

AGRICULTURE- A LARGEST SECTOR CONTRIBUTES VERY LITTLE TO INDIAN ECONOMY – WHY?

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Introduction

Agriculture sector has a pivoted role in Indian economy and it provides the principal means of livelihood for more than 60 percent of India's population. According to **Economic Survey 2018**, the agriculture sector has contributed about 16 percent to India's GDP at current price. The farming sector contributes 6.4 percent to total global economy, while India contributes 7.39 percent to global economic production which is more than the global average. However, the components such as economic contribution and per capita productivity in Indian agricultural sector are declined over the years even after being one of the top most producer of sugar, milk, rice, wheat etc., lags way behind with a contribution of agriculture to the nominal GDP to be mere 16 percent. Let us analyze the facts and try to find the reason behind it.

Importance of Agriculture in India

Agriculture is an art, the science and business of cultivating crops and live stock for economic purposes. Agriculture used to be the only known means of living for human development. It provides livelihood to 2/3 of the Indian population. Farming sector contributes 16 percent of country's GDP and responsible for the employment of 58 percent of country's workforce. This sector accounts for about 15 percent of the total export earnings and provides raw material to almost all the industries such as textile, silk, rice, rubber, paper, flour mills, milk product industries etc. It acts as a wall in maintaining food security and in the process National security as well.

However as far as farming sector is concerned two main questions are raised.

- It contributes over 50 percent in GDP in 1951-declined to just 16 percent in 2019-Economic contribution declined – why?
- 50 percent workforce contributes over 50 percent of the India's economy in 1951-declined to 16 percent with the same 50 percent workforce – Productivity per workforce declined– why?

Economic contribution declined – why?

Over the last two decades the consumption pattern of Indian households evolved that found the spending of people can be divided in to two broad categories -**Necessity spending** and **Discretionary spending**.

The trend of consumption on these two spending categories moved opposite direction with discretionary expenditure progress slowly being paid extra prominence in the consumption pattern. The gap between the two runners started narrowing down over the years and eventually the share became almost equal in FY. 2012, and discretionary spending started getting more importance there after. Indian households spend 52 percent other than food and clothing [necessity spending 48 percent only]in FY. 2015. The bottom 10 percent households [lower income] spend 63 percent on necessities. But as the collective income of these households has been increasing faster than consumption expense, this percentage 63 also has been decreasing over the years.

In the top 50 percent households, at the end of 1990 discretionary spending surpassed necessities.

The following table showing the annual growth of Indian households spending

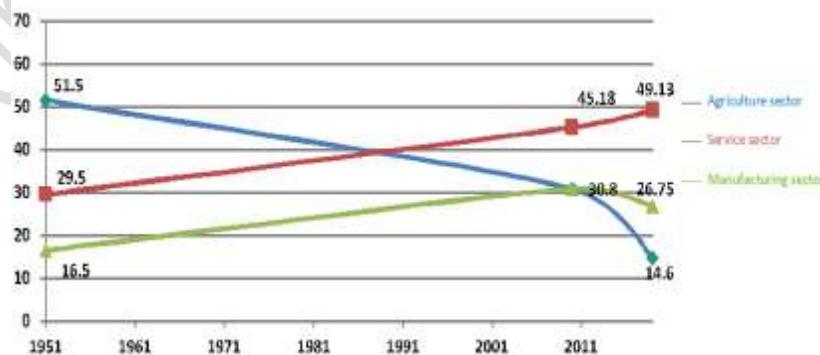
| Consumption categories (in percentage) | FY.94 to FY.05 | FY.05 to FY.15 | FY.15 to FY.21 |
|--|----------------|----------------|----------------|
| Food | 3.0 | 4.2 | 5.3 |
| Apparel as foot wears | 3.3 | 6.1 | 6.2 |
| Healthcare | 7.1 | 8.2 | 8.3 |
| Education | 11.5 | 8.9 | 8.9 |
| Conveyance | 8.7 | 9.1 | 9.1 |
| Non-food FMCG | 4.9 | 4.1 | 5.0 |
| Durable goods | 9.8 | 10.1 | 10.3 |
| Consumer services | 10.6 | 6.8 | 6.9 |
| Others | 8.4 | 5.8 | 6.8 |
| Total consumer market | 5.0 | 5.7 | 6.7 |

Source : Indian consumer market 2020, structure, growth, size and intensity – 2015 price.

The table clearly indicate the share of food expenses decreased in total spending, as the growth rate of food component lower than the growth of total spending by Indian households. Per capita cereal consumption of Indian population has been declined since 1987. Because of these reasons, the economic contribution of farming sector to India’s GDP is steadily declined. [National Council of Applied Economic Research]

Productivity declined – why

Employment in the farming sector as share of total workforce is around 56 percent out of 692 million workers in India currently. In 1951, people engaged in farming crops were around 100 million out of 140 million functioning inhabitants. As such, the GDP of India was around 40 billion USD in 1951, which reached 2972 billion USD in 2019. Farming sector contribution to country’s GDP has increased from 20.5 billion USD in 1951 to 471.6 billion USD in 2019. The following graph showing the GDP contribution of **Agriculture**, **Manufacturing** and **Service** sectors between 1951 and 2019.



Comparison of productivity in Agriculture vs productivity in manufacture/ services

| Parameters | 1950 | 2019 | Ratio between 1950 and 2019 |
|---|-------|---------|-----------------------------|
| GDP -2019 exchange rate[in Bn. USD] | 40 | 2972 | 74.3 |
| Agriculture output [in Bn. USD] | 20 | 471.65 | 23.58 |
| Percentage of Agriculture in GDP | 50 | 15.87 | 0.32 |
| Number of workforce in Agriculture [in Million] | 100 | 300 | 3.0 |
| Percentage of workforce in Agriculture | 70 | 43.21 | 0.62 |
| Value add per agriculture workforce [in USD] | 200 | 1572 | 7.86 |
| Total workforce [in million] | 143 | 692.64 | 4.84 |
| Value add per industry/service workforce [in USD] | 466.7 | 6378.44 | 13.68 |

As per the above table the value add per workforce in farming sector has increased in the last 70 years by a factor of 7.86. However, the same ratio for manufacturing and services combined stands at 13.68. This is one of the reason why the percentage share of agriculture has reduced from half to one sixth of country's GDP.

