



Agricultural Policy in India - An Overview

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Abstract: *Agriculture plays a crucial role in the overall growth process of an economy. Development economists and agricultural economists have focused on this vital role of agriculture of contributing to economic growth. Many early analysts have highlighted the importance of agriculture with its abundance of resources and its ability to transfer surpluses to the more important industrial sector. The market mediated linkages of agriculture is focused by the conventional development viz.*

Key Words: Tourism, Country, Fosters, Mutual Sympathy, Numerous, Exchequer, Modernity.

- (i) Providing labour for an urbanized industrial work force.
- (ii) Producing food for expanding population with higher income.
- (iii) Supplying savings for investment in industry.
- (iv) Enlarging markets for industrial output.
- (v) Providing export earnings to pay imported capital goods and
- (vi) Producing primary materials for agro processing industries.

Development impact of agriculture is largely determined by rapid agricultural productivity growth. Productivity growth that resulted from agricultural research and development has had an enormous impact on food supplies and food prices and consequent beneficial impacts on food security and poverty reduction.

Evidence from industrialized countries as well as countries that are rapidly developing today indicates that agriculture was the engine that contributed to growth in the non agricultural sectors and to overall economic wellbeing. Economic growth originating in agriculture can have a particularly strong impact in reducing poverty and hunger. Increasing employment and incomes in agriculture stimulate demand for non agricultural goods and services, providing a boost to nonfarm rural incomes as well.

Indian economy has witnessed new economic policies which have introduced substantial changes in many sectors. These have imparted much

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needed buoyancy to the Indian economy. However in India success of reforms on the final count hinges on the performance of agriculture. Agriculture is a state subject under seventh schedule of the constitution. The success in agricultural performance is crucially dependent on the policies and actions initiated by the states. The various aspects relating to land including land improvement and agricultural loans, irrigation, fisheries are all included in the state list. However the centre has the responsibility to launch from time to time major initiatives since agriculture in its broader definition produces several commodities which are essential items for existence or are raw materials for industry. Agriculture is a national subject and its orderly growth would call upon a broad consensus on measures to be taken. Certain major national objectives such as ensuring food security for every section of the population that would make collaborative effort between the centre and the state almost axiomatic.

The Centre-State combined policy approach towards agriculture is indispensable. Agriculture as practiced today depends heavily upon products and services made available by manufacturing industry which are included in the Union List. Similarly a policy regarding the processing industry though in the Union List cannot be promoted without extensive consultation and involvement of the various states. Export and import policies though largely in the province of the federal



government would need the close cooperation of the state governments. Hence in many ways the policies and processes relating to agriculture and allied activities have to be considered as one in the nature of national policies and programmes rather than those exclusively of the constituent parts - centre and the states.

Policies and Programmes for Agricultural Development - A Post Independence Scenario:

The state has played an important role in promoting agricultural development in the country. The country embarked upon the process of a planned socio-economic development and agricultural development merited the highest attention in the country. The broad contours of these programmes related to the building up the basic infrastructure for increasing the agricultural production such as;

- i) Provision of irrigation
- ii) Land improvement and development
- iii) Modernization of the production process
- iv) Creation of institutional framework to systematically reach out to the rural community viz. National Extension Service and Community Development Projects, other institutions to provide the goods and services, etc

Agricultural Policy and Reforms during 1950s: The main policy thrust in the pre-green revolution period from 1950-51 to 1965-66 was an agrarian reforms as well as modernizing agriculture through large scale investment in irrigation and power and other infrastructure such as;

- ? Credit institutions
- ? Regulated markets
- ? Roads and extension and
- ? Research institutions

Immediately after independence India abolished zamindari system giving occupancy, rights to 20 million statutory tenants facilitating modernization of agriculture. Tenancy laws were enacted in almost all states with the objective of providing security of tenure, regulating rent and conferring ownership rights on cultivating tenants.

