumed to be technologically advanced with high levels of investment operating in an urban environment. The Lewis argument is based on the belief that mostly developing countries have too many people working in the agricultural sector where their productivity is very low, sometimes even zero marginal product. In this case, they can be shifted to more productive occupations such as industry. This surplus labour would receive wages higher than the subsistence wages in the agricultural sector, which is the cost of moving from one sector to another and the friction caused as a result. These are no doubt unskilled workers initially but are trained in time to make them skilled.

The productivity of labour in the non-farm sector is more than the wages due to high investment and technology, generating more savings. The key to development was to increase savings and investment, owing to the capital surplus. Workers got the opportunities to earn higher incomes and crucially save more providing funds for entrepreneurs to investment, which would further raise the productivity of labour. The utility of unlimited supplies of labour to growth objectives depends upon the amount of capital available at the same time. Should there be surplus labour, agriculture will derive no productive use from it, so a transfer to a non-agriculture sector will be of mutual benefit. It provides jobs to the agrarian population and reduces the burden of population from land. Industry now obtains its labour. Labour must be encouraged to move to increase productivity in agriculture. When the supply of labour becomes inelastic in relation to wages, employers will stop hiring the surplus labour. The Lewis model has attracted attention of underdeveloped countries because it brings out some basic relationships in dualistic development. However, it has been criticized on the following grounds: Absorption of surplus labour itself may end prematurely because competitors may raise wage rates and lower the share of profit. Transfer of workers from agriculture to industry may have an adverse effect on agricultural output. Also, the assumptions of rationality and perfect competition are very unrealistic, and might be applicable only to agrarian economies. Other economists have refined Lewis' two sector theory to make it more applicable to a realist capitalist market-oriented economy.

In the event of supply of labour being inelastic and labour getting scarce, Lewis has a solution in place, i.e. encouraging labour from other countries to immigrate

into the country. Another solution would be to export capital to those countries where labour is in abundance and receiving subsistence wages. Though this model seems a complete model, there are various criticisms leveled against it. One criticism is that transfer of labour from agriculture will lead to increased wages there, thus profits and capital formation will be reduced. Secondly, instead of investing the profits, as mentioned by Lewis, the capitalists may use the profits elsewhere. This will have adverse effects on development. Thirdly, the poor people in the rural areas may spend more on consumption and less on savings and this may affect investment. We shall next study the model of Fei and Ranis who has first spoken of the agricultural sector as being static and then discussed about improving its productivity.

Three Phase Linkage to Industrialization: Fei and Ranis

To improve upon the Lewis model, Fei and Ranis have put forward the three stages of development in agriculture. In the first phase, the movement of labour from agriculture to industry happens during the time when surplus labour is available in agriculture, so productivity in agriculture is not affected at all. In the second phase, Lewis Turning Point Stage, the availability of surplus labour is just about to end, which leads to rise in the marginal productivity of farm labour. Any transfer of labour from agriculture to industry now entails an opportunity cost, i.e. will take place only by affecting some fall in total agricultural output. However, this movement of labour would be beneficial for the economy as a whole as long as the wages in the non-farm sector are more than the wages in the farm sector. The national income will increase on the whole, but the agricultural output will show some fall. The third phase is – Marginal product of agricultural labour – industrial wages, i.e. the cost and the benefit from the movement becoming equal. Here, economic growth will depend upon the following factors – (a) Technological Progress (b) Increased absorptive capacity due to better infrastructure. This brings us to the conclusion that a movement of labour from agriculture to industry will lead to economic growth in the initial stages of development but later, growth will be possible only if some other conditions are met. As an answer to this problem, economists have advocated the balanced growth approach (simultaneous development of agriculture and industry). The following discussion is on the theory of Schultz-Jorgenson who have given a condition necessary for the sectoral shift:

