MODULE 9: RURAL ECONOMY

Module details	**Name**	**Affiliation**
Subject Name	Social Work Education	
Principal Investigators	Prof S Parasuraman and Prof Manish Jha	Tata Institute of Social Sciences
Paper Name	Rural Development	
Paper Coordinator	Prof Bipin Jojo	Tata Institute of Social Sciences
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Module Writer	Prof. Subhabrata Dutta	Assam University, Silchar
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Content reviewer	Prof H Beck	Tata Institute of Social Sciences
Language editor	Mr Venkatnarayanan Ganapathi	Freelancer, Pune

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Introduction:

India is known as an agricultural country, as most of the population of villages depends on agriculture. Agriculture forms the backbone of the country's economy. The agricultural sector contributes most to the overall economic development of the country.

For centuries together, the Indian village has been a self-sufficient and self-contained economy. During the past forty years, rural reconstruction and development have been the major thrust of economic planning, which has caused a rapid transformation in the Indian rural economic structure.

These changes have taken place in spheres, such as land reforms, agriculture, animal husbandry, supplies and marketing, village industries, rural leadership, village administration, etc. With the help of the rural development programmes, a cultivator is able to take advantage of the modern technological facilities in his agricultural operations. These cultivators are now using modern agricultural implements and high-yielding varieties of seeds and fertilizers.

India's economy is predominantly rural in character. This is evident from the fact that, in 1991, nearly 74 percent of its population lived in some 5,80,000 villages, and about two-thirds of its workforce was engaged in agriculture and allied activities in rural areas. Agriculture and allied activities contributed about 29 per cent of India's gross domestic product (GDP) at factor cost at the current prices in 1994-1995

In a predominantly agrarian country like India, rural development is since qua non of national development, and agricultural development a prerequisite for rural development. Therefore in such a country, agricultural development should from the foundation for national development.

The role of agriculture in economic development has been recognized and discussed since the time of the Physiocrats. According to the Physiocrats, it was only the agricultural sector which produced an economic surplus over costs of productions, and therefore it played the most strategic role in economic development. They considered commerce and manufacturing as non-productive, in the sense that the value of the raw materials handled by these sectors was enhanced only enough to pay for the labour and capital used in the process of production.

The classical writers also recognized the importance of agriculture in economic development. It is now believed that the agricultural sector formed the core element of Adam Smith's basic growth model. He thought that the production of an agricultural surplus to support non-fram production was essential for economic development.

Size and structure of the Rural Economy

India's economy can be thought of as comprising two main sectors, namely, the rural sector and the non-rural sector. The rural sector is, in turn, composed of two main subsectors, i.e., the agricultural subsector and the non-agricultural subsector. The agricultural subsector comprises agriculture and allied economic activities such as crop husbandry, animal husbandry and dairying, fisheries, poultry and forestry. The non agricultural subsector consists of economic activities relating to industry, business and services. Industry here refers to cottage and village industries, khadi, handloom, handicrafts, etc; business refers to microenterprises, trading of general goods, small shops, petty traders, etc.; whereas services refer to transport, communications, banking, input supply, marketing of farm and non-farm produce, etc. The main stakeholders of the rural sector include farmers, agricultural and non-agricultural labourers, artisans, traders, moneylenders, and those engaged in providing such services as transport, communications, processing, banking and education and extension.

Forests are a very valuable renewable resources, providing a vital life support system. With the fast growing population, the demand on forests has progressively increased. Interpretation of Landsat imagery indicates that out of 75 million ha of area recorded as forest, only 64 million ha sustains the actual forest cover, and out of this only 35 million ha has adequate cover, which accounts for only about 11 per cent of the total geographical area of the country at present. The National Forest Policy (1988) stipulates that the country as a whole should aim at keeping about one-third of the geographical area under forest over. With all its biological and genetic diversity, forests are nature's gift to humanity. The forests being degraded by the ever increasing biotic pressure need to be rehabilitated by afforestation, not only for environmental considerations, but also for meeting the local demand for firewood, small timber, fodder and for defence and industry.

Water is vital for realizing the full potential agriculture. India is very well-endowed with water resources. With an average annual rainfall of about 120 cm in the country, and surface flow of about 188 million ha metres, India has vast water resources. However, the total utilizable water is 114 million ha metres, comprising 69 million ha metres as surface water and 45 million ha metres as ground water. Further, the Central Ground Water Board provisionally puts the revised estimate of ground water at 80 million ha, as against the previous estimate of 45 million. Pending firming up of these estimates, the ultimate irrigation potential is taken as 114 million ha.

Fisheries play an important role in the rural economy of India, by way of augmenting food supply, generating employment and earning foreign exchange. India has a marine coastline of 12,700 km maritime area of 4.52 lakh sq. km and an Exclusive Economic Zone of 200 lakh sq. km .