Simultaneously ceilings on holdings were imposed in the early 1950s and the surplus land was taken over and distributed among the landless. The abolition of intermediaries and imposition of ceilings on land holdings had over time contributed to the growth of capitalist farming and arrested the concentration of land ownership. It is widely held that restructuring of land relations is a measure of great significance in the rural poor.

Agriculture Policy and Reforms in Mid 1960s:

In the mid 1960s policy emphasis had shifted from institutional to technological factors. The green revolution which is associated with high yielding variety of seeds ushered in a new phase of agricultural upgrades and modernization. There had been a steady stream of technological improvements contributing to yield improvement in wheat and rice. The advances in chemical fertilizer technology gave a central place to fertilizer in transforming crop production. Cost reducing technologies led to rapid expansion of tube well irrigation. There has been a shift from tenant cultivation to owner cultivation leading to sharp decline in tenancy. The overall process of growth led to widening of labour market in agriculture, animal husbandry, transport, petty trade, small industries and construction. The green revolution triggered the first large scale rural to rural migration in India wherein the poorly paid underemployed labour in rainfed marginal environments started migrating to green revolution regions.

Agricultural Policy in the Post Reform Era:

Agricultural policy emphasis in the post reform period has shifted to liberalizing trade in agriculture. Economic reforms in the beginning bypassed agriculture in terms of direct reforms except with trade liberalization and relaxation of some export controls over agricultural products. The subsequent currency devaluation and a shift towards floating exchange rates and reduction in industrial production have had indirect effects in the agriculture sector. With the establishment of WTO in 1995 and India becoming member, all



quantitative restrictions were dismantled by the end of March 2001. It is hoped that these policy shifts would provide an opportunity for our farmers and agro based industries to tap world markets.

Agricultural Policy - Need for Reorientation: It is necessary to make a comprehensive review of government policies in agricultural sector in view of the changes in the external environment especially after India joining World Trade Organization (WTO). There are also important changes in the internal environment viz.

- (a) The country has been transformed from a deficit country to self sufficient infact, marginally surplus, in the staple of food grains.
- (b) Dependence ,of workers on agriculture has not declined in any remarkable way.
- (c) The incidence of rural poverty has not been reduced significantly.
- (d) There is a stagnation in agricultural productivity in recent years.
- (e) There is a build up of food grains stocks to an unsustainable level which puts a question mark on the validity and efficacy of our price and subsidy policies.
- (f) There is a growing burden of subsidies contributing to mounting fiscal imbalance and crowding out public investment in agricultural.

In view of the above constraints a serious look at the agricultural policies is urgently called for.

Critical Areas: Four major weaknesses plague Indian agriculture. They are;

- " Preponderance of low-value agriculture
 - " Low cost benefit ratio
 - " Ineffective use of natural resources and
 - " Deterioration in self help institutions
- The agricultural policy should therefore aim at;
- " Increase in Value added' per hectare more so on the small and marginal holdings.
 - " Improvement in productivity of inputs especially purchased inputs, such as fertilizer and irrigation water.
 - " Prevention of environmental degradation,

especially degradation of land and water resources and

" Encourage to farmer self help institutions particularly at the grass roots level.

Land Reforms, Agricultural Price Policy and Agricultural Trade Policy - Some Reflections The post-reforms period has created changes and challenges for evolving policies needed for a dynamic agricultural sector. The following discussion is aimed at highlighting the major aspects relating to land reforms, agricultural price policy and agricultural trade policy in India. Land reforms initiated and implemented in various states have made significant impact on our agrarian structure. Following these reforms the agrarian system witnessed several important changes viz.

- " Enlargement of land holdings beyond the ceiling was halted.
- " Phenomenon of absentee landlords was severely weakened.
- " Greater convergence of ownership and management took place.
- " A more or less uniform land system (approximately to the royatwari system) emerged throughout the country.
- " A middle peasantry sharing the characteristics of capitalist farmers emerged in large part of the country.

