

**"Free Enterprise was born with man and
shall survive as long as man survives."**

—A. D. Shroff

1899-1965

**Founder-President
Forum of Free Enterprise**

AGRICULTURE & ECONOMIC GROWTH

by

Prof. Colin Clark *

I have just come from a visit to Delhi where I met a number of ministers and secretaries of Government departments. Exactly a year ago, I had made a similar visit. I could feel a very real change in their attitude. They were genuinely concerned with India's economic problems like price rise, food crisis and the future of the economy.

During the last 20 years, India has made a genuine economic take-off. We owe the concept of take-off into sustained economic growth to Prof. W. W. Rostow. He is an economic historian. Many of his colleague-historians disagree with him. But most economists now agree that there is a substantial measure of truth in the idea of take-off even though there may be some disagreement about the historical fact. As is often the case with historical turning points, those who live through them fail to recognise the momentous changes. By the end of the century, however, it will appear that after decades of slow economic growth, India made a genuine take-off about 1950. Rostow's most important criterion for the take-off is a rise in the rate of net saving from about 5% to about 10% of national income. India's rate of saving was 5% in the early 1950's and although there were lapses in the year of lean harvests the rate in recent years has been 10% or more.

India may now be facing a real danger of one of the greatest of possible tragedies, namely, economic growth aborted by food crisis and inflation, followed by relapse into primitive poverty.

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Although most of the world is suffering from the sickness of inflation in varying degrees, the rate of inflation is higher in India than in most other countries. Several countries, particularly Britain, are now suffering from stagflation, that is, stagnant production and employment accompanied by rapidly rising wages and prices. What economists call the Phillips Theorem, namely, that the rate at which wages increase depends on the amount of unemployment, is now completely discredited; and there is much uncertainty amongst economists as to what should be put in its place. My own view is that, in advanced countries, wages rise in proportion to replacement value of the net capital stock, in the short run. In the longer run, wages will rise more than this, because increasing capital accumulation brings higher productivities and an increased share of the product will be shared by labour. Also, whatever may be the case in advanced countries, in India so many wage earners are at subsistence level though wages must rise with food price rise.

The Indian Government's response to the present emergency is a system of food procurement. This policy is utterly and completely wrong, and should be totally abandoned. I am not stating this on my own authority, but on that of no less a person than Mahatma Gandhi. I was probably the last foreigner to have had a personal interview with him, a few weeks before he was assassinated. At that time, at the end of 1947, Nehru's administration had adopted a policy of food procurement, price control and rationing, which a few years later they abandoned. Mahatma Gandhi, who was a strong believer in the free market economy, pointed out that the procurement policy encouraged the farmers to evade, to produce less, and consume more.

It is only the inefficacy of Indian procurement which saves the country from worse consequences. Government procurement from the farmers was Lenin's policy after the Russian revolution. Thoroughly carried out, this meant a state of virtual civil war, with armed bands raiding villages to take away all that they could. The final consequence in 1921 was a famine so appalling that Lenin restored free marketing for farmers, subject to payment of taxes. It was not until the end of the decade, in 1929, that Stalin forced

all farmers into collectives. The result of this was another dreadful famine in 1933. Collective farming in China caused a still worse famine in 1961. Wherever collective farming has been tried, the results have been disastrous. During the past decade, while nearly all the rest of the world substantially increased industrial production Cuba and Algeria, which had collectivised agriculture, showed a heavy fall. Tunisia, under Russia's advice, also attempted collectivised agriculture in 1969; but on seeing how serious was the effect on production, immediately reversed this policy.

As the Director of the Agricultural Economics Institute, of Oxford University, I had an opportunity of studying the working of land ceiling policy in different countries. The conclusion I reached was that it could work well in countries where farmers were literate (Japan, Taiwan, Egypt, Ireland) but not where they were mostly illiterate (e.g., Mexico and Eastern Europe). Many Indian farmers, through no fault of their own, are still illiterate, and I consider that land ceiling policies, though desirable, should be postponed 10 to 20 years.

