

Indian Economy: Some Contemporary Perspectives
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Lecture-9
Indian Economy: Agriculture Policy 1

So, hi everyone. We are going to start a new session, and now we will be moving to sectoral analysis. So, now we will be moving in a direction where we will be trying to understand different sectors, what happened to those sectors and how they are performed and what are the measures undertaken by the government, how we have gone for adoption of change in those sectors, how we have incorporated different changes, how we have made those sectors competitive.

So, I think it is important that as an economist or for a general understanding it is important that we should also evaluate each and every sector, the major sectors. So, going ahead, we will have manufacturing, then we will have services, then we will have the banking, so each and every sector, once we cover, then we will be able to have the clear cut idea that what is the exact structure of the mix economy that we say, how far government has gone in the beginning from taking over each and every sector to reducing the exposure and allowing our private sector to participate.

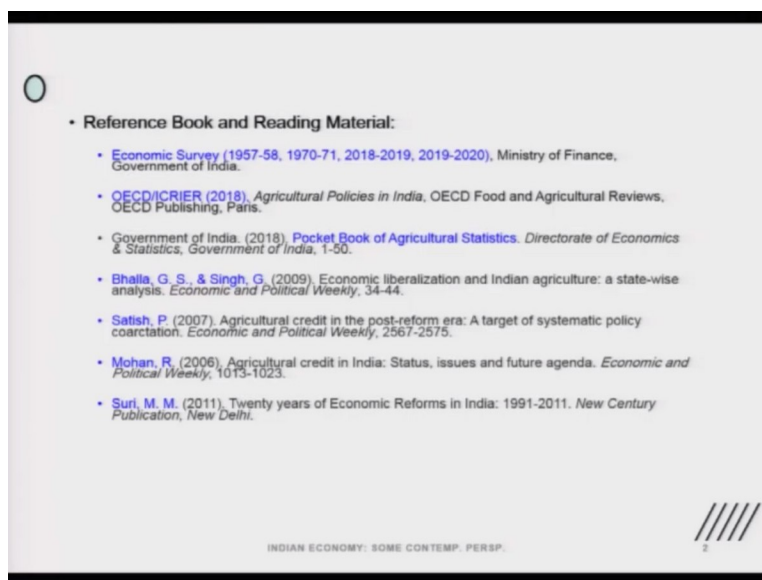
So, in this particular session, we will be talking about agriculture sector policies. And agriculture sector, since it is one of the major contributors to the rural employment and also in terms of food availability, so this particular sector gives us idea. So, in terms of overall share in the economy, the share of agriculture has come down, now it is almost 16 to 17 percent. But if you trace the history, then you find that it was one of the major contributors in terms of income and even in terms of employment.

So, we will be tracing the history from 1950, we will spend at least 10 to 15 minutes on that, that what all measures were undertaking at that time, and then we will analyze the contemporary context and recent periods what we have done, I will try to incorporate the recent changes and then we will see and we will try to also focus on some policy measures which have been undertaken and how the policy interventions are required these days, what are the changes, what

dynamics agriculture sector needs in India and how we can think about making this particular sector more attractive.

So, as an economist this particular lecture will be helpful for those who want to work in the area of development economics, those who want to focus on agricultural economics, or those who want to work on the area of microfinance or even financial inclusion. Because these are all inter-related or inter-linked topics in the area of, broad area of agricultural sector that we have.

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So, for this, I had to explore a lot. And for the 1950s I have referred Economic Surveys of 1957-1958, 1970-1971, 2018-2019 and 2019-2020 for recent developments. It is published by the Ministry of Finance, Government of India.

And then there is a very good document that explains and covers each and every aspect of the agriculture sector, it is published by OECD/ICRIER and it gives you a complete idea not only about the recent past, but also the history that how we have progressed. So, I found this particular OECD.ICRIER report on agricultural policy in India quite useful for my lecture, and I will appreciate the audience if they are able to access it and refer, it is easily available, freely downloadable.

