

# IMPORTANCE AND FEATURES OF AGRICULTURE IN INDIAN ECONOMY: AN ANALYSIS

<sup>1</sup> Sadaf & <sup>2</sup> Dr. U.P. Sinha

<sup>1</sup> Research Scholar, <sup>2</sup> Professor & Head  
Univ. Dept. of Economics T.M. Bhagalpur University, Bhagalpur, Bihar.

**Abstract :** Agriculture is the oldest, largest and the most important sector in the process of economic development. It is essential for economic growth in any economy including India. It has emerged as the essential-growing sector in the global economy since independence. It is the main source of livelihood for the majority of the population, our national income, raw material for industry, government revenue, saving potentials for the development of the country and also main occupation of our working population. Agricultural commodities like jute, tobacco, oilseeds, spices, raw cotton, tea and coffee accounted for about 18% of the total value of exports in India. Agriculture trade contributes 15% of total foreign exchange earnings. Agriculture is also feeds our country's population. Agriculture is also importance for transport, marketable surplus, economic planning in India, overall and basis of economic development and promotion of capital formation. Keeping in view the importance of agriculture in general and specifically in India, the some basic features of Indian agriculture : feudal character of production, usurious capital and growing indebtedness, dualism in labour market, outdated farming techniques, fluctuations in agricultural output and diversities in Indian agriculture.

**Keywords:** agricultural commodities, agricultural diversities, dualism, farming techniques, working population.

## INTRODUCTION

The importance of agriculture in the economic development of a country is undebtable. In the words of Johnston and Mellor, "certain aspects of agriculture's role, appear to have a high degree of generality, because of special features that characterise the agricultural sector during the course of development". But the contribution of agriculture in the economic development varies at different stages in different countries. This was recognised by many economists at various periods of economic thought. For instance, in practice, the over-all rate of growth achievable in third World countries depends primarily on what happens to its agriculture. In the typical African or Asian economy, agriculture produces something like 50 per cent of Gross Domestic Product (GDP) while services account for 35 per cent of it and industry for only 15 per cent. Thus, the predominance, of agriculture sector rather than manufacture sector becomes main determinant of growth of economy. In this paper our aim to analysis the importance and features of agriculture in economic development of India.

## IMPORTANCE OF AGRICULTURE

It is obvious, that the agricultural sector has to play a crucial, basic and important role in the life of Indian economy that provides not only food-stuff but also essential raw materials of industry but also employment opportunities to a very large proportion of population. It is the oldest business in the world and nearly two-thirds of the population of the world is dependent on agriculture directly or indirectly for its livelihood. Nearly 50% of the national income of India is derived from agriculture. Its contribution to national income, foreign exchange and employment is undoubtedly impressive. Following are the importance factor of our Indian agriculture and Economy :

**1. Source of Livelihood and Employment :** Agriculture is the main source of livelihood for the majority of the population in India. It is also main occupation of our working popular is agriculture. About 66 per cent of our working population are engaged directly in the cultivation of land. In advanced countries, this ratio is very small, being 3 percent in USA, 4 per cent in Australia, 5 percent in U.K., 6 per cent in France, 12 per cent in Japan and 18 per cent in USSR. This high proportion in agriculture is due to the fact that the non-agriculture activities have not been developed to absorb the rapidly growing population.

The share of agriculture in the aggregate economy has declined rapidly during the planned development of the country; it assumes a pivotal role in the rural economy. Jha states that the NSS quinquennial surveys on employment show a decline in the share of agriculture and an increase in the share of non-agricultural sector in aggregate employment. Such a structural shift though expected in a developing economy, has been slower in the Indian economy. This process is even slower in the rural economy. Nevertheless in rural India the growth rate of employment in the non-agricultural sector has been far short of the increase in the rural workforce. As a consequence, the incidence of rural unemployment on the basis of current daily status (CDS) is as high as seven per cent in the year 1999-00. There is no evidence to suggest improvement in the quality of rural employment, which is generally associated with the structural changes of employment. In this context employment in agriculture remains important. The recent NSS quinquennial survey on employment shows that the number of agricultural workers has almost stagnated. Agricultural income during the '90s has however grown at an impressive rate. The employment of main workers engaged in agriculture can be seen in the following Table 1.