Necessary Condition for the Sectoral Shift-Schultz-Jorgenson

Contrary to Lewis, Schultz believes that the marginal product of labour in agriculture is never zero

or negative. So new shift of labour will cause some reduction in production. But whether total output in the economy increases or not after shift of labour will depend on the following: (a) What are the conditions under which agricultural labour can be shifted to non-farm sectors without reducing production, (b) What does the labour force require to cause a positive development in both the farm and non-farm sectors in a way which is mutually complementing. Schultz applied the idea of human capital on various categories of labour based on age and income. His opinion was that with the help of education the unskilled workers can be turned into skilled workers with the help of which they can withstand the external shocks like uncertain economic conditions. The labour will not face exploitation because they will be able to gather all relevant information about the economy. According to Jorgenson, growth in the non-farm sector depended on a positive and increasing surplus in agriculture. For growth in agriculture, technological advancement was the requirement, otherwise there would be no food surplus or surplus labour available for productive use in the industry. Thus, for sustained growth in both the farm and the non-farm sector in a mutually benefitting manner and for transferring surplus labour efficiently, both sectors have to grow together, according to this theory. With the help of this theory, the theory of Lewis and Ranis and Fei gets an explanation of how a productive labour transfer can be done. We will now discuss the balanced growth model in the coming sections.

Agriculture First Versus Balanced Growth Approach

How to stimulate demand is an important question faced by economists today. Since a large proportion of population lives in the rural areas in the initial stages of growth in an economy, demand for industrial goods can be increased only by raising the farm incomes and increasing the purchasing power of the rural population. Noteworthy in this regard is the 'big push' theory of Rosenstein and Rodan. According to this theory, production, employment and consumption has to be increased simultaneously in the different sectors. In order to remove the obstacles to development, a large investment is required as a big push. As a result the mutually beneficial economic activities of both the farm and the non-farm sector will grow and bring about balanced development. There exists a vicious circle of poverty on the rural areas which is due to lack of effective demand. This big push breaks that vicious circle. The socio-economic base of the economy also broadens. The above are instrumental in solving the problem of deficiency in effective demand. The benefits of such balanced development in farm and non-farm sector will be: (a) Increasing the income of the rural sector which will increase the demand for industrial

and other non-farm goods. (b) Provision of a large variety of goods to rural areas. (c) Increased availability of capital to industry by way of foreign exchange earnings from agricultural exports. A decision thus has to be made by the policy-makers whether to target agriculture as a surplus provider or as a sector to create effective demand for industry. The above discussion leads to the conclusion that agriculture must be developed by enhancing the linkages (mutual benefits) between agriculture and industry.

DETERMINANTS OF AGRICULTURAL DEVELOPMENT

There are numerous factors that affect agricultural development. They are physical, technological, economic socio-cultural, institutional, organizational and political which operate at the level of the household, village, district, state, nation and the world also. These resources need to be managed to ensure that they have favourable effects on development, for example, human resources which have to be provided training and education, health facilities, nourishment, etc. to raise their productivity. A labour force which is not properly utilized will be an impediment in development and the same, if utilized properly will be an asset in the process of development. For development to take place in an effective manner, it is important how the resources at the disposal of the economy are utilized.

To increase agricultural output and productivity the existence of rural infrastructural facilities, for e.g. banking, roads, irrigation, electric supply, communication facilities are very important. Equally important is the existence of proper social infrastructure which includes health facilities, education, extension services and information dissemination system, participatory mechanisms, Research and technology in agriculture, etc. This is a component of agricultural infrastructure. Most developing economies suffer from lack of rural infrastructural facilities, especially in availability of savings banks and institutional credit. Government expenditure (public investment) is very important in providing a number of facilities for the purpose of cold storage, marketing facilities, etc. which are so very important from the point of view of agricultural development. In the developing economies, farmers are very poor and they do not have ample funds to arrange facilities themselves. The government has to provide these basic needs of the farming community, to the small and marginal farmers in particular, thus justifying the role of public investment in this sector. It has been found that in India, public investment as percentage of total gross capital formation (investment in capital goods) has come down by a large amount. Due to this deficiency in government investment owing to shortage of funds, the model of PPP, i.e. Public Private Partnership, is a

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good option, in which the private sector joins hands with the government for the development of infrastructural facilities in agriculture.