Then I also referred Pocket Book of Agricultural Statistics published by Directorate of Economics & Statistics, Government of India. So, this is also one very good source. I found then

when I started reading about the post liberalization process, then I found Bhalla GS and Singh G article appeared in Economic and Political Weekly, it is on Economic Liberalization and Indian Agriculture: a state-wise analysis. I also found on agricultural credit, because credit is one of the major contributors for the performance of the agriculture. So, I found Satish P. So, these are the references.

I found also the Rakesh Mohan contribution, because he has contributed a lot in the area of money and banking and money and finance in India. So, his paper, Agriculture credit in India: Status, issues and future agenda, Economic and Politically it is also referred.

I also found one important book by Suri, Twenty Years of Economic Reforms in India 1991-2011. It is one of the major references if you want to understand each and every aspect of India's economy, then I would recommend this particular source. Though, it is simply a documentation of different policy processes, but still if you want to have a look from the perspective of understanding different developments, then this particular book is one important source.

So, apart from this whenever I am referring any documents I have cited, and if you want you can go through those documents in case if you need for further analysis and further understanding. So, now, we will be going with these documents, these references. We will be going and understand and we will also highlight the learning objectives.

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○ Key Learning Objectives

- To understand the policies dedicated for the growth and development of agriculture sector in India
- To understand the progress and changes in agriculture policies since 1950.
- An overview of the latest developments and issues

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So, in this particular lecture, the learning objective is that you will have the clear-cut idea about the India's economic planning process with reference to agriculture sector. And then we will also see how we can understand the agriculture sector better with the incorporation of recent changes, what changes we have made and how we are progressing. So, this particular lecture helps you understand that also.

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Indian Agriculture Policies Since Independence

- Agriculture policies during 1950s to 1980s
 - The focus in the early years was acreage.
 - Food shortages during 1960s focused on productivity and farm output to increase the food production.
 - During 1950s, India used to import most the food items.
 - Mid-1960s started the era of better productivity and increased food grain production through green revolution.
 - High-yielding varieties of wheat and rice in irrigated areas augmented the production of food grains.
- National Seeds Corporation (NSC) was set-up in 1963.
- Two institutions were set-up in 1965:
 - Food Corporation of India (FCI)
 - Commission for Agricultural Costs and Prices (CACP).

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So, let us start. So, we are now tracing the history from 1950s till 1980. So, agricultural policies during 1950s and 1980s. In the early years, the focus was on acreage. So, in 1950s we hardly had the acreage of almost 99 million hectares. Then by 1964-1965, it increased to 118 million hectares, so that was one of the major contributors that how we because of our domestic or whatever measures that we had undertaken at that time, it helped expand the coverage area, incorporated certain changes.

Now, the food shortage during 1960s also helped in focusing on agriculture, because we had to go through a drought and then we had a famine cases in Bihar and certain parts of the country. So, at that time, the productivity and farm output were one of the major causes of concern and we used to rely on the import from U.S. and other partnering countries, we used to receive foreign aid. So, we used to rely on those things. So, during 1950s this was the case.

During 1960s, India started focusing on better productivity, because then we had a first phase of green revolution. Under that we started focusing on high yield variety seeds. And then we also started focusing on irrigation capabilities, that how irrigated areas can be increased for food grains. So, in certain parts of Punjab, Haryana and Western Uttar Pradesh, we started focusing on the expansion of agriculture activities, mostly wheat and rice, because this was one of the major causes of concern at that point of time.

So, in terms of wheat and rice, we did well, in terms of improving the production. Productivity also was a major concern. During 1950s, we had the productivity of around less than 5 quintals per hectare, it was around 5.5 quintals. Then we improved further during 1960s it came up to around, by 1970s we had the productivity of around 18. And then now, in 2009-2010 we have reached, in some cases, the productivity of around 30 quintals per hectare.

