ATUL GOSWAMI MEMORIAL LECTURE

Professor S. Mahendra Dev

Inclusive Growth in India: Issues, Policies and Challenges

OMEO KUMAR DAS INSTITUTE OF SOCIAL CHANGE AND DEVELOPMENT
GUWAHATI

Atul Goswami Memorial Lecture No. 5

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Preface

This Lecture Series was started in 2005 to commemorate Late Professor Atul Goswami who was the Director of the Institute from 1994-2000. The idea behind this has been to initiate a discussion on issues of contemporary economy among the intelligentsia as a mark of loving memory and remembrance of Late Professor Goswami who himself was a highly respected economist of the region. The First lecture in the Series was delivered by Professor Atul Sarma, former Director of the Indian Statistical Institute, New Delhi and the then Vice-Chancellor of Arunachal(now Rajiv Gandhi) University.

Professor S. Mahendra Dev delivered the fifth Atul Goswami Memorial Lecture on 15 July,2009 at the city's Vivekananda Kendra Institute of Culture, Uzanbazar.

Professor Dev recollects in his lecture that the present context related to economic reforms started in the early 1990s. He highlights the fact that in the post reforms period, India did well in service sectors such as exports, service sector and Information Technology (IT) and delineates that the exclusion continued in terms of low agricultural growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. Economics alone cannot be taken to do justice to inclusive growth; other social factors are equally responsible for an inclusive growth. While highlighting the role of democracy in governance Professor Dev stressed the need to strengthen democracy by decentralizing and inclusive growth.

I take this opportunity to thank Professor S. Mahendra Dev for kindly taking time out from his busy schedule to deliver the Lecture and hope that this will make an intriguingly pleasant reading. I also thank North East Economic Association (NEEA) for their cooperation in holding this lecture.

Indranee Dutta
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Inclusive Growth in India: Issues, Policies and Challenges

1. INTRODUCTION

I am grateful to OKD Institute of Social Change and Development particularly Dr. Indranee Dutta for inviting me to deliver the A.Goswami Memorial lecture. I am also happy to note that ICSSR and North Eastern Council are associated in organizing this lecture. Dr. A.Goswami was economist and director of this institute. It is my privilege to deliver this lecture in memory of late Dr. A.Goswami. Today, I will be speaking on inclusive growth.

The concept of inclusive growth is not a new or novel idea for the world in general and India in particular. Inclusive approach is a broader concept covering economic, social and cultural aspects of development. The approach of growth with equity has been followed in India since independence. We treat here 'inclusive growth' as synonymous with 'equitable development'. In this framework, there is complementarity between growth and equity. Economic growth can create opportunities for wider participation of people. On the other hand, equity is important in itself as well as for raising economic growth by harnessing physical and human resources on a broader scale.

There has been a lot of debate on the development strategies to be followed in developing countries. One of the main criticisms of globalization and economic reforms has been that they do not have 'human face' and have not achieved inclusive growth. Although economic growth has improved, bottom 40 per cent have not benefited much and inequality has not declined. In general, the international experience shows that reforms have not succeeded in Latin America and Africa in achieving equitable development. It may be noted that economic reforms *per se* may not lead to inequalities if initial conditions are good (Rao, 2009). The experience of South East and East Asia which had better initial conditions, poverty reduction

and equality has been much better with economic reforms.

The present context of inclusive growth in India relates to economic reforms started in the early 1990s. In the post-reform period, India has done well in some indicators such as economic growth, exports, balance of payments, resilience to external shocks, service sector growth, significant accumulation of foreign exchange, Information technology (IT) and stock market, improvements in telecommunications etc. In the first few years of this decade, there was a feeling that 'India was shining'. It was, however, realized that the 'feel good factor' was only in these indicators. However, exclusion continued in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. Thus, social exclusion is taking place in terms of regions, social and marginal groups, women, minorities and children[1]. It may be noted, however, that economic reforms *per se* may not lead to insufficient inclusive growth. Initial endowments like infrastructure and social development are important.