The stagnation of Indian agriculture continues, as it had during in the last three decades of British rule. Agricultural production **per capita** was at its maximum at 1910. Industrial production **per capita** has been rapidly advancing since 1910, while agricultural production **per capita** has only just been maintained.

**Indian Production per head valued in US\$
of 1959 purchasing power**

	1910	1940	1971-72
Agriculture	64	51	48
Industry & services	47	84	130

The most serious consequences of this low level of agricultural production is that about 25 per cent of the people in India are hungry, in the literal sense of the word. This is the conclusion of a thorough calculation which I made ("Economic and Political Weekly", 30th September 1972)

using all the available information. Average caloriel requirement for the Indian population I estimate at about 1,650; but still a great many are below even this low minimum.

A man who is hungry cannot do a full day's work, either physical or mental, however hard he tries; and he is susceptible to many illnesses.

An objection has been raised that even if every Indian is provided with sufficient calories, there would still be a shortage of protein. Even in Maharashtra, a State considerably richer than the Indian average, 17% of school children have been found to show medical signs of protein deficiency. However, there has recently been an important change in medical opinion on this subject. It has been found that protein in their diet is nearly always sufficient; they cannot absorb it when they are deficient in carbohydrates. This conclusion has important consequences for agricultural policy. It is now clear that in India's production pattern of crops, concentration on protein supplements will not be necessary as was previously supposed. What would be required is substantial increase of India's staple crops.

It certainly cannot be said that India's land ceiling helps to produce them. India's farm productivity is still far below that of most countries. If the Indian farmer grew his rice, etc. as efficiently as farmers in Japan, Italy, or Egypt, the whole world would be flooded with surplus grain.

Agricultural Yields in tons per Hectare

	India		Maxima
	1961-5	1969-71	obtained in other countries
Rice (unmilled)	1.48	1.67	5.5
Wheat	.84	1.23	2.4
Maize	.99	1.15	5
Sorghum	.49	.49	4

The true cause of these differences between India and more advanced countries is that the latter use great quantities of fertilisers. While the fast requirement is to increase agricultural production to feed the hungry, we need greatly increased quantities for the urban population. When these are not produced, food prices rise and urban employment is checked. The solution to urban unemployment is increased agricultural productivity. This is a new concept in economics. But quite apart from theoretical considerations, it is fully supported by facts. In India more than 60 per cent of labour force is still dependent on agriculture, and this proportion is almost the same as 100 years ago. The reason for this is simply the low productivity of Indian agriculture. Asian countries with higher productivity are able to provide urban employment for a large proportion of their labour force.

	Pak.	Ind.	Philip- pines	S. Korea	Taiwan	Malaysia
Agricultural output tons wheat equiva- lent per male agricultural labour per year	2.0	2.1	3.9	5.0	9.8	21.1
Percentage of labour force in non-agricul- tural employ- ment	39	38	50	57	61	63

Similar results obtain in other parts of the world. It will be noticed that the pace of improving agricultural productivity has to be accelerated as urban employment increases. India has hardly yet made a start.

Another factor increasing the need for agricultural productivity is replacement of imports, and provision of exports. Indian planners have been under the delusion that a coun-

try could be almost completely isolated from international trade. Another planner who shared this delusion was Stalin, and Russia's economy suffered a great deal in consequence. Since Stalin died in 1953 however, his successors have increased Russia's export and import trade faster than almost any other country.

It is true that high agricultural productivity is not so urgently necessary in a country which has exportable commodities, particularly those which can be exchanged for food. India has been producing a limited quantity of exportable manufactures. But even now, after two decades of development, the export of manufactures produced by Indian industries, not dependent on agricultural production, only contributes to the export total to the extent of about 10 per cent. In Japan at the beginning of the century and in Taiwan now, manufactures played a much more prominent part in exports.

