



# Role of Agriculture in the Economic Development of a Country

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## OPEN ACCESS

Volume: 6

Issue: 3

Month: July

Year: 2018

ISSN: 2320-4168

Received: 23.06.2018

Accepted: 27.07.2018

Published: 30.07.2018

Citation:

L. Praburaj. "Role of Agriculture in the Economic Development of a Country." *Shanlax International Journal of Commerce*, vol. 6, no. 3, 2018, pp. 1–5.

DOI:

<https://doi.org/10.5281/zenodo.1323056>

## Abstract

*Increase in agricultural production and the rise in the per-capita income of the rural community, together with the industrialisation and urbanisation, lead to an increased demand in industrial production" It is seen that increased agricultural output and productivity tend to contribute substantially to an overall economic development of the country, it will be rational and appropriate to place greater emphasis on further development of the agricultural sector.*

**Keywords:** Economic Development Production, Export, Commodities, Industrialisation, Growth, Agriculture Sector, Surplus

## Introduction

Agricultural sector plays a strategic role in the process of economic development of a country. It has already made a significant contribution to the economic prosperity of advanced countries and its role in the economic development of less developed countries is of vital importance. In other words, where per capita real income is low, the emphasis is being laid on agriculture and other primary industries.

The history of England is clear evidence that Agricultural Revolution preceded the Industrial Revolution there. In U.S.A. and Japan, also agricultural development has helped to a greater extent in the process of their industrialization. Similarly, various under-developed countries of the world engaged in the process of economic development have by now learned the limitations of putting over-emphasis on industrialization as a means to attain higher per capita real income. "Thus industrial and agricultural developments are not alternatives but are complementary and are mutually supporting concerning both inputs and outputs."

## Role of Agriculture in Economic Development

The agriculture sector is the backbone of an economy which provides the basic ingredients to mankind and now raw material for industrialization.

## Contribution to National Income

He lessons drawn from the economic history of many advanced countries tell us that agricultural prosperity contributed considerably to fostering economic advancement. It is correctly observed that "The leading industrialized countries of today were once predominantly agricultural while the developing economies still have the dominance of agriculture and it largely contributes to the national income. In India, still, 28% of national income comes from this sector.

## Source of Food Supply

Agriculture is the basic source of the food supply of all the countries of the world—whether underdeveloped, developing or even developed. Due to the heavy pressure of population in underdeveloped and developing countries and its rapid increase, the demand for food is increasing at a fast rate. If agriculture fails to meet the rising demand for food products, it is found to affect adversely the growth rate of the economy. Raising supply of food by the agricultural sector has, therefore, great importance for the economic growth of a country.

Increase in demand for food in an economy is determined by the following equation:

$$D = P + 2g$$

Here,

D stands for Annual Rate of Growth in demand for food.

P stands for Population Growth Rate.

g stands for Rate of Increase in Per Capita Income.

2 stands for Income Elasticity of Demand for Agricultural Products.

## Pre-Requisite for Raw Material

Agricultural advancement is necessary for improving the supply of raw materials for the agro-based industries, especially in developing countries. The shortage of agricultural goods has its impact on industrial production and a consequent increase in the general price level. It will impede the growth of the country's economy. The flour mills, rice shellers, oil & dal mills, bread, meat, milk products sugar factories, wineries, jute mills, textile mills and numerous other industries are based on agricultural products.

## Provision of Surplus

The progress in the agricultural sector provides a surplus for increasing the exports of agricultural products. In the earlier stages of development, an increase in the exports earning is more desirable because of the greater strains on the foreign exchange situation needed for the financing of imports of basic and essential capital goods.

Johnson and Mellor are of the opinion, "Given the urgent need for enlarged foreign exchange

earnings and the lack of alternative opportunities, a substantial expansion of agricultural export production is frequently a rational policy even though the world supply-demand situation for a commodity is unfavorable."

## The Shift of Manpower

Initially, agriculture absorbs a large quantity of labor force. In India still, about 62% labor is absorbed in this sector. Agricultural progress permits the shift of manpower from agricultural to non-agricultural sector. In the initial stages, the diversion of labor from agricultural to the non-agricultural sector is more important from economic development as it eases the burden of the surplus labor force over the limited land. Thus, the release of surplus manpower from the agricultural sector is necessary for the progress of the agricultural sector and for expanding the non-agricultural sector.

## Creation of Infrastructure

The development of agriculture requires roads, market yards, storage, transportation railways, postal services and many others for an infrastructure creating demand for industrial products and the development of the commercial sector.

## Relief from Shortage of Capital

The development of the agricultural sector has minimized the burden of several developed countries that were facing the shortage of foreign capital. If foreign capital is available with the 'strings' attached to it, it will create another significant problem. Agriculture sector requires less capital for its development. Thus it minimizes growth problem of foreign capital.

## Helpful to Reduce Inequality

In a country which is predominantly agricultural and overpopulated, there is greater inequality of income between the rural and urban areas of the country. To reduce this inequality of income, it is necessary to accord higher priority to agriculture. The prosperity of agriculture would raise the income of the majority of the rural population and thus the disparity in income may be reduced to a certain extent.

### **Based on Democratic Notions**

If the agricultural sector does not grow at a faster rate, it may result in the growing discontentment amongst the masses which is never healthy for the smooth running of democratic governments. For economic development, it is necessary to minimize political as well as social tensions. In case the majority of the people have to be kindled with the hopes of prosperity, this can be attained with the help of agricultural progress. Thus the development of the agriculture sector is also relevant on political and social grounds.