But as compared to international standard, in some countries the productivity is much higher. That could be because we still rely on the conventional resources, and irrigation is still a major challenge for some areas. So maybe the western part of the country is doing good, and to some extent northwestern part. But the eastern part of the country is still lagging behind and that is the main concern. But at that point of time, we focus more on the production side so that we can enhance our capabilities in terms of or going for self-reliance. So that was the concern.

Then we also had gone for setting up National Seeds Corporation in 1963. And this corporation helped in terms of breeding of different varieties of seeds for the domestic farmers, and especially in terms of cultivation this particular corporation helps a lot in terms of availability for different varieties of seeds, not just for the wheat and rice, for all other varieties.

So, National Seeds Corporation, normally the Seed Corporation in the early years, formative years, it was dominated by the government sector, but then after 2002 when we had a National Seeds Policy 2002, after 2002 we have now a scenario in which private sector is now dominating more, now it has the share of more than 50 percent in the seeds production and even distribution. In certain areas, the private sector seeds companies have done well.

And if you want to know how it works, then you can understand that under UN Framework, we have a CGIAR, Consultative Group of International Agricultural Research, under that we have

different types of food crops being undertaken and it is being researched. So, for example, for wheat you have Mexico, for rice you have Philippines, in India we have International Crop Research Institute for semi-arid tropics, that's called the ICRI-SAT. It is in Hyderabad and it does research on all the semi-arid tropics or some items which are mostly pulses, there you have chickpea, you have pigeon pea, you have (11:26), shorgums.

So, all these food items are being researched and then once you have a particular variety designated for certain characteristics, then it will be given for domestic trials and then the private and public companies will be competing and they will be introducing that for at a subsidized rate or in the beginning they might be charging some prices. So, sometime government also comes forward if the productivity is much better, just to promote those varieties.

Apart from that, we also had two institutions were set up in 1965, this was Food Corporation of India, one of the nodal agencies which helps the government in procuring food items. So, Food Corporation of India, and then we had Food Corporation of India was set up under Food Corporation Act 1964. And this particular FCI agency helps in terms of procuring different varieties or different types of food crops for domestic consumption.

Then we have a Commission for Agriculture Cost and Prices, this is CACP. Earlier it was called as Agriculture Prices Commission, but now in 1965 it was got the name of Commission for Agriculture Cost and Prices. Why CACP is important, because CACP helps decide the minimum support price.

Minimum support price is the price at which government buys the food items or the farming produce from the farmers. So, minimum support prices help trigger some kind it gives signal to the farmer that whatever the price that MSP is being offered for each and every produce. Farmer is having some kind of in advance idea that this particular crop is going to fetch more cash or going to get more income, then there will be focusing on that. And there is some kind of indication also from the government that since we are having a shortage of this particular item, food items, so it is better that farmers should be given more reward.

So, it works in this same way. And then once the farmers harvest those produce or whatever they have cultivated then the Food Corporation of India comes into picture and it procures. So, there

is a whole lot of debate and discussion on the efficiency of FCI in procuring food and distribution.

So, public distribution system is also associated with Food Corporation of India. So, food Corporation of India procures and later gives to the states, and the states further distribute the beneficiary. So, public distribution system is also uncertain targeted beneficiary food programs are also associated with the efficiency of Food Corporation of India.

For a very long time, Food Corporation of India's role in India procurement of foods has been some kind of debatable topic, but apart from that if you understand the structure, so it works in this way.

So CACP, every year it helps the government to decide or to find out different minimum support prices for different crops, or food items you can say. There are around 23 food items are being having MSPs. Around 23, 7 course items, 7 pulses, and 5 you have commercial crop and 5 also you have a different set of course item, cereals. So out of these, the total 23 items are part of this MSP drive that government every year implements. So, this is one of the important contributions of this.

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Indian Agriculture Policies Since Independence

- Agriculture policies during 1950s to 1980s
 - The Banking Regulation Act, 1949 didn't help much in reviving the credit outlook of agriculture sector. The loan disbursement rate was less than 2%.
 - During early 1970s, the nationalization of banks also helped expand the credit base of agriculture sector.
 - According to Economic Survey (1970-71), the total advances of public sector banks substantially increased from Rs. 160 crores in June 1969 to Rs.344 crores at the end of December 1970.