The immediate context for inclusive growth in India is the 2004 general elections. It was argued that the verdict in the elections was against the urban-biased economic development policies pursued earlier. The UPA government included inclusive policies in their common minimum programme. The approach paper for 11th Five Year Plan acknowledges that the economic growth has failed to be sufficiently inclusive. 11th Plan (2007-12) advocates for faster and more inclusive growth. Of course now we have the problem of financial crisis impact on economy and employment. Growth came down to less than 7% in 2008-09 and the same is expected in 2009-10. It would adversely affect the employment and incomes. In order to come out of financial crisis also we need inclusive growth policies.

Recent high growth path of 7-9% also highlighted the rural-urban divide, rich-poor divide, regional and social divide. Some people object to the word 'growth' in the term 'inclusive growth'. They say we are still talking about growth and not development. Anyway, whether we use 'growth' or 'development' we mean 'equitable development' when we refer to 'inclusive growth'.

According to me, there are five inter-related elements of inclusive growth: (a) Agriculture (b)Employment generation and poverty reduction; (c) Social Sector Development; (d) Reduction in regional and other disparities; (e) Protecting the environment. In this lecture, I will be discussing issues, policies and challenges in these five elements and also offer suggestions for enhancing inclusive growth.

[1] More on this see Dev (2008)

2. AGRICULTURE

Agriculture plays a pivotal role in Indian economy and this sector's better performance is vital for inclusive growth. The performance at all India level shows that GDP growth in agriculture recorded the highest growth rate in the 1980s but declined in the post-reform period. Within post reform period, agriculture growth declined continuously in the 9th and 10th Plan periods. Agriculture sector has many problems. Growth decelerated from 3.5% during 1981-97 to 2% during 1997-2005.

Yield growth has also declined. Farmers' suicides have continued/increased in some states. Farming is becoming a non-viable activity. There are also other problems. Further scope for increase in net sown area is limited. Land degradation in the form of depletion of soil fertility, erosion and, water logging has increased. There has been decline in the surface irrigation expansion rate and reduction in ground water table. Risk and vulnerability increased. Disparities in productivity across regions and crops persisted. Long term factors like steeper decline in per capita land availability and shrinking of farm size are also responsible for the agrarian crisis.

The Steering Committee report on agriculture for 11th Plan (GOI, 2007) has identified the possible reasons for deceleration in agriculture since mid-1990s. According to the report, the major sources of agricultural growth are: public and private investment in agriculture and rural infrastructure including irrigation, technological change, diversification of agriculture and fertilizers. It looks like that the progress on all these sources slowed down in the 1990s particularly since mid-1990s (Table 1). There has been expansion only in the case of agricultural credit.

According to the report, the causes of slow down are: increase in subsidies crowding out investment in infrastructure, degradation of natural resources, failure in conservation and improvement of rain-fed land, knowledge gap with existing technology, low market infrastructure and too much regulation, institutions not geared to help women farmers, imperfections in land market and plight of small farmers.

Table 1. Trend growth rate in area, input use, credit and capital stock in agriculture during 1980-81 to 2005-06

	1980-81 to 1990-91	1990-91 to 1996-97	1996-97 to 2005-06
Technology	3.3	2.8	0.0
Public Invest.	3.9	1.9	1.4
Private Invest.	0.6	2.2	1.2
Irrigated Area	2.3	2.6	0.6
Area under Fruits and veg.	5.6	5.6	2.7
NPK Use	8.2	2.5	2.3
Credit	3.7	7.5	14.4

Source: GOI, 2007

There has been some revival in agriculture in recent years. Agricultural growth was more than 4% during 2003-04 to 2007-08. The total foodgrains production for the year 2008-09 is estimated at 233.88 million tonnes and stands out as record production ever achieved in India and the country has high bufferstocks of 55 million tonnes in May 2009. There were significant exports in cotton, rice and sugar. Cotton crop experienced a revolution due to adoption of BT cotton. Production of cotton increased from 99.97 lakh bales in 2000-01 to 258.84 lakh bales in 2007-08. There has been some increase in high value agriculture. Some of the lagging regions like Bihar showed relatively high growth in recent years. Similarly, Gujarat recorded high growth of 9% per annum during 2001-02 to 2007-08 (see Gulati, 2009).