The level of use of energy is an important determinant of rural development. The rural sector is starved of energy. It will be challenging task to meet the growing demand for energy from households, industry, transport, agriculture and business. The pattern of demand for energy is also changing over time. Analysis of total commercial energy consumption shows that there is an increasing trend in the consumption of petroleum products, natural gas and electricity. Measures will have to be initiated for reducing the energy intensity in different sectors through changes in technology and processes. Interfuel and intrafuel substitution will have to be optimized. The main emphasis will have to be on maximizing the use of renewable sources of energy, with affordable cost to low income groups in rural and urban areas. Major stress should be laid on efficiency, conservation and demand management to bring down the energy elasticity of output

Source of Foreign Exchange

Agriculture is an important source of earning foreign exchange, which is needed for importing capital goods for the rapidly expanding industrial sector. The value of Agricultural exports accounted for about 18 -20 percent of the total value of exports from India. Agriculture makes its contribution to the net foreign exchange earning through displacement of current and potential imports, and through expanded exports.

Market for Industrial Goods and Services

The agricultural sector provides a ready and big market for many goods manufactured and services provided by the secondary and tertiary sectors. Such goods include pesticides, insecticides, farm machinery, pumping sets, cattle and poultry feed, fish feed, pipelines, fencing materials, veterinary medicines and vehicles. Rural people also buy consumer goods manufactured by the industrial sector. In fact, now many big companies have their eyes on rural markets for their products and services. Thus, increased farm income and purchasing power is a valuable stimulus to industrial development. It has been argued by a number of economists that insufficient purchasing power in rural areas is the basic problem in industrial developments in low-income countries. If industrial development is in fact throttled by the lack of mass market, the solution is in increase rural purchasing power. But there is clearly a conflict between the needs for enhancing agriculture's contribution to the capital requirements for overall development, and the emphasis on increases farm purchasing power as a stimulus to industrialization and there is non easy reconciliation of the conflict.

Source of Cheap Food

Economic development is characterized by the substantial increase in the demand for food. Apart from autonomous changes in demand, the annual rate of increase in the demand for food is given by $D = p + ng$, where p and g are the rates of growth of population and per capita income respectively, and is the income elasticity of demand for food. With the annual compound population growth rate of 2.14 to 2.88 percent per annum registered in India during the last decade and with a modest rise of 3 percent in real per capital income per annum, the annual rate of increase in demand for food in India is around 4 percent (assuming the income elasticity of demand for food to be 0.6). If food supplies fail to expand in pace with the growth of demand, the result is likely to be a substantial rise in food prices, leading to political discontent and pressure on wage rates, with consequent adverse effects on industrial profits, investment and economic growth. The inflationary impact of a given percentage increase in food prices is much more severe in a developing country like India, than in a high-income economy. This is a simple consequence of the dominant position of food a s a wage good in low-income countries, where 60 to 80 percent of the total consumption expenditure is devoted to food, compared with 20 to 25 percent in developed economies. There are thus severe penalties attached to the failure of adequate food production in developing countries.

The Role of the Agricultural Subsector

The rural sector constituted the basic foundation of India's economy. No programme of national development can ever succeed unless it is built upon this foundation. More specifically, the rural sector in general and its agricultural subsector in particular, contributes to the growth and development of India's economy in the following ways.

Contribution to GDP

The agricultural subsector occupied a place of pride in India's economy and will continue to do so in the foreseeable future. Table 2.6 presents data on the share of agriculture in India's Gross Domestic Product (GDP) at factor cost, at the current and the 1980-81 prices. Agriculture contributed 34.7 per cent of the GDP at current prices in 1980-81, but its share declined to 28.7 percent in 1994-95. As a matter of fact, the share of agriculture has been gradually declining ever since 1950-51, when it was 56.46 per cent. The declining share of agriculture in GDP does not, however, mean a retrogression of agriculture, it only means that the secondary and tertiary sectors of the economy are expanding at a higher rate. And this is what one would anticipate as the process of economic development moves forward. This has happened in developed countries all over the world. In general, the more developed a country, the smaller is the share of agriculture in its national income. For example, in 1995, the share of agriculture in GDP was only 2 per cent in the UK, 3 per cent in USA, and 4 per cent in Japan (World Bank 1997 : 236-37). We could conclude by emphasizing that as agriculture is the most important sector of India's economy, development must act directly on agriculture, if the majority of the country's people are to be affected by development.

Mainstay of Livelihood and Employment

A peculiar feature of India's economy is a very high proportion of the country's population living in rural areas : in 1951, it was about 83 per cent and in 1991 about 74 per cent. Similarly, though the share of the agricultural sector in GDP has been declining over time, the proportion of the population dependent upon agriculture has been more or less stagnant around 60 per cent since 1961. According to the 1991 Population Census, 59 per cent of the total workers in the country were engaged in agriculture, of whom 35.2 per cent were cultivators and 23.8 per cent agricultural labourers. This means that agriculture is the main source of livelihood and employment for about two-thirds of India's population.