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Then comes the era of Banking Regulation Act. So, Banking Regulation Act 1949 was one of the major steps undertaken to revive the credit scenarios in the country. And that is why in 1969 we

had to go for a second set of nationalization, because Banking Regulation Act at that time did not contribute so much or did not improve the credit outlook of the country.

And that is why even with the Banking Regulation Act under which the commercial banks and all other financial institutions were having some kind of operational guidelines. But despite this, this particular act was not so successful. And the loan to or credit to agriculture sector was less than 2 percent.

Then came the era of nationalization of bank, when we had gone for nationalization of 14 banks. And because of that we had a better Credit base for the agriculture sector. And it improved from 1969. According to Economic Survey 1970-1971, it improved the credit availability from 160 cores in June 1969 to 344 cores at the end of December 1970.

So, apart from in terms of procurement and in terms of production we were focusing on, we also had the focus on the availability of credit, because at that time a major source of financing in agriculture was in the hands of intermediaries. Intermediaries in the sense the moneylenders and some zamindars were helping the small land holders to cultivate.

So, that is why at that time it was very much required and government was also feeling completely handicapped in terms of fulfilling certain social objectives. And that is why nationalization was done at that point of time. And agriculture was one of the beneficiaries of this nationalization, because as a result, the government had a proper plan and targets to provide financial support to agriculture sector. And that is why we can see that within one year it has increased by almost double the amount.

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○ Indian Agriculture Policies Since Independence

- Agriculture policies during 1950s to 1980s
 - Regional Rural Bank (RRB) Act (1975) was enacted to provide credit support to agriculture sector.
 - A dedicated financial regulatory institution to cater the needs of agriculture sector :The *National Bank for Agriculture and Rural Development (NABARD)*, was set-up in 1982.
 - In 1992, *Self-Help Group (SHG)* was permitted by NABARD to provide financial assistance to financially excluded communities.

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So, then in 1975, Narsimham Committee, which is considered as one of the major reformers of banking sector in India, this particular committee recommended that agriculture sector should also have some kind of regulatory framework, which can give focus to agriculture and which can provide a better outlook for the agriculture sector, especially in terms of financing.

So, the Regional Rural Bank Act was passed. And this particular RRB was set up in 1975. And in the beginning it was considered as somewhat mainly suitable for the rural development, agricultural financing. But within one or two years, it got so much attention that it was expanded all over the country, more than 2000 RRBs branches were there and that is why this particular rural RRB concept became one of the major successes in the country's history in terms of, I would say, credit support to agriculture sector.

Then there was also need to regulate, since the size of the agriculture sector credit support was growing quite fast, and that is why at that time the policymakers had the view that there should be one regulatory body to oversee this particular sector's need and requirement, and also to oversee in terms of regulations of different intuitions which were functioning at that time.

So, the National Bank for Agriculture and Rural Development was set up in 1982. So, this is what is called National Bank for Agriculture and Rural Development, NABARD. It was set up in 1982. NABARD is called the central bank of agriculture sector. So, whatever happens in

agriculture sector, NABARD is the nodal agency to take care. And RRB and all the cooperative banks, societies are part of this NABARD and it comes under NABARD.

And NABARD has helped a lot in terms of facilitating the credit services to the culture sector. And it has created a whole lot of effort to have the conducive environment for even small and marginal farmers, not only for the large farmers. So, once I go to the agricultural credit, then we will be discussing in detail all these developments, how NABARD has helped and what are the architectural, I would say, regulations of India's agricultural financing in India, so credit financing in India. I have also mentioned some references. So, you may refer that for your reference.

In 1992 Self-Help Group, SHG, was permitted by NABARD to provide financial assistance. And why I am mentioning here Self-Help Group, because this was for the first time that a group of people working in one particular domain was allowed to open a savings account in a bank. And this saving account opening in a bank gave rise to a lot of expansion of different types of activities, networking, and it also contributed positively to the agricultural growth because in terms of certain information through networks, through informal channels.