There has been demand problem in the economy due to financial crisis. However, rural demand was higher due to increase in purchasing power due to several factors: increase in minimum support prices, National Rural Employment Guarantee Scheme (NREGS), loan waiver scheme and higher agricultural growth in recent years. In the year 2008-09, however, agricultural growth was only 1.6%. There is also a concern in 2009-10 due to drought conditions in several parts of the country.

2.1. How to Achieve Goals of Agricultural Development?

There are three goals of agricultural development. These are (a) achieve 4% growth in agriculture and raise incomes by increasing productivity (land, labor), diversification to high value agri. and rural non-farm by maintaining food security;

(b) sharing growth (equity) by focusing on small and marginal farmers, lagging regions, women etc. Share of women is increasing in agriculture. On lagging regions, focus on Eastern India and other rainfed areas; (c) third is to maintain sustainability of agriculture by focusing on environmental concerns.

What are the policies needed to achieve the above goals? The supply and demand side constraints have to be removed to raise overall growth in agriculture. It may be noted that more than 80% of India's farmers belong to the categories of small and marginal farmers with an area share of more than 40%. The support systems and policy changes have to be tuned in such a way that they improve the productivity and incomes of the small and marginal farmers. National Commission on Enterprises for Unorganized Sector (NCEUS, 2008) suggests for special programmes for small and marginal farmers. However, the Approach Paper for 11th Five Year Plan indicates that the entire agriculture sector is in crisis and not limited to small and marginal farmers. *Also second 'green revolution' should focus more on dry land areas.* Simultaneously, the domestic reforms have to be undertaken in certain areas to improve growth and compete in globalised world.

Investment in Agriculture:

Rise in public and private investment is crucial for enhancing agricultural growth. Several studies have shown that public investment in rural infrastructure like roads, irrigation is more important than other factors. Fortunately, gross capital formation in agriculture has increased from 12% of agricultural GDP in 2004-05 to 14.2% of GDP in 2007-08 (Table 2). Public sector investment has increased significantly during this period. However, we need 16% of investment as per cent of agriculture GDP in order to get 4% growth in agriculture. In this context, the announcement of *Bharat Nirman* programme in 2005 by the Government of India in order to improve agriculture and rural infrastructure is in the right direction. However, the pace of this programme has to be improved.

Table 2 Gross Capital Formation in Agriculture

Year	Agriculture & Allied Activities (in Rs. Crores at 1999-2000 prices)		GCF/GDF in agri.&allied (%)
	Gross capital formation (GCF)	Gross Domestic Product (GDP)	
2004-05	57849	482446	12.0
2005-06	66065	511013	12.9
2006-07	73285	531315	13.8
2007-08	79328	557122	14.2

Source: Economic Survey, 2008-09

Land Issues: Some argue that small size of farm is responsible for low profitability of agriculture. Chinese and the experience of other East Asian countries show that it is not a constraint. On land market, the Report of the Steering Committee recommended the following. "Small farmers should be assisted to buy land through the provision of institutional credit, on a long term basis, at a low rate of interest and by reducing stamp duty. At the same time, they should be enabled to enlarge their operational holdings by liberalizing the land lease market. The two major elements of such a reform are: security of tenure for tenants during the period of contract; and the right of the land owner to resume land after the period of contract is over" (GOI, 2007). Basically, we have to ensure land leasing, create conditions including credit, whereby the poor can access land from those who wish to leave agriculture.

In order to improve the incomes of marginal and small farmers, there is a talk that we should promote cooperative farming. Andhra Pradesh has some experiences in cooperative farming particularly in the case of women. There are some emerging land issues such as increase in demand for land for non-agricultural purposes including special economic zones, displacement of farmers, tribals and others due to development projects. There is a need for careful land acquisition. Land alienation is a serious problem in tribal areas.