AGRICULTURAL DEVELOPMENT POLICIES

Policy refers to choice of alternative from a number of options regarding the course of action, while a policy process refers to the formulation, promulgation and application of the specific course of action.

What do we mean by policy? It is the selection of what is to be done when we have many options before us. The process of the selected option formulation, promulgation and application of the chosen option is known as the policy process. This section shall deal with the government's policy regarding achieving the targets set for agricultural development.

There is a difference between a policy, a programme and a project. Many programmes put together are called policy and each programme is comprised of many projects. The government has to formulate a number of programmes with the purpose of implementing a policy where each programme deals with the details regarding who will do what, and where. More intricate details regarding the objectives, location, duration, funds, allocating agency, etc. are included in the project, which thus is the basic unit which actually ensures the implementation of policy. Any project undertaken by the government, in our discussion the project undertaken for agricultural development, is in fact an investment activity. Funds are allocated for a certain plan, a pre-determined goal, and the monetary resources which are earmarked are spent on the implementation of the project in a certain span of time.

Goals of Agricultural Development Policy

Why are government policies and programmes made? What is the purpose of the formulation of these plans and projects? Naturally, there is a dissatisfaction over the existing condition and people aspire for improvement of the existing condition which becomes the basis for the government's policies. In order to bring about development of agriculture and improvement of the living standards of the people in the rural areas, it is necessary to formulate certain projects which have to be implemented to achieve these desired goals. Policies are formed based on what people think that the government should do to bring about the desired changes.

According to the Directive Principles of State Policy included in the constitution of our country, there are the following goals of economic policy which are: (i) Raise National income, and (ii) Ensure an equitable distribution of national income among the people. In all the government plans, we find that these goals are kept in mind by the Government. The concept of inclusive growth refers to the wider objective of making

the benefits of growth available to all the sections of society. Inclusive growth has many facets. One is the betterment of the living conditions of the people. Second, creating more and more employment opportunities, Third, development of all the regions of the country in a balanced manner, and Fourth, achieving self-reliance in case of basic necessities as a nation.

For the achievement of the different goals outlined in the various government policies, different instruments need to be used by the government. The main units responsible for implementation of the projects of the government are the various government agencies. The various programmes and projects of the government policy are distributed for implementation among the various agencies. In turn, various government, private and voluntary agencies may also be engaged to implement certain projects which needs to be properly monitored by the government. The efficient use of the funds and resources that are allotted needs to be ensured, so that the government outlines the conditions for the use of the resources. How the project is implemented depends upon how the projects/programmes have been put into action.

Classification of Agricultural Development Programmes

According to Tinbergen, a qualitative policy is different from a quantitative policy. Quantitative refers to change in magnitude whereas qualitative refers to the change in the structure. An economy comprises of various institutions, firms, etc. When there is a change or modification in the structure of these institutions, it is known as qualitative policy, whereas when a magnitude such as the rate of tax, prices of subsidized grains, etc is involved, it is known as quantitative policy. Provision of free education facilities include both type of changes—qualitative because education changes the economic structure and quantitative because there is change in the fees charged.

According to Heady's classification, economic policies are of two types—developmental and compensation policies. As a part of the development policy, the government aims at increasing production so that the people are able to enjoy increased supply of goods and services; and secondly, there is an effort to make the quality of these products and their inputs better. The other policy is the compensation policy according to which a target group, for example, the poor and the small farmers are given some sort of compensation in the form of subsidies, price support, etc.

AGRICULTURAL DEVELOPMENT: A PRELUDE TO INDUSTRIALIZATION

We have discussed the theory of economic transformation by Lewis which is, in fact, applicable to all economies, whether they are developed or