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Agriculture In Indian Economy

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Why does farming still matter so much to India? About 45 of every 100 workers farm for a living. Yet together they produce only about 16 rupees of every 100 the economy earns. That gap explains much of India’s rural story, and most of its farm policy.

At a Glance

Four facts to hold on to.

01
About 16% of GDP

But roughly 45% of the workforce.

02
MSP

Now covers 22 mandated crops.

03
2020 farm laws

Passed to loosen APMC’s grip. Repealed in 2021 after sustained protests.

04
Self-sufficiency

Yes in foodgrain. Still imports edible oils and pulses.

MSP A floor price the government sets before sowing, for key crops.
APMC Regulated mandis farmers were once required to sell through.

Buffer stock Grain reserve held to guard against poor harvests and price spikes.
FPOA farmer collective that pools smallholders for bargaining power.

Chapter 1: Agriculture's Place in the Economy

Must Know

A 16% output share, a 45% jobs share

- Farming and allied activities make up about 16% of India's GDP.
- Yet they employ roughly 45% of the workforce. That is near half of all workers.
- This gap is why rural incomes often lag urban ones. A sector with low output per worker still holds a very large share of people.
- Agriculture made up about 52% of GDP in 1950-51, right after Independence.
- It fell to about 29% by 1990-91, and to roughly 16% today.
- This is normal as an economy develops. Industry and services grow faster than farming.
- But India's version is unusual. The workforce share fell much more slowly than the output share. Tens of millions of workers are still tied to a shrinking slice of the economy.

Picture it with 100 workers

- About 45 of them farm for a living.
- Together those 45 farmers produce only ₹16 of every ₹100 the economy earns.
- The other 55 workers, in factories and services, produce the remaining ₹84.

- That imbalance is why a farmer's average income usually trails a factory or office worker's income.

The Green Revolution

- From the late 1960s, high-yielding wheat and rice seeds, with irrigation and fertiliser, sharply raised output.
- It was concentrated mainly in Punjab, Haryana and western Uttar Pradesh.
- The first phase ran from 1966 to 1972.
- Wheat output jumped from about 12 million tonnes in 1965 to 20 million tonnes by 1970.
- Average wheat yield rose from around 850 kg per hectare in the early 1960s to over 2,000 kg per hectare by the late 1970s. That is more than double.
- India moved from depending on food imports to food self-sufficiency within about a decade.
- The gains went mostly to irrigated, well-off regions. Dry areas and poor farmers gained less.
- Heavy water and fertiliser use also brought long-term environmental costs.
- Read more: The Green Revolution and Crop Policy.

> **Quick check 1.** Farming employs about the same share of workers as it contributes to GDP. *(True or False?)* See answer ↓

Chapter 2: MSP, Procurement and the Food Chain

Good to Know

What the Minimum Support Price does

- The Minimum Support Price (MSP) is a floor price the government sets before the sowing season, for key crops.
- It protects farmers from a sudden market price crash by promising a minimum return.
- The MSP aims to pay at least 50% over the cost of production. But which “cost” is itself a live debate.
- The government calculates it as 1.5 times the A2+FL cost.
- **A2** is the actual paid-out cost. It is what a farmer pays out of pocket.
- **FL** is family labour. It values the unpaid work of the farmer’s own family.
- The 2006 Swaminathan Commission recommended a higher benchmark: 1.5 times the C2 cost.
- **C2** is the comprehensive cost. It adds imputed rent on owned land and interest on owned capital to A2+FL.
- Using A2+FL instead of C2 means the 50% margin is calculated on a smaller base. Farmer groups argue the real MSP still falls short of what Swaminathan intended.

Worked example: wheat, RMS 2026-27

Item	Per quintal
A2+FL cost (CACP)	₹1,239
C2 cost (CACP)	₹1,804
1.5 × A2+FL (government’s floor)	about ₹1,859
1.5 × C2 (Swaminathan benchmark)	about ₹2,706
Actual announced MSP	₹2,585

- The announced MSP is well above the government’s own floor.

- But it is still about ₹121 short of the Swaminathan formula.
- The government buys at MSP through agencies like the FCI, mainly for paddy and wheat.
- MSP is a support measure, not a guaranteed sale. What matters is actual procurement, not just the announced price.
- Read more: Support Pricing System and MSP Mechanics.

FCI, buffer stocks and the PDS

- **Procurement:** the Food Corporation of India (FCI) buys grain from farmers at MSP.
- **Storage:** the FCI holds part of it as a buffer stock. This reserve guards against poor harvests and price spikes.
- **Distribution:** the FCI supplies grain to the Public Distribution System (PDS), which sells subsidised food to eligible households.
- Say a state has a poor monsoon and its own wheat falls short. Its ration shops can still sell wheat. The FCI releases grain stored during better years elsewhere. That is exactly what a buffer stock is for.
- The National Food Security Act gives a legal right to subsidised foodgrain to a large share of households.
- Procurement, stocking and distribution form one connected food-security chain.
- Read more: Food Corporation of India (FCI), Buffer Stock and Food-Grain Management and Public Distribution System and Food Security.