Research and Extension: The yield growth for many crops has declined in the 1990s. Technology plays an important role in improving the yields. The National Commission on Farmers also indicates that there is a large knowledge gap between the yields in research stations and actual yields in farmers' fields. There seems to be a technology fatigue in Indian agriculture. The yield gaps given by the Planning Commission (GOI, 2007a) are the following.

The 2003-05 data show very large yield gaps: Wheat: 6% (Punjab) to 84% (M.P.); Rice: Over 100% in Assam, Bihar, Chattisgarh and UP; Maize: 7% (Gujarat) to 300% (Assam); Jowar: 13% (M.P.) to 200% (Karnataka); Mustard: 5% (Haryana) to 150% (Chattisgarh); Soybean: 7% (Rajasthan) to 185% (Karnataka); Sugarcane: 16% (A.P.) to 167% (M.P.).

A fresh look at the priorities of Indian agricultural research system is necessary in light of emerging prospects. There is only marginal increase in the funds for research in the recent budgets. Of course states have to take a lead in research and extension. It is known that India spends only 0.5 per cent of GDP on agricultural research as compared to more than 1 per cent by other developing countries. There is considerable potential for raising the effectiveness of these outlays by reordering the priorities in agricultural research and redefining the relative roles of public and

private sectors in research and extension.

There is a need to shift away from individual crop-oriented research focused essentially on irrigated areas towards research on crops and cropping systems in the dry lands, hills, tribal and other marginal areas (see Swaminathan, 2007). Dry land technology has to be improved. In view of high variability in agro-climatic conditions in such unfavourable areas, research has to become increasingly location-specific with greater participation or interaction with farmers. Horticulture crops that are land-saving and water-saving should be encouraged in dry land areas. Research has to be improved on horticulture crops. Progress in post-harvest technology is essential to promote value addition through the growth of agro-processing industry. Private sector participation in agricultural research, extension and marketing is becoming increasingly important especially with the advent of biotechnology and protection being given to intellectual property. However, private sector participation tends to be limited to profitable crops and enterprises undertaken by resource rich farmers in well endowed regions. Moreover, private sector is not interested in research for better techniques of soil and water management, rainfed agriculture, cropping systems, environmental impact and long term sustainability. Therefore, the public sector research has to increasingly address the problems facing the resource-poor farmers in the less endowed regions. The new agricultural technologies in the horizon are largely biotechnologies. Effective research is needed to have biotechnologies suitable to different locations in India. Similarly, there is a need to strengthen extension. The returns to investment on research and extension will be much higher on agricultural growth as compared to other investments.

Land and Water Management: The decline in productivity growth is attributed, *inter alia*, to deterioration in soil quality and water shortages. Therefore, land and water management should be given **number one priority**. Water is the leading input in agriculture. Development of irrigation and water management are crucial for raising levels of living in rural areas[2]. Both investment and efficiency in use of water are needed. Investment in irrigation, watershed development and, water conservation by the community are needed under water management.

Credit: According to the expert group on Financial Inclusion (GOI, 2008) Only 27% of farmers have access to institutional credit. It is true that there have been some improvements in flow of farm credit in recent years. However, the Government has to be sensitive **to the four distributional aspects of agricultural credit**. These are: (a) not much improvement in the share of small and marginal farmers; (b) decline in credit-deposit (CD) ratios of rural and semi-urban branches;

[2] On land and water management, see Vaidyanathan (2006)

(c) increase in the share of indirect credit in total agricultural credit and; (d) significant regional inequalities in credit.