Despite all these impacts land reforms could not contribute to the overall growth in agricultural productivity. However the plea for relating the restrictions on land holdings to raise productivity does not merit any consideration as small farm holdings have proved to be productive in many areas in the country and elsewhere. However there is a convincing case for liberalizing tenancy provisions. A time has come when we should allow the lease market to function.

Agricultural Prices and Subsidies:

Currently agricultural price policies comprise a minimum support price to ensure that producers of certain commodities, mainly cereals, are not pit to loss should the market price fall below a certain



level; procurement price which entitled producers of certain commodities - again mainly cereals - to sell all their produce at a price declared in advance by the Government; a buffer stock to cushion the country from any large shortfall in food grain production; a public distribution system to distribute procured food grains at an issue price generally lower than the market price to vulnerable sections of consumers.

These price policies had served well in the period when the overreaching objective was to close the gap between demand and supply of food grains from domestic production. But the goal of food self sufficiency was reached by the late 1980s mainly due to the 'Green Revolution'. Since then the situation has changed and several distortions have crept in due to this system. This calls for forging a new price and subsidy policy regime. There is need to recognize that price policy is weak instrument for income transfers. Our capacity to offer minimum support prices for a large number of commodities is limited. Instrument of minimum support process has to be used sparingly; greater reliance needs to be placed on crop insurance and on forward market procurement operations need to be made more businesslike; need for dovetailing agriculture and trade policies is urgent; FCI should be decentralized and debureaucratized, states should be made major stake holders in the public distribution system.

Input Subsidies: A disturbing feature of agricultural policy in our country is the large and growing amount of inputs subsidies. The argument that subsidies leading to increase in the use of inputs and consequently resulting in improved productivity has been supported by those in favour of subsidizing farmers for their use of agricultural inputs. Evidence suggests that increasing use of the subsidized inputs is not contributing to productivity at the margin. Marginal productivity of fertilizers and water applications is declining largely because of weaknesses in the organization and functioning of the extension system.

A determined move needs to be made to

dismantle the subsidy regime in agriculture, it should be recognized however that our system has been addicted to subsidies.

Agricultural Trade Policies: The WTO dispensation has covered agriculture in its discipline. The agreements largely relate to three basic areas viz.

- i) Market access
- ii) Export competition and
- iii) Domestic support

The intent of these agreements is to facilitate the process of trade liberalization and provide for arbitration. One of the major issues in agricultural trade policy is our stance on food self sufficiency. The widespread move towards globalization on the one hand and secular decline in the food grain prices at international level on the other, have been advanced as the arguments to forsake food self sufficiency as a national objective and organize production on the basis of comparative costs. Food self sufficiency simply connotes a trade strategy which would not expose vulnerable sections of producers as well as consumers to avoidable shocks from external trade while there is little justification for food grains imports to meet domestic requirements to any significant extent there is no firm basis to consider the possibility of food grains emerging as major export either.

The criteria by which we should judge the export potential of an agricultural commodity could be

- i) The place of commodity in the consumption pattern of the people.
- ii) The ratio of export price and the domestic price and
- iii) Future demand/supply prospects in the international markets.

These criteria should be kept in the forefront while deciding the strategy of international trade in agricultural commodities. Agricultural trade policy till recently was designed to pursue two objectives.

- i) Food self sufficiency and



ii) Promotion of exports of the so called 'commercial crops' e.g. cotton, jute, tobacco, etc. Export orientation for the later group of crops is justified as they satisfy the basic conditions to qualify as export crops as indicated above. Another., area where India can exploit potential growth of agricultural export in international market. It relates to diverse soil and climatic conditions which include dynamic commodities like fruits, vegetables, flowers, herbs, etc. These commodities enjoy other advantages viz.

1) A faster growing demand in the affluent parts of the world and

2) High value added associated with high labour content of these commodities.

