

# Understanding the issues ailing Indian agriculture

By Roshan Kishore

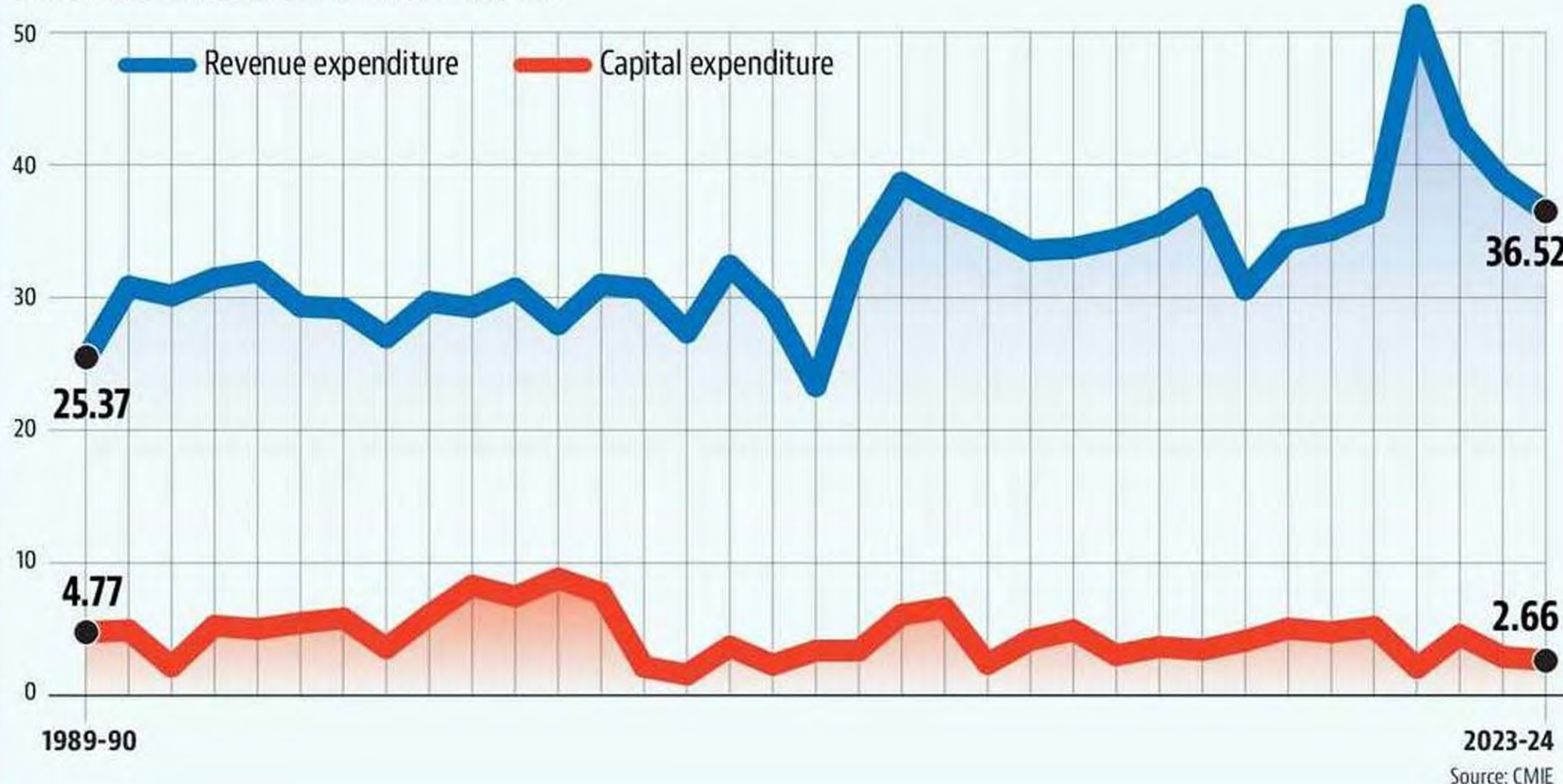
With some farmers' unions in Punjab restarting their protests demanding a guarantee on minimum support prices (MSP), agricultural policy is back in public debate. While, there can be no rationale for a law providing a blanket guarantee for MSP, support or opposition to this demand cannot be the be all and end all of agricultural policy debate in India. In fact, one can argue that the tragedy of Indian agriculture is that it has been caught up in sensational debates such as these and substantive issues always fail to catch the public imagination. If Indian agriculture has to have a future – it is absolutely essential that it does – it needs to have a future-oriented policy outlook. In economic terms, this means that it should have adequate investment. Is this requirement being adequately met? Here are three charts that try and answer this question.