**Table 1 : Total Population, Rural Population and Agricultural Workers in India (in Millions)**

Year	Total Population	Rural Population	Average Annual Exponential Growth Rate (%)	Agricultural Workers		
				Cultivators	Agricultural	Total Working Population
1951	361.1	298.6 (82.7)	1.25	69.9 (71.9)	27.3 (28.1)	97.2
1961	439.2	360.3 (82.0)	1.96	99.6 (76.0)	31.5 (24.0)	131.1
1971	548.2	439.0 (80.1)	2.20	78.2 (62.2)	47.5 (37.8)	125.7
1981	683.3	525.6 (76.9)	2.22	92.5 (62.5)	55.5 (37.5)	148.0
1991	846.4	630.6 (74.5)	2.16	110.7 (59.7)	74.6 (40.3)	185.3
2001	11028.7	742.6 (72.2)	1.97	127.3 (54.4)	106.8 (45.6)	234.1
2011	1210.6	833.5 (68.8)	1.64	118.7 (45.1)	144.3 (54.9)	263.0

**Note :** Figures in parentheses are in percentages.

**Source :** Indian Agriculture at a glance 2013.

Growth of population has been very rapid at around 2.2% per annum in 1970's and 1980's but has declined to 1.64% recently. After independence, the census of 1951 indicated the population at around 36 crores which continuously increased to 103 crores in 2001 and 121 crores in 2011. Growth of secondary and tertiary sectors to absorb the expanding population size is lacking. However, urbanisation has taken place at increasing rate leaving behind 69% population in the rural area in 2011 as against about 83% in 1951. Rural population mainly absorbed in agricultural sector is as cultivators and agricultural labourers. In absolute number, it has gone up as indicated by the number of total agricultural workers which increased from 97.2 million in 1951 to 263 million in 2011. The number of cultivators increased and subdivision of land holdings took place but this increase was relatively slow i.e. from 70 million to 127 million during 2001 but has recently declined to 118.7 million. On the other hand, the agricultural labourers went up at much faster rate i.e. about six times during this period. Fast increase in landless labourers thus added to rural poverty due to under Employment and low wage rate.

**2. Contribution to National Income :** Agriculture is the premier source of our national income. According to National Income Committee and Central Statist Organisation in 1950-51, 53 per cent of national income was contributed by agriculture and allied occupation. In 1970-71 this sector alone contributed 42.3 per cent while in 1990-91, its contribution declined to 29.6 per cent. In 2012-13, it contributed less than 14 cont of national income. The share of other sectors is on the increase over time (Table 2). Contrary to this, the proportion of agriculture in U.K. was only 2%, in USA it is 2.2% and 2 per cent in Australia. Conclusion of all this is that more developed a country, is the smaller is the contribution of agriculture in national output.

As per nature of agricultural sector which has slow growth as compared to other sectors, the share of this sector over time is on the decline which highlights the increasing relative importance of other sectors of economy. Even across the states, contribution of agriculture to the GSDP was as high as 34.1% in Punjab in 2009-10, 03.1% in Bihar and 27.8% in U.P. and as low as 2.6% in Pondicherry state. However, with the growth of all the state economies, per cent contribution of agriculture is declining. In 2012-13, agriculture of these states contributed 21.7% 19.8%, 20.4% and 2.7% respectively. This was exactly what was hypothesised by Simon Kuznets. Development of a sector depends upon the capital investment. Measured by gross capital formation, the agriculture sector progressed at a rapid stage till early eighties but since mid-eighties the share of agriculture in Gross Capital Formation has shown a steep fall showing a tendency towards stagnation.

**Table 2 : Sector-wise Composition of GDP (%)**

Year	Agriculture	Industry	Services
1950-51	53.1	16.6	30.3
1970-71	42.3	24.0	33.8
1990-91	29.6	27.7	42.7
2010-11	14.5	28.2	57.3
2012-13	13.7	26.7	59.6