> **Quick check 2.** MSP guarantees the government will buy all of a farmer's crop. *(True or False?)* See answer ↓

Chapter 3: Farm Size, Credit and Tax

Good to Know

Why farm size matters

- Most Indian farms are small and marginal. They are roughly 90% of all holdings.
- Small plots limit machinery, formal credit and modern techniques that work at scale.
- Fragmented fields raise costs and lower a farmer’s bargaining power.
- Smallholders lean on family labour and often borrow informally to buy inputs. This is why many farm schemes target them.
- The average farm was 2.28 hectares in 1970-71.
- It fell to 1.41 hectares in 1995-96, and to just 1.08 hectares in the 2015-16 Agriculture Census. That is about the size of two football fields.
- Each generation, land is divided among more heirs. Plots keep shrinking even as the number of people working them stays large.

How farmers borrow

- **Banks:** commercial banks lending directly to farmers.
- **Cooperatives:** farmer-owned credit societies.
- **Regional Rural Banks (RRBs):** set up specifically to serve rural areas.
- **Self-help groups:** small member-run savings and lending circles.
- Informal credit comes from moneylenders and traders, at much higher interest.
- Farmers who cannot reach formal credit often fall into costly informal debt cycles.
- Kisan Credit Cards (KCC) and institutional credit try to push farmers toward cheaper, formal loans.
- Over 7.72 crore KCCs are active. They carry about ₹10.2 lakh crore in outstanding credit.
- Union Budget 2025-26 raised the KCC loan limit from ₹3 lakh to ₹5 lakh. It raised the collateral-free limit from ₹1.6 lakh to ₹2 lakh.
- Farmers who repay on time get a Prompt Repayment Incentive. Their effective interest can fall as low as 4%. That is far below an informal moneylender's rate.
- NABARD projects total agricultural credit flow will cross ₹32.5 lakh crore in FY 2025-26.
- Read more: NABARD: India's Apex Bank for Rural Credit and Short-Term Cooperative Credit Structure: PACS, DCCBs, NABARD.

Why farm income is tax-exempt

- Agricultural income is exempt from central income tax.
- Agriculture is a state subject under the Constitution. So the Centre does not tax farm income directly.

- The exemption is often criticised. It can shelter non-farm income dressed up as farm income.
- A business owner could buy farmland and claim unrelated business earnings as “farm income”. He pays no tax on money that never came from farming. Tax authorities have flagged this misuse.
- Many experts want a consolidated tax on large farm incomes. They also want to protect small and poor farmers from any new burden.

> **Think it through: why does farm size keep falling even when the population working the land stays large?**
>
> Because land is split among heirs every generation. The same land feeds more families, so each plot shrinks.

Chapter 4: The Battle Over Farm Markets

Great to Know

The APMC mandi system

- The APMC (Agricultural Produce Market Committee) system made farmers sell through regulated mandis.
- It was meant to protect farmers. Critics say it limited competition and kept margins low.
- Middlemen and licence holders controlled the mandi. Farmers often got a thin slice of the final price.
- In Punjab, a farmer’s sale can carry a 3% market fee, a 3% rural development fee and a 2.5% commission agent’s cut.
- That is roughly 8.5% gone before the farmer sees the money. It comes on top of whatever price the buyer offers.

- e-NAM connects mandis online to widen the market and ease price discovery.
- Marketing reform is a long-running battle over who controls the farm-gate price.
- Read more: Agricultural Produce Market Committee (APMC) Act.

What happened to the 2020 farm laws

- Three farm laws passed in 2020. They tried to loosen the APMC's grip and let farmers sell directly to private buyers.
- Backers said the laws would open markets. Critics feared they would remove the MSP safety net.
- Large, sustained protests followed, mainly from Punjab and Haryana.
- The laws were repealed in 2021. It was a rare case of a major economic reform withdrawn under protest.
- It showed how politically sensitive farm-market reform is in India.

The path after the repeal

- Since 2021, reform has used softer tools. They work within the APMC system rather than replacing it.
- **e-NAM:** the National Agriculture Market connects mandis online for better price discovery.
- **FPOs:** Farmer Producer Organisations pool smallholders to improve bargaining power.
- **AMI scheme:** funds storage projects to cut post-harvest losses.
- A lone farmer selling 2 tonnes has little room to bargain. An FPO pooling 500 such farmers can offer 1,000 tonnes at once. It negotiates from a much stronger position, without bypassing the mandi at all.

- Read more: Farmer Producer Organisations (FPOs) and Collective Action.

> **Quick check 3.** The 2020 farm laws are still in force today. *(True or False?)* See answer ↓

Chapter 5: Self-Sufficiency, Growth and Distress

Great to Know

Is India self-sufficient in food?

- India is foodgrain self-sufficient, thanks to the Green Revolution and sustained procurement.
- But it still imports large amounts of edible oils and pulses to meet demand.
- Self-sufficiency is crop-specific, not uniform across agriculture. That is why policy targets particular crops.
- India grows enough wheat and rice to feed itself, and even exports some.
- But Indian kitchens use far more edible oil than domestic mustard, groundnut and soybean can supply.
- So India imports over half its edible oil, mostly palm oil from Indonesia and Malaysia, even with comfortable foodgrain stocks.
- Read more: Edible Oil Production in India and Pulses Cultivation in India.