## 1 Share of agricultural spending has remained largely same, but it's true for capital spending

The Centre for Monitoring Indian Economy (CMIE) database gives details of revenue and capital spending (under economic services category) on agriculture by both the Centre and the states. A long-term analysis of the data shows that the overall share of public spending in agriculture has largely remained unchanged if one were to ignore the spike seen in the pandemic year. Does this mean that government spending in agriculture has been unchanged over the past few decades in India? The true picture emerges when one disaggregates this spending by revenue and capital account. The

latter, by definition, is meant for enhancing long-term productivity and is therefore more useful for future growth. The data clearly shows that agriculture's overall share in revenue spending has seen a rise while that of capital spending has fallen even further from its already low levels in the past. This is not good news as far as agriculture's future growth prospects are concerned. The falling share of capital spending in agriculture is even more worrying because it is widely accepted that public and private investment in agriculture are compliments rather than substitutes.

### Agriculture's share in revenue and capital spending on economic services (in %)



## 2 Agriculture continues to remain an under-invested sector in India

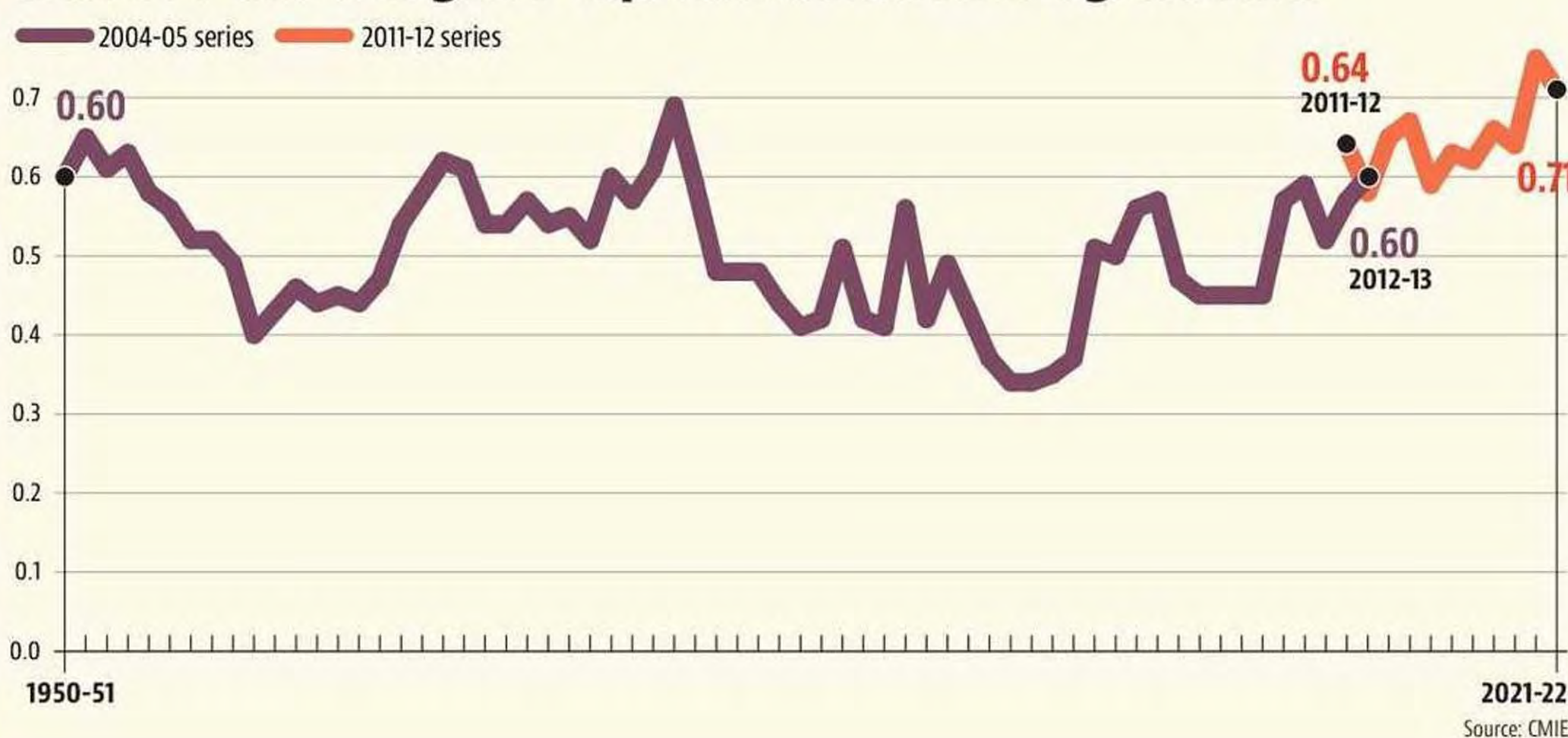
The best way to look at this is to track the relative share of capital formation in agriculture – its share in capital formation divided by the share in Gross Value Added (GVA) – over time. Using relative share is important because a simple share of capital formation in agriculture could show a falling trend just on account of its falling share in GVA.

CMIE data using both the 2004-05 and 2011-12 GDP series shows that agriculture's relative share in capital formation has always been less than one – this means that its share in capital formation has been less than its share in GVA – in India.