The productivity in Indian agriculture sector is still slower than manufacturing/service sectors. Largely this is due to the rapid economic growth in services, industrial output and non agricultural sectors which is not the case with agriculture. On global level too, the productivity is very less in agriculture sector because of which is reflected in 50percent workforce contributing only 16 percent of Indian GDP. Let us explore the reason behind such a low productivity per agriculture workforce.

❖ **Infrastructure:** India has very poor rural roads which affecting timely supply of agriculture inputs and transfer of final outputs. Irrigation systems are inadequate, primary to numerous crop failures. Even after 70 years of independence only 40 percent of the agriculture land has permanent irrigation facility. Due to improper irrigation facility, farmers can produce one crop only in a year. Regional floods, poor seed quality and spoilage make over 30 percent of wastage in some areas. Limiting the ability of Indian farmers to sell their surplus produce and commercial crops due to lack of organized retail

and competing buyers. The farmers receives just 10-23 percent of the price from domestic consumer pays, the difference going to losses inefficiencies and middleman. But farmers in developed economics receive 64-81 percent.

❖ **Disguised un employment:** It be capable of pass on to any segment of the population not employed at bursting position, but it is frequently not counted in approved unemployment info contained by the state-owned cutbacks. It exists frequently in India like developing countries whose large populations creates a surplus in the labour force. Simply it is defined as more people are employed than what is required and this has been a major problem that bring down per capita productivity in farm sector.

❖ **Food wastage rate:** According to official data by the industry of consumer affairs, almost 62,000 tons of food grains was damaged in Food Corporation of India (FCI) ware houses between 2019 and 2017, due to poor quality storage facilities. The waste of grains mainly rice and wheat is cruel in a country will millions of poor. Despite India is the second largest producer of rice and wheat. Some 19 millions Indians go to bed with hungry every day and India comprising about 23 percent of the world's under nourished population [a report of **United Nation Food and Agriculture Organization**]. About the worth of

14 billion dollar food is wasted in India every year. Moreover the United Nation Organization estimated that, more than 40 percent of food produced in India is wasted before it reaches the consumer.

India lacks cold storage, food packaging, as well as efficient transport system. This causes one of the world's highest food wastage rates. This decreases the final accrual of the production and hence low contribution in terms of value.

- ❖ **Small farm holdings:** In India, the average size of holding was 2.28 hectares in 1970-71, which was reduced to 1.82 hectares in 1980-81 and 1.50 hectares in 1995-96. The holding size decrease further due to more and more sub division of land holdings. In 1990-91, a large proportion of 59 percent holdings were marginal (below one hectare). Sub-division and fragmentation of the holdings is one of the main cause of India's low farm productivity and backward state of our agriculture. A lot of time and labour is wasted in moving seeds, manure and cattle from one piece of land to another and irrigation also difficult on such small and fragmented fields. Such small holdings are often over-manned resulting disguised unemployment and low productivity of labour. Adoption of forward forward-looking agricultural practices and handling of technology is inadequate in an inferior position by ignorance of such practices, over expenses and pointlessness in the situation of slight terra firma assets.
- ❖ **Government policies:** The land use and cropping patterns in agriculture sector are influenced by the government policies. The political influence in farming sector, the farmers unable to cultivate certain crops. In India the government announces the price of various cereals and cash crops well in advance, so that the farmers may devote their agricultural lands to different suitable cereals and other money fetching crops. Apart from the domestic policies, the government enter in to international agreements to supply certain farm produces to each other in order to maintain the balance of trade. These international agreement have a close bearing on the cropping patterns of India.

- ❖ **Socio-economic factor:** Basically agriculture is taken-up by rural workforce. Land reforms implementation is growing very slow in India. The inadequate finance support and poor marketing services for farm produces, less literacy and socio-economic status are another cause for low productivity. .
- ❖ **Concentrated in Traditional Farming:** Traditional methods of farming like manual plugging, two crop pattern and old system of irrigation are mainly responsible for low productivity of agriculture. Traditional equipments such as wooden ploughs, sickles, spades are commonly used. Tractors and combines are not so common in use. Due to the use of these old equipments agriculture is backwards. Traditional farming lead to the lowest per capita production and farmer incomes.
- ❖ **Population density on land:** The population pressure on land is also a main cause of low productivity of Indian agriculture. There were 163 million population were dependent on agriculture in 1901. But this number has increased to 300 million in 2001. So the cultivable land per capita has reduced from 0.46 hectare to 0.23 hectare. This heavy pressure on land has led to sub-division and fragmentation of land holdings.

Conclusion

The low productivity in Indian agricultural sector is because of inefficiencies that are there in the agricultural system. This bad characters not only increases wastage but they lead to lower production which jointly make decrease the productivity in farm sector.

By using modern agricultural techniques with farmers co-operation, farm productivity is possible to increase. Introducing market to eliminate middlemen, giving subsidies to farming inputs, crops storage facilities, relieving farmers from debt, appreciate farmers by encouraging- are the government role to lead maximum production.

The yearly growth is merely the range of 2.1 percent to 2.3 percent in agricultural sector alone, and if as predicted by the current government to double the farmers income by 2022, the country must be able to grow at 12 percent year on year basis for the next 4 years.

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