**Source :** Economic Surveys of India

**3. Importance of Agriculture to International Trade :** It is the agricultural raw material which institute the main articles of India's internal and external trade. Agriculture sector also feeds country's trade and transport. Agricultural products like tea, sugar, rice, tobacco, cotton spices etc constitute the main items of exports of India. By exporting them, it has been possible to import in return the much-needed machinery and manufactured goods. In reality, the agricultural goods which are exported amount to a high per cent of our exports. This has a great significance for the foreign exchange earnings and for economic development of the country. Agriculture trade contributes 15% of total foreign exchange earnings. The major agri-exports of India are cereals, rice, basmati rice and non-basmati rice, spices, oilcake, tobacco un-manufactured, tea, coffee and marine products. Lack of market access in the developed market economy countries due to high tariffs and pronounced Non-tariff barriers has been acting as a deterrent for the exports. As against agricultural exports, agri-imports constitute only a small proportion of the country's total imports 5%. The share of agricultural exports is given in table 3.

Table 3 : Share of Agricultural Exports in Total Exports of India

Year	Total Exports (Million USD)	Agriculture and allied products Export (Million USD)	Percentage Share of Agricultural Export
1991-92	17865.4	3202.5	17.9
1999-00	36822.4	5608.0	15.2
2000-01	44560.3	5973.2	13.4
2001-02	43826.7	5901.2	13.5
2002-03	52719.4	6710.0	12.7
2003-04	63842.6	7533.1	11.8
2004-05	83535.9	8474.7	10.1
2005-06	103090.5	10213.8	9.9
2006-07	126361.5	12683.5	10.0
2007-08	159006.7	19398.8	12.2
2008-09	173865.3	17774.5	10.2
2009-10	184770.0	19572.4	10.6
2010-11	193570.0	20324.9	10.5

**Source:** Directorate General of Commercial Intelligence and Statistics, Government of India

**4. Supply of Food and Fodder :** It is agriculture that feeds the our country's population. During the last three decades, it failed to meet our food requirements fully and we have to rely on heavy annual food imports to feed our teeming millions. After Green Revolution, the total value of food grains produced in the country would come to a very large figure, imports constituting on an average only 2% of the total food requirements of the country. During 2008-09, 2339 lakh tonnes of foodgrains were produced in the country. Instead of import of foodgrains we have net exports in recent years. Agriculture sector also provides fodder for livestock and poultry. Cattle and buffalo provide protective food in the form of milk, egg and they also provide draught power for farm operations. Moreover, it also meets the food requirement of the people. Undoubtedly, during the three decades after independence, it failed to meet our food requirements fully and we had to rely on heavy food imports from abroad.

**5. Contribution to Foreign Exchange Resources:** The contribution of agricultural sector to foreign exchange resources is very significant in India. It is constitute an important place in the country's export trade. According to an estimate, agricultural commodities like jute, tobacco, oilseeds, spices, raw cotton, tea and coffee accounted for about 18 per cent of the total value of exports in India. This shows that agriculture products still continue to be significant source of earning foreign exchange.

**6. Source of Raw Material for Industry :** Agriculture has been the source and supply of raw materials not only in the quasi-agricultural sector but also in core industrial sectors to the leading industries like cotton and jute textiles, sugar, tobacco, edible and man edible oils etc. which depend directly on agriculture. Apart from this, many others like processing of fruits and vegetables, dal milling, rice husking, gur making also draw on agriculture for their raw-material. According to United Nation survey, the industries with raw material of agricultural origin accounted for 50 per cent and 64 per cent of all jobs in the industrial sector in India.

**7. Marketable Surplus :** The development of agricultural sector leads to marketable surplus. As country develops, more and more people are to be engaged in mining manufacturing and other non-agricultural sector. All these people depend upon the food production that comes to the market in the shape of surplus. Here, it is worth mentioning that the development of Japanese and Russian industrial economies was made possible by the surplus of agriculture that could be siphoned off to the industrial sector. There is no reason why this could not be done in case of India.

**8. Importance in Transport :** Agriculture is the main support for railways and roadways which transport bulk of agricultural produce from farm to the mandies and factories. Internal trade is mostly in agricultural products. Besides, the finance of the Govt. also to a large extent depends upon prosperity of the agricultural sector.

**9. Source of Government Revenue :** Agriculture is one of the main source of revenue to both the central and the state Governments of the country. Not only does the Government get a substantial income from land revenue but the prosperity of the railways and income from many other sources is also dependent on favorable agriculture. Land revenue, agricultural income tax, irrigation tax and some other types of taxes are being levied on agriculture by the state governments. Moreover, considerably revenue is earned by way of excise duty and export duty on agricultural products. Raj committee on Agricultural Taxation has suggested imposition of taxation on agricultural income for raising revenue. Indeed, a bad agricultural year is a bad year all round both for the Government and for the people.