Source of Raw Materials

Agriculture is the principal source of raw materials for India's leading industries, such as sugar, cotton, jute, textiles, leather, tobacco and edible oils. Many other industries like fruit preservation and processing, dal mills, handloom weaving, gur making and oil crushing, also depend upon agriculture as a source of raw materials. The rate of growth in all these industries is thus dependent on the rate of growth in the agricultural sector, and agricultural development is a prerequisite for their developemtn.

The role of the Non-agriculture Subsector

In most developing countries (including India), the rural labour force has been growing rapidly, but employment opportunities dwindling. As the land available for expansion of agriculture becomes increasingly scarce, opportunities for non-farm employment must expand, if deepening rural poverty is to be avoided. Given the expected growth and composition of large-scale urban industries, they are unlikely to be able to absorb the rising tide of workers migrating from the countryside to the cities. Looking toward the twenty-first century, we must slow the process of the urban spread, with its high social and environmental costs, such as congestion, population and skyrocketing land costs. Expansion of the rural non-agricultural sector, with its emphasis on labour-intensive and small-scale enterprises, widens income opportunities for the poor, including small farmers, the landless and women, enabling them to even out extreme fluctuations in their incomes.

The relative importance of the rural non-agricultural subsector and the composition of the various economic activities included in the sector, differ widely from region to region in India. Broadly defined, this subsector includes economic activities outside agriculture, carried out in villages and varying in size from households to small factories. Some examples of these activities are cottage, tiny, village and small-scale manufacturing and processing industries, trade, transportation, construction and services of various kinds. Households industries have declined over time, whereas small-scale, non-households industries have expanded. Cottage enterprises based on part-time family labour are relatively less efficient than small, scale, full time, specialized rural industries; as the cost of labour rises, enterprises with no scope for division of labour continue in their cost advantage. The rural towns that services as trading and distribution centres for both urban and agricultural goods subsequently attract manufacturing activities.

The linkages between the rural non-agricultural and agricultural sub-sectors are critical for rural development. The growth In farm income provides an expanding market for consumption goods and agricultural inputs produced by the non-agricultural subsector, while agricultural raw materials are processed in the rural non-agricultural subsector. The share of locally produced consumption goods (as against imports from urban areas or abroad) in consumption expenditure depends on the distribution of income in agriculture. It is higher among the medium or small-farmers, than among the rich.

In India, cottage and village industries have been an important occupation of landless and other poor people in villages of ages. As a matter of fact, agriculture and rural industries are complementary to each other. The Khadi and Village Industries Commission (KVIC) has identified 95 villages industries for government support. These industries are divided in to the following seven categories :

1. Mineral-based industries.
2. Forest-based industries.
3. Agro-based industries.
4. Polymer- and chemicals based industries.
5. Engineering- and non-conventional energy based industries.
6. Textile industry other than khadi
7. Service industry.

The non-agricultural subsector of India's rural sector also occupies an important place in India's economy, as a source of income and employment opportunities for the landless. Out of about 27 crore rural workers about 4.5 crore (16-17 percent) were engaged in the non-agricultural subsector.

The Nayak Committee (1992), set up to examine the adequacy of institutional credit to the SSI sector and related aspects, observed that it would be safe to presume that the bulk of the financial needs of the rural segment of the SSI sector was met from private sources, including moneylenders. In regards to the overall SSI sector, it observed that; (a) there has been a dispersal of SSI units away from the metropolitan areas and large cities; (b) in spite of the increased flow of credit, the share of the tiny sector and village industries has been dismally low; and (c) establishment of forward and backward linkages to ensure the success of enterprises has not kept pace with the increase in the flow of credit. Credit is only one of the essential inputs for industrialization, and only if other supporting facilities, including adequate and timely availability of raw materials, skilled labour and marketing support, are provided on an assured basis, will entrepreneurs be able to prepare viable proposals and obtain institutional finance. The Nayak Committee recommended, among the other things, the creation of a separate fund for modernization, research and marketing, venture capital assistance for promoting viable projects by technocrat entrepreneurs, and detailed data collection for village and tiny industries.

Lack of adequate infrastructure is a major impediment to the development of industries in the rural areas. Electricity, transport, communication and availability of ancillary and allied services, viz., suppliers of raw materials and other inputs, semi-skilled and skilled labourers to attend to the problems of machinery, marketing and credit support agencies, etc., are essential for the growth of industries. In their absence, production activities of tiny units tend to concentrate around the peripheries of urban cities. The Sivarman Committee has suggested that the responsibility to providing infrastructural and extension support to the development of industries in rural areas (including providing raw materials supply) is assigned to the state governments. In the absence of responsive and admitted agencies for providing these essential services, banks find the lack of supporting the development of rural industries frustrating.

The income generated from various activities in this subsector is more evenly distributed than that generated in the large-scale manufacturing subsector. Besides, due to the low capital requirement per worker, the subsector can generate more jobs with a given amount of capital than the corresponding large scale factory industries. (extracted from Singh:1999)