### **Create Effective Demand**

The development of the agricultural sector would tend to increase the purchasing power of agriculturists which will help the growth of the non-agricultural sector of the country. It will provide a market for increased production. In underdeveloped countries, it is well known that the majority of people depend upon agriculture and it is they who must be able to afford to consume the goods produced.

Therefore, it will be helpful in stimulating the growth of the non- agricultural sector. Similarly, improvement in the productivity of cash crops may pave the way for the promotion of exchange economy which may help the growth of the non-agricultural sector. Purchase of industrial products such as pesticides, farm machinery, etc. also provides a boost to industrial dead out.

Helpful in Phasing out Economic Depression:

During the depression, industrial production can be stopped or reduced but agricultural production continues as it produces necessities of life. Thus it continues to create effective demand even during adverse conditions of the economy.

### **Source of Foreign Exchange for the Country**

Most of the developing countries of the world are exporters of primary products. These products contribute 60 to 70 percent of their total export earnings. Thus, the capacity to import capital goods and machinery for industrial development depends crucially on the export earning of the agriculture sector. If exports of agricultural goods fail to increase at a sufficiently high rate, these countries are forced to incur a heavy deficit in the balance of payments

resulting in a serious foreign exchange problem. However, primary goods face declining prices in the international market and the prospects of increasing export earnings through them are limited. Due to this, large developing countries like India (having potentialities of industrial development) are trying to diversify their production structure and promote the exports of manufactured goods even though this requires the adoption of protective measures in the initial period of planning.

### **Contribution to Capital Formation**

Underdeveloped and developing countries need a huge amount of capital for its economic development. In the initial stages of economic development, it is agriculture that constitutes a significant source of capital formation.

### **Employment Opportunities for Rural People**

Agriculture provides employment opportunities for rural people on a large scale in underdeveloped and developing countries. It is an important source of livelihood. Generally, landless workers and marginal farmers are engaged in non-agricultural jobs like handicrafts, furniture, textiles, leather, metal work, processing industries, and in other service sectors. These rural units fulfill merely local demands. In India, about 70.6% of total labor force depends upon agriculture.

### **Improving Rural Welfare**

It is time that rural economy depends on agriculture and allied occupations in an underdeveloped country. The rising agricultural surplus caused by increasing agricultural production and productivity tends to improve social welfare, particularly in rural areas. The living standard of rural masses rises and they start consuming a nutritious diet including eggs, milk, ghee and fruits. They lead a comfortable life having all modern amenities—a better house, motorcycle, radio, television and use of better clothes.

### **Extension of Market for Industrial Output**

As a result of agricultural progress, there will be an extension of the market for industrial products. Increase in agricultural productivity leads to an increase in the income of rural population which is,

in turn, leads to more demand for industrial products, thus the development of the industrial sector.

According to Dr. Bright Singh, "Increase in agricultural production and the rise in the per-capita income of the rural community, together with the industrialization and urbanization, lead to increased demand in industrial production." In this way, the agricultural sector helps promote economic growth by securing as a supplement to the industrial sector.

### **Contribution of Agriculture to Economic Growth**

Simon Kuznets identifies four possible types of contribution that the agricultural sector is capable of making for overall economic development.

1. Product contribution, i.e., making available food and raw materials.
2. Market contribution, i.e., providing the market for producer goods and consumer goods produced in the non-agricultural sector.
3. Factor contribution, i.e., making available labor and capital to the non-agricultural sector.
4. Foreign Exchange contribution.

### **Current Status**

The Directorate of Economics and Statistics, Ministry of Agriculture (DESMOA) is responsible for the collection, (a) weekly and daily wholesales prices, (b) retail prices of essential commodities, (c) farm harvest prices.

Weekly wholesale prices cover 140 agricultural commodities from 620 markets.

Retail prices of essential commodities are collected on a weekly basis from 83 market centers in respect of 88 commodities (49 foods and 39 nonfoods) by the staff of the State Market Intelligence Units, State Directorates of Economics and Statistics (DESSs) and State Department of Food and Civil Supplies.

Farm Harvest Prices are collected by the field staff of the State revenue departments for 31 commodities at the end of each crop season and published by the DESMOA.

According to Prof. Kinderberger, Todaro, Lewis and Nurkse, etc., agriculture makes its contribution to economic development in several ways, viz.

- 1) By providing food and raw material to non-agricultural sectors of the economy.
- 2) By creating demand for goods produced in non-agricultural sectors, by the rural people on the strength of the purchasing power, earned by them on selling the marketable surplus.
- 3) By providing an investable surplus in the form of savings and taxes to be invested in the non-agricultural sector.
- 4) By earning valuable foreign exchange through the export of agricultural products.
- 5) Employing a vast army of uneducated, backward and unskilled labor. If the process of economic development is to be initiated and made self-sustaining, it must begin for the agricultural sector.

### **Agriculture Sector Provides Funds for Capital Formation in Many ways as**

- 1) Agricultural taxation.
- 2) Export of agricultural products.
- 3) Collection of agricultural products at low prices by the government and selling it at higher prices. This method is adopted by Russia and China.
- 4) Labor in disguised unemployment, largely confined to agriculture, is viewed as a source of investible surplus.
- 5) Transfer of labor and capital from farm to non-farm activities etc.

### **Conclusion**

From the above-cited explanation, we conclude that agricultural development is a must for the economic development of a country. Even developed countries emphasize agricultural development. According to Muir, "Agricultural progress is essential to provide food for growing non-agricultural labor force, raw materials for industrial production and saving and tax revenue to support the development of the rest of the economy, to earn foreign exchange and to provide a growing market for domestic manufactures."

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