**10. Agriculture in Economic Planning :** The prospects of planning in India depend much on agricultural sector. A good crop always provides impetus towards a planned economic development of the country by creating a better business climate for other sectors of the economy. A good crop also brings a good amount of finance to the Government for meeting its planned expenditure. On the contrary, a bad crop leads to total depression in business of the country, which ultimately leads to the failure of economic planning.

**11. Source of Saving :** Improvement in agriculture can go a long way in increasing savings. It is seen that rich farmers have started saving especially after green revolution in the country. This surplus amount can be invested in agriculture sector for further; development of the sector. Saving potentials are large in agriculture sector which can be properly tapped for the development of the country.

**12. Overall Economic Development :** In the course of economic development, agriculture employs majority of people. This means raising the level of the national income and standard of living of the common man. The rapid growth rate in agriculture sector gives progressive outlook and further motivation for development. As a result, it helps to create proper atmosphere for general economic development of the economy. Thus, economic development depends on the rate at which agriculture grows.

**13. Basis of Economic Development :** Prof. Nurkse has laid sufficient emphasis on the improvement of agriculture for a balanced growth of an economy. The development of agriculture provides necessary capital for the development of other sectors like industry, transport and foreign trade. In fact, a balanced development of agriculture and industry is the need of the day.

**14. Promotion of Capital Formation :** According to Prof. Nurkse, disguised unemployment is a potential source of capital formation. Similarly, Prof. Lewis was of the opinion that surplus labour force of agriculture sector can be gainfully engaged in the industrial sector at a lower wage rate. Moreover, agriculture plays a significant role in the formation of human capital. India's

disguised unemployed in agriculture can productively be engaged. This will help to generate capital formation in the country. Table 4 indicates that role of private sector in capital in agriculture is increasing. Of the total capital formation, share of agriculture is declining rapidly.

**Table 4 : Gross Capital Formation (GCF) in Indian Agriculture and Allied Sectors (at 1993-94 prices) (Rs. crores)**

Year	Public sector	Private sector	Total	% of total GCF
1960-61	2400	2858	5258	13.1
1970-71	3216	5371	8587	14.3
1980-81	7301	6932	14233	15.4
1990-91	4992	1142.4	16416	9.9
2000-01	4435	15374	19809	7.6
2010-11	32073	161513	193586	7.1

**Source :** Indian Agriculture at a Glance – 2013.

From the above, explanation it may be concluded that agriculture occupies an important place in the development of an economy. Any programme of economic development can not succeed unless it is supported by a strong agricultural base. In country like India, where majority of the people are engaged in agriculture, it receives top priority. Therefore, proper emphasis should be given to the development of agricultural sector for success of economic planning in the country.

### FEATURES OF INDIAN AGRICULTURE

Keeping in view the importance of agriculture in general and specifically in India, we mention the some basic features of Indian agriculture :

**1. Feudal Character of Production :** The character of agriculture in India was totally feudal at the time of independence. During those days the land tenure system were mostly of zamindari, mahalwari and ryotwari type. The major portion i.e. about 57 per cent of the total area was under zamindari system which paved the way for exploitation of peasant by the zamindars. Liven in the ryotwari system this sort of exploitation was prevalent.

After the introduction of land reform measures by the state Governments for abolishing intermediaries since independence, the character of feudal system did not change much. Abolition of zamindari system paved the way for the creation of absentee landlords. This absentee landlords derived considerable economic power from their masters, more specifically through: (i) Cultivation of land through hired labourers; (ii) leasing out the land to tenants; (iii) trading in foodgrains and other commodities. Like the zamindars, this absentee landlords became the ruling class in India. These landlords are still exploiting the tenants and agricultural workers. About 50 per cent of the total cultivated land is in the category of tenants at will and sub-tenants. Moreover, there are two categories of agricultural labourers: (i) attached labourers and (ii) casual labourers. With the growing eviction of tenants, the number of agricultural labourers is also increasing leading to an increase in the degree of poverty and misery among the rural poor.