The second characteristics helps in the fulfilment of one of the main objective of agricultural policy namely introduction of high value added agriculture especially on the small and marginal holdings. The growth of exports of these commodities depends on;

i) Vertical integration of the small holdings with appropriate secondary and tertiary organizations for input supply, quality control marketing and processing and

ii) Infrastructural support in terms of communication, transport, cold storage, etc.

The development of economic and social infrastructure i.e. adaptation of banking facilities, insurance facilities, pricing policies and development of appropriate information system are equally important.

A review of experience in agricultural trade and on examination of future prospects would suggest the following.

i) We should reach effective food self sufficiency in cereals and be prepared for diversification once a situation of food surplus arises.

ii) We should emphasize export of the commercial crops where India has comparative advantage particularly in cotton, tea and tobacco.

iii) We should harness export potential and processed agricultural commodities, fruits, flowers, herbs, etc. and ensure participation of small

holdings in their production.

Institutional Reforms: There is need for institutional reforms for promotion of exports viz.

" Policy for canalization of exports through public sector organization.

" Fixing arbitrary minimum baseline price for exports.

" "Stop-go" policy based on ad hoc consideration to be substituted by a well thought-out long term strategy for agricultural exports in tandem with domestic economic policies.

"With a determined bid to orient agricultural production to exports in commodities in which we have a comparative advantage, we have a comparative advantage. We can make agriculture contribute substantially to foreign exchange earnings and can introduce value added agriculture even on the small and marginal holdings. At the same time, we have to ensure that agricultural exports do not prove counterproductive by fuelling inflation within the country and adversely affecting the standard of living of the common people".

Agricultural policy should be oriented towards two major aspects. India should maintain ceiling on agricultural land holdings till the pace of diversification in the rural areas is accelerated and should not abandon the policy of food self-sufficiency till livelihood and consumption patterns change remarkably. Agricultural reforms in India should focus on the following suggestions.

i) Acceleration of the process of liberalization in domestic market.

ii) Un-freezing the lease market.

iii) Thoroughly revising the agricultural price support system by;

a. Curtailing the scope of minimum support process to aim at protecting variable costs for a few commodities in selected regions and

b. Giving greater emphasis on crop insurance and forward markets.

iv) Carrying procurement operations on commercial lines.

v) Involving states and the lower tiers of



Panchayat Raj in public distribution of food grains.

- vi) Dovetailing price and trade policies in an effective manner.
- vii) Establishing the principle of cost recovery in agriculture inputs and phasing out input subsidies by;
 - a) Placing a 'cap' on existing subsidies.
 - b) Announcement of a time bound programme of phasing out input subsidies.
- viii) Working out long term export strategy for 'commercial crops' and other dynamic and high value crops.
- ix) Progressive decanalization of exports of agricultural commodities and removing other irritants.
- x) Preparing to challenges any deviation from main objective of WTO and take initiative in organizing other developing countries for the same purpose.

It is widely accepted that Indian agricultural growth rate of 4.0- 4.5 percent to reduce poverty significantly. At this rate agricultural development would diversify into dairying, animal husbandry, fisheries, floriculture, horticulture and other areas. This would spur the growth of agro-processing industries in rural areas to meet domestic as well as export demand. Rice and wheat farmers should be induced to look for new sources of incomes in diversified agriculture to compensate the fall in incomes in rice and wheat cultivation. As the demand for cereals is mainly population driven whose growth rate is slowing down it would be prudent to divert resources from rice and wheat cultivation to high value crops. Since income improvement in irrigated regions is likely to increase the demand for the products of animal husbandry, fruits, vegetables and processed foods, marketing and agro-processing should receive the attention of

policy makers.

It is considered that public spending in irrigated regions should be very selective, facilitative and confined to those critical areas which would supplement private initiative. In short a strategy combining promotion of agricultural growth, productive non-farm employment and high levels of social development would be needed to trigger off labour intensive growth in rural areas.

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