Mechanisation of agriculture may reduce employment. It is recommended only for Punjab, and other regions where conditions are similar. Sinking of tube wells on the other hand should increase employment. In a carefully considered survey of small farms, Dr. Gotsch of Harvard, showed that dry farming could occupy 700 to 800 man hours per hectare per year whereas a tube well raises potential labour requirements to 1,070 man hours; and also increases the wage which a farmer could afford to pay.

The need for increased fertilisers has been so obvious that I simply cannot understand the failure to provide them in sufficient quantities. Apart from the need to relieve hunger, use of fertilisers is essential for India's economic growth. The last decade was a golden opportunity lost. Now, because of oil shortage, fertilisers throughout the world are much higher priced. But even so, the danger of insufficient fertiliser use in India remains pretty grave. Even now it is still cheaper to import fertilisers and produce more foodgrains than to import foodgrains.

Even apart from nitrogenous fertilisers, high returns are also to be achieved from the use of phosphatic fertilisers, which are not so scarce.

It is true that India's consumption of fertilisers has increased. The average has risen from 1/10th of a kg. per hectare in 1939 to 1 in 1955 and 12 in 1970. But China which used 7 kg. in 1930, now uses 30 kg. Unlike India, China showed no reluctance in spending scarce foreign exchange to import Japanese fertilisers. The Chinese decision was certainly right. For Ceylon, the figure is 40 kg; in Egypt it is 100 kg and Taiwan about 250 kg.

In designing the Indian Plan, Prof. Mahalanobis correctly judged that India's increasing population must be fed by increasing import of fertilisers. Increasing fertiliser output, he then reasoned, required increased steel output. This is a half truth. But then he concluded that heavy investment was needed in ventures such as Ranchi Heavy Engineering complex. But only the heavy industry part got a priority. Even before the present oil shortage began, for the last three years Indian production of sulphate of ammonia, and Indian imports of fertilisers, were down.

Still more tragic is the case of the Tata Fertiliser Project in Gujarat, which the Government blocked for a period of six years. Had permission been granted in time, the plant would have been in full operation already, and in 1972-73, it would have saved Rs. 500 crores of foreign exchange, and supplied 4½ million tonnes of additional food-grains. Furthermore, it would not have been affected by oil shortage because Tatas had contracts for supply of naphtha and other material at fixed prices for ten years ahead. The Government must be held responsible for in effect destroying 4½ million tonnes of grains every year, in a country where many are desperate with hunger.

It cannot be denied that improvement of Indian agriculture will require considerable capital expenditure both by public authorities and by private farmers.

There can be no choice but that future capital spending should give absolute priority for agriculture, and for export products.

Plantation agriculture is one of the most capital intensive activities. However, the capital investment consists almost

entirely of labour, and therefore it can be obtained in India with less difficulty. Greater investment in plantation crops, produced mainly for export, should be considered for the future.

To give priority to agriculture and export will necessitate cutting back a large part of the Government's proposed spending. The most urgent need, in any case, is for the Central and State Governments to put a complete stop to deficit spending. Unless they do this, inflation will continue to get aggravated and the entire economy will be in danger. This, and other measures, will reduce greatly the amount of credit the banks give. Credit restriction is a blunt instrument for achieving the desired economic ends, but regretably it will have to be used in the present emergency.

Farmers will be pleased with the priority for fertilisers and capital equipment. But they will not like my proposal for the restoration of land taxes. This is recommended not only because it is a better form of taxation than any other. It also provides the strongest possible incentive (as the history for Japan has shown) for the farmers to produce a saleable surplus. The tax should be assessed on what is called unimproved capital valuation, a method which has been well worked out in Australia. The assessor should estimate the price at which the farmer's property would sell, but then subtract from it the value of the house, buildings, wells, fences and any other improvement which the farmer himself has made. When a farmer enjoys canal irrigation, power lines, or other improvements provided by the State, their value should however not be deducted. The farmer would be required to pay the tax on improvements which he did not himself make. But he should be assured that however much he produces the tax would not be increased. However, in view of India's extreme food shortage, I am in favour of continuing for a number of years the present method of not assessing agricultural income to income-tax.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

— Eugene Black

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