This particular group helped the farmers in terms of not only obtaining certain, I would say, benefits from the government, but also thinking about expanding the agriculture services. Because in certain pockets, it was very difficult and Self-Help Group helped revive this.

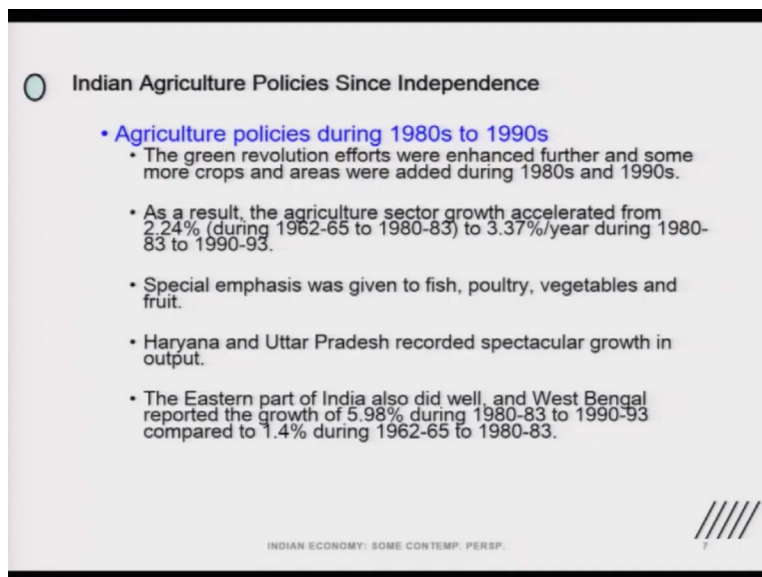
And because of this Self-Help Group motive, it became one of the important movements for the self-employment. So, that is why we had Swarn Jayanti Gram Swarojgar Yojana, then we had a National Rural Livelihood Rehabilitation program.

So, under that also, these self-employment initiatives started with Self-Help Group because it was quite successful. And it later turned into a micro finance initiative. And micro finance initiatives also helped in this particular initiative. And that is why the Self-Help Groups are one of the major contributors for the financial inclusion process that we had in India, and it started with this.

So, the concept of financial inclusion that we have in mind of those who are not having or who are not in a position to utilize the financial services, so untapped areas where there is a limited

accessibility of banking and financial services, Self-Help Groups helps a lot to cater the need of those populace. So here, it is really important to understand that how agriculture financing has played role in India during 1950s to 1980s.

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Indian Agriculture Policies Since Independence

- **Agriculture policies during 1980s to 1990s**
 - The green revolution efforts were enhanced further and some more crops and areas were added during 1980s and 1990s.
 - As a result, the agriculture sector growth accelerated from 2.24% (during 1962-65 to 1980-83) to 3.37%/year during 1980-83 to 1990-93.
 - Special emphasis was given to fish, poultry, vegetables and fruit.
 - Haryana and Uttar Pradesh recorded spectacular growth in output.
 - The Eastern part of India also did well, and West Bengal reported the growth of 5.98% during 1980-83 to 1990-93 compared to 1.4% during 1962-65 to 1980-83.

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Then we will move to now 1980s to 1990s. So, whatever we had made the effort in terms of Green Revolution, then we moved in era where we started focusing on different food items so pulses, then we have the poultry items, then we have the vegetables, fruits. So, all these items we started focusing on, not just wheat and rice. So, 1980s 1990s era started with this.

And because we already had one base of Green Revolution, so that continued for some years and then we started expanding in terms of areas. So, till Bengal, we had better growth recorded, but 1990s was the period when we experienced some downfall in the growth of agriculture sector, but it took almost four to five years, mid-1990s onwards we started picking up again, because of the economic crisis that we had, and there was limited attention on the agriculture sector at that time.