The analysis used here has only included agriculture/crop sector in the 2004-05 and 2011-12 series rather than agriculture and allied activities, which also include sectors such as forestry and fishing.

While this number shows a sharp increase in 2020-21 and 2021-22, the last two years for which this data is available, this could be a result of the non-agricultural economy being disrupted by the pandemic rather than a renewed dynamism in the agriculture sector. To be sure, the picture will only become clear when data for the post 2021-22 period is available.

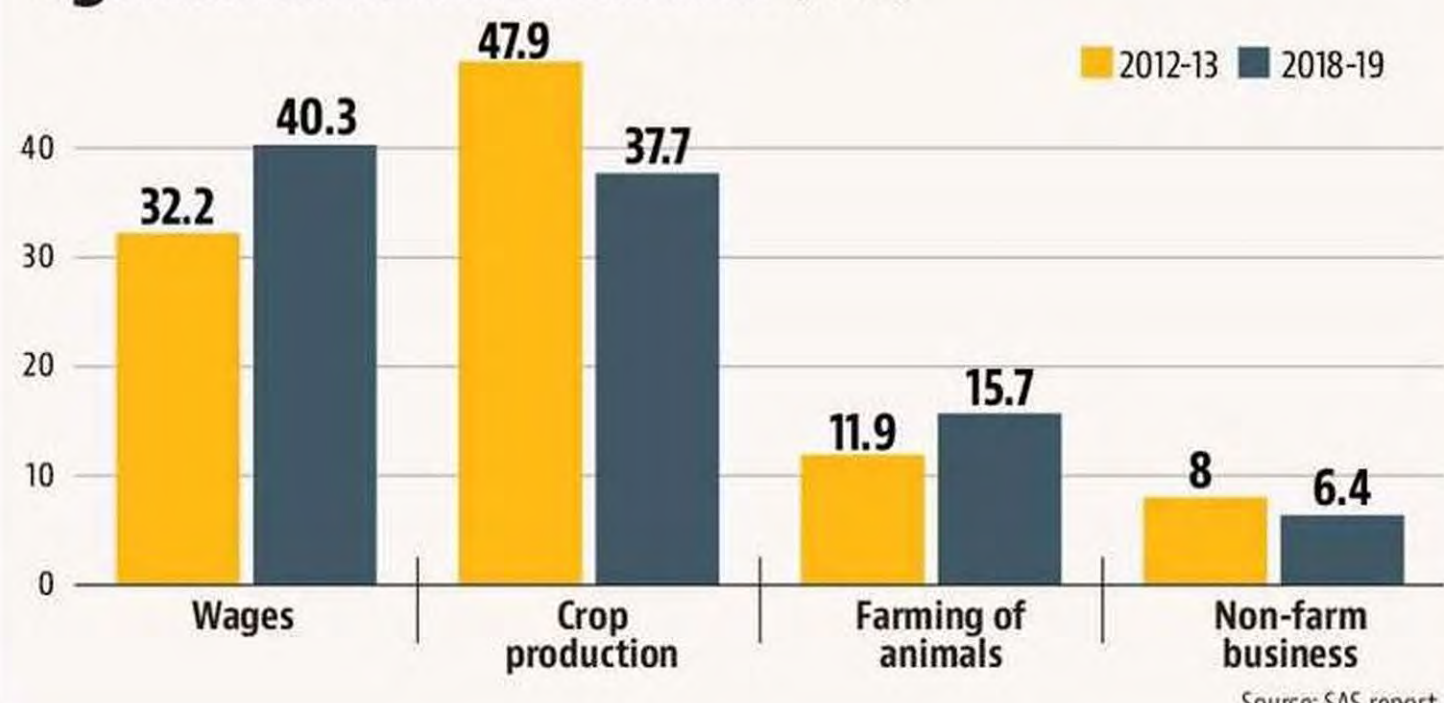
### Relative share of gross capital formation in agriculture



## 3 Even farmers are reducing their stakes in agriculture now

This is the most telling statistic as far as the predicament of the agriculture sector is concerned. A comparison of data from the 2012-13 and 2018-19 Situation Assessment Surveys (SAS) surveys conducted by the National Sample Survey Office shows that the importance of income from cultivation has fallen significantly for India's agricultural households during this period and it was not even the largest source of income for agricultural households. An agricultural household is defined as one which produces field or horticultural crops, livestock, or other specified agricultural products worth more than ₹4,000 and had a member self-employed in agriculture in the 365 days preceding the survey. In 2018-19 there were 93.1 million agricultural households and 79.3 million non-agricultural households in India.

### Share of income from different sources for agricultural households (in %)



An earlier article published in these pages quoted research that showed that households who have been able to diversify into non-agricultural professions and increase their incomes are unlikely to have any incentive to invest in agriculture (even though they still practise it). With both the public and private sector giving up on long-term investment in agriculture, the future of farming and food security in India is far from secure.