**2. Usurious Capital and Growing Indebtedness :** In Indian agriculture, the use of usurious capital is quite huge in volume and this leads to growing indebtedness among the poor farmers. During the pre-independence period, money lenders and mahajans were supplying the entire portion of agricultural credit at an exorbitant rate of interest leading to exploitation of farmers. After independence, although the government introduced various steps such as-development of co-operative credit societies, participation of banks in raising rural credit etc. but all these institutions could not benefit the small and marginal farmers. As a result they continued to depend on village money lenders to fulfil their credit requirements. Those money lenders are still charging very high rates of interest and ultimately grab the land of these small and marginal farmers.

**3. Dualism in Labour Market :** Dualism of the labour market became prevalent in India due to excessive pressure of population on land. The level of wages in the agricultural sector are very low in comparison to that of industrial sector. This dualism started to exist in Indian. labour market due to worker's ignorance of better opportunities outside agriculture and also due to their inability to work in a modern industrial system. Low level of wages in the agricultural sector is responsible for low per capita income which in turn reduces the labour productivity.

**4. Outdated Farming Techniques :** Indian agriculture is still characterised by the use of orthodox and outdated farming techniques of production. Major portion of the agricultural operations are still depending on biological sources of energy, i.e. human and animal labour, rain water and organ manure (dung). After the adoption of new agricultural strategy during 1966-67, modern techniques of production alongwith new HYV seeds were introduced in some states like Punjab, Haryana and Western Uttar Pradesh. This resulted in a significant increase in agricultural productivity. This has also resulted an inter-regional technological dualism as major portion of the agricultural and continues to follow orthodox methods while only few regions started to follow modern techniques. Inter-personal technological dualism also started to exist in Indian agriculture as the new technology being costly continue to be adopted by wealthy farmers. On the other hand, small and marginal farmers continue to follow old techniques due to financial constraints despite to their awareness.

**5. Fluctuations in Agricultural Output :** Another feature of our agriculture is that total agricultural output of the country is subject to much fluctuations. Dependence on monsoons is the most important factor responsible for this large-scale fluctuations in agricultural output. The net irrigated area of the country has increased from 20.8 million hectares in 1950-51 to 63.6 million hectares in 2010-11. Thus the remaining 36 per cent of the net sown area still continues to depend on monsoons, Thus Indian agricultural operations can still be considered as the gamble of monsoons as nature is still playing a dominant role in determining the volume of agricultural production of the country. Moreover, due to the application of bio-chemical technology in the post-1965 periods the sensitivity of output to variations in rainfall has increased

**6. Diversities in Indian Agriculture :** Presence of agricultural diversities is another basic feature of Indian agriculture. Different regions of the country are having lot of differences in their natural conditions such as soil content, magnitude of rainfall, water availability etc. Some areas are facing drought conditions whereas some other areas are facing occurrence of floods, some other areas are facing the problem of water logging and salinity at the same time. Moreover, there exists a considerable difference in land tenure system and labour relations among the various states of the country. In respect of sub-division and fragmentation of holdings a substantial regional disparities still exist. Thus in presence of such large diversities in Indian agriculture it is quite difficult to generalise a problem and to adopt a common single policy for all different regions.

## CONCLUSION

Agriculture is the oldest, largest and the most important sector in the process of economic development. In most of the developing countries, agriculture is the only major existing industry. Hence, most of these countries have to depend much upon the development of agricultural sector for their economic development in order to meet the demand for food, to earn foreign exchange for over-head investment and expansion of secondary industries to meet the growing demand for employment and to raise money incomes of rural people. Historical experiences of most of the developed countries like England, U.S.A., U.S.S.R., Canada, Japan etc., reveal the importance of agriculture in the process of the countries economic development at the outset of industrial revolution. For over-all growth of an economy, proper balance between agriculture and industry is essential as these two industries are inter-dependent. Except for countries which have rich mineral resources, no under-developed country can grow rapidly by neglecting agriculture. Further, agriculture has to depend upon industry for machinery, agricultural implements and industry has to depend upon agriculture for food and raw material like cotton, jute, oil seeds etc. Hence, for a healthy and steady economic development of any nation, a proper balance between agriculture and other sectors must be maintained.

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