But because of the Green Revolution efforts, agriculture sector growth accelerated from 2.24 percent during 1962-1965 to 1980-1983 to 3.37 percent. So, this is one of the major contributors in this.

For this particular section, if you read the Economic and Political Weekly article of Dr. Bhalla, then you will have better idea, because they analyze the post reform period measures on the agriculture and they also compare it with the 60s era. And that is why you can see that we have the growth of around 2.24 percent since 1962-1965 to 1980-1983, and then it reached to 3.37 percent.

Special emphasis was given to fish, poultry, vegetables and fruit, because we were having the change in the consumption basket in the urban segments and there was a huge demand. And it was also required that because in these items there was not much scope for interference from the government, so the contract farming started from these fish, poultry and vegetable items, and that is why it continued.

And this gave us some kind of breeding ground for contract farming in India. So, contract farming, basically you see in case of poultry, especially in Maharashtra, in Andhra Pradesh, it is quite successful, to some extent even in Karnataka. Haryana and Uttar Pradesh recorded a spectacular growth in output, because at that time, the 1980s, UP had a good coverage of irrigated areas and also the Western Uttar Pradesh boom had continued and this had spread to other areas also. Haryana was already part of this so Haryana continued.

The eastern part of India also did well and West Bengal reported the growth of 5.98 percent during 1980-1983 to 1990-1993, compared to 1.4 percent. The West Bengal case is entirely different, because in West Bengal, before 1980s, there was major reform in terms of Zamindari Act and in terms of Land Selling Act also. And at that time there was focus on redistribution of land, so all the landless and sharecroppers were given huge support.

And that is why around more than 2.5 million people were benefited because of the land distribution, because of the abolition of these acts. And this resulted in having a good growth in agriculture output, so it was 5.98 percent. There is a very strong literature on this, how Bengal had gone for land reform, and land reform how it was successful in Bengal. So, Operation Bangla is very well-known revolution in certain parts of Bengal. And that is why the West Bengal had a good growth of around 5.98 percent.

But rest of the eastern states, for example, Bihar and even Chhattisgarh, were not doing that good at that point of time. Sorry, at that time, it was Madhya Pradesh, because at that time it was not Chhattisgarh. So, eastern part of India also did well. So, this is the case.

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Indian Agriculture Policies Since Independence

- Agriculture policies during 1980s to 1990s
 - However, the agricultural sector performance during post-reform period (1990-93 to 2003-2006) has declined in crop yields and the total agricultural output.
 - The agricultural output decelerated from 3.37% per annum during pre-reform period (1980-83 to 1990-93) to 1.74% during 1990-93 to 2003-06 (post-reform period).
 - Among all the states, Gujarat registered a very high growth of 5.33% as compared to 0.90% during pre-reform period due to widespread promotion of Bt Cotton.
 - The lack of investment in rural infrastructure and a significant fall in investment were the responsible reasons.

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Then we had agriculture policies during 1980s, 1990s, again, we are continuing. So, during a post reform period when we compare it with the 1990-1993 to 2003-2006, had declined in crop yields and total agricultural output also because of the upheavals or because of the shocks that we had in the 1990s in the beginning years. So, agricultural output decelerated from 3.3 percent per annum during pre-reform period to 1.74 percent during 1990 to 2003-2006.

All the states, Gujarat registered a very high growth, 5.33 percent as compared to 0.90 percent. And this was basically the author mentioned that because of the widespread adoption of BT Cotton, this helped a lot. And one of the reasons why we had seen the deceleration in growth, because of these bottlenecks that we had in terms of rural infrastructure.

So, so far what we have covered is from 1950s till 1980s, 1990s we are in. We are now in a post reform period. So, you will find that we had a certain set of regulatory bodies to take care, we had gone for market reforms, we adopted certain new changes, and because of that we were able to see the high growth in certain pockets of the country, certain regions. But some regions were still the cause of concern at that point of time also, and later policy considered those

shortcomings and they also formulated certain policies for that. So, we will continue this in the next session also. Thank you. Thank you so much.