Diversification to Hi-value Agriculture by Maintaining Food Security: There has been diversification of Indian diets away from foodgrains to high value products like milk and meat products and vegetables and fruits. The increasing middle-class due to rapid urbanization, increasing per-capita income, increased participation of women in urban jobs and impact of globalization has been largely responsible for the diet diversification in India (Pingali, 2006). Hi-value products have caught the fancy of the expanding middle class and the result is visible in the growing demand for hi-value processed products. There is growing demand for non-foodgrain items in India. The expenditure elasticity for non-cereal food items is still quite high in India. It is thrice as high when compared to cereals in the rural areas and over ten times as high in urban areas. Per capita consumption of fruits and vegetables showed the highest growth followed by edible oils. Diversification to high value crops and allied activities is one of the important sources for raising agricultural growth. Since risk is high for diversification, necessary support in infrastructure and marketing are needed. Price policy should also encourage diversification. However, diversification should not be at the cost of food grains and other food crops. Efforts should be continued to improve the yields of food crops.

The Government wants to have second 'green revolution' by diversifying agriculture in crop sector and allied activities. Diversification is unlikely to be a feasible strategy all over the country if it is restricted only to agriculture related activities like shift from cereals to horticulture crops. The true benefit of diversification will come if more emphasis is given on allied activities like animal husbandry and fisheries. The livestock sector contributes to 5.4% to GDP and 22.7% to total output from agriculture sector. Value of milk group (Rs. 103804 crore) is more compared to paddy (Rs.73965 crore) and wheat (Rs.43816 crore). Rural women play a significant role in animal husbandry and are directly involved in major operations like feeding, breeding, management and health care. As the ownership of livestock is more evenly distributed with landless labourers, and marginal farmers, the progress in this sector will result in a more balanced development of the rural economy, particularly in the reduction of poverty ratio.

Marketing

For small and marginal farmers, marketing of their products is main problem apart from credit and extension. The contract farming arrangements are particularly useful in developing countries where small-scale agriculture is widespread. The small and marginal farmers have problems in getting inputs, credit, extension and

marketing. The services provided by the contract farming companies would thus be useful for small-scale agriculture. In recent years , there has been some form of contract arrangements in several agricultural crops such as tomatoes, potatoes, chillies, gherkin, baby corn, rose, onions, cotton, wheat, basmati rice, groundnut, flowers, and medicinal plants. The contract farming arrangements have to be strengthened in order to help the small farmers. There is a silent revolution in institutions regarding non-cereal foods. New production –market linkages in the food supply chain are: spot or open market transactions, agricultural co-operatives and contract farming (Joshi and Gulati, 2003).

The contract farming is spreading throughout India for several crops in states like Andhra Pradesh (Dev and Rao, 2005), Tamil Nadu, Karnataka, Punjab and Maharashtra. The contract farming arrangements are particularly useful in developing countries where small-scale agriculture is widespread. From the farmers' perspective, there are risks of market failure and production problems while growing new crops. The sponsoring companies may be unreliable, may exploit a monopoly position, and/or have inefficient management and marketing problems that could result in manipulation of quota and non-fulfillment of commitments. Contract farming in India is neither backed up by law nor by an efficient legal system. This is the single most constraint to widespread use of contract farming in India. The legal system can be improved with legislative measures like the model contract and code of practice, registration of contracts with marketing committees and tribunals for dispute resolutions.

Most important problem for the farmers is output price fluctuations. There is a big gap between producer prices and consumer prices. For example, some times farmers get 50 paise per Kg. of tomatoes while the consumers pay Rs.15 in urban areas. In order to protect farmers from national and international price volatility, price stabilization fund is needed. There are different models for marketing collectively by the small and marginal farmers. These are: self help group model, co-operative model, small producer co-operatives and contract farming. *Apni Mandi* in Punjab, *Rytu Bazars* in Andhra Pradesh, dairy co-operatives are some of the successful cases in marketing. The real challenge lies in organising the small and marginal farmers for marketing and linking them to high value agriculture.

Regional Disparities in agriculture: Growth rates in agriculture SDP were high for many states during the period 1984/85 to 1995/96. However, growth rates decelerated in all the states except in Bihar during the period 1995/96 to 2004/05 (GOI, 2007)[3]. The deceleration is the highest in the states with greater proportion

[3] Also see Bhalla (2006)