Growth is not the same as distress

- Agricultural growth is rising output.

- Agricultural distress is falling or stagnant farmer income.
- Output can rise nationally while individual farmers still lose. Prices may drop, costs may rise, or gains may concentrate elsewhere.
- A record harvest can actually cut prices for the farmer, even as total output grows.
- Gains tend to concentrate in a few crops and regions.
- Always separate the production picture from the income picture.

> **Quick check 4.** India is self-sufficient in every agricultural commodity. *(True or False?)* See answer ↓

Chapter 6: Inputs, Insurance and Sustainability

Great to Know

Four tools for a farmer

- **Fertiliser subsidy:** subsidised urea, DAP, MOP and NPKS have sold under one “Bharat” brand since 2022.
- **Crop insurance:** PMFBY pays out for crop loss. Some add-on covers can now include losses from wild animals.
- **Soil guidance:** Soil Health Cards guide crop-wise fertiliser use.
- **Low-chemical farming:** the National Mission on Natural Farming pushes low-cost methods that use fewer chemicals.
- Say wild boars destroy part of a standing crop before harvest. Under a PMFBY add-on cover, that farmer can claim compensation. The base scheme did not originally cover this.
- Input policy is shifting toward targeted subsidy, insurance and soil health, not blanket support.

- Read more: Agricultural Subsidies: Types and Economics, Pradhan Mantri Fasal Bima Yojana (PMFBY), Zero Budget Natural Farming and Technology Missions in Indian Agriculture.

In the News: Farm Policy in 2026

Current Affairs

How far has MSP support expanded?

- On 4 August 2026, the government said MSP now covers 22 mandated crops.
- Procurement rose from 6,987 to 12,819 lakh tonnes between 2004-14 and 2014-26.
- The value of MSP support paid to farmers rose from about ₹7.41 to ₹27.80 lakh crore over the same period.
- A Price Differential Payment component was added from 2024-25 for perishable crops. (Source: PIB)

Why did output rise but growth slow?

- India's kharif foodgrain output hit a record 173.33 million tonnes in FY 2025-26, up from 169.4 MT.
- Even so, agriculture GVA growth slowed to 3.0%, from 4.2% a year earlier.
- Record production and rising farm value are not the same thing. (Source: PIB)

What is new in insurance and soil health?

- PMFBY now allows wild-animal crop losses as an add-on cover, paid for by states.

- The National Mission on Natural Farming (2024) has a ₹2,481 crore outlay. It gives farmers ₹4,000 per acre for two years.
- Over 26 crore Soil Health Cards have been issued to guide crop-wise fertiliser use. (Source: PIB)

How are e-NAM and collectivisation doing?

- On 28 July 2026, e-NAM had 1.89 crore registered farmers and 2.78 lakh traders.
- All 10,000 targeted Farmer Producer Organisations are now formed. They enrol over 65 lakh small and marginal farmers.
- Cotton yields still lag. So the KAPAS KANTI cotton mission (2026) has a ₹5,659 crore outlay across 140 districts.
- Marketing and collectivisation remain the main reform direction. (Source: PIB) See also Cotton Cultivation in India.

> **Quick check 5.** MSP now covers more than 20 mandated crops. *(True or False?)* See answer ↓

Exam Edge

Previous Year Questions

The trap this topic keeps setting: treating “farm support” as one idea, not several separate instruments.

Quick Q&A

Farm share of GDP?

About 16%.

Farm share of jobs?

About 45%.

Swaminathan MSP formula?

1.5 × C2.

Farm laws repealed?

2021.

Crops under MSP?

22.

Practice: Agriculture

7 verified questions from this topic.

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Practice MCQs

1. Which 1957 committee first recommended setting up a dedicated national grain procurement and storage body, which later became FCI?

A. The National Development Council

B. The Shanta Kumar Committee

C. The Foodgrains Policy Committee

D. The Agricultural Prices Commission

See answer ↓

2. Under the Food Corporations Act, FCI has three statutory objectives: remunerative prices for farmers, affordable PDS grain, and what third goal?

A. Regulating agricultural export tariffs

B. Maintaining buffer and operational stocks for food security

C. Setting the annual Minimum Support Price

D. Administering crop insurance claims

See answer ↓

3. The High-Level Committee that reviewed and recommended restructuring FCI's role, submitting its report to PM Modi in January 2015, was chaired by whom?

A. Raghuram Rajan

B. Ashok Gulati

C. Shanta Kumar

D. Arvind Panagariya

See answer ↓

4. As of November 2025, roughly how much total foodgrain storage capacity did FCI hold across India?

A. Over 482 lakh metric tonnes

B. Over 100 lakh metric tonnes

C. Over 250 lakh metric tonnes

D. Over 1,000 lakh metric tonnes

See answer ↓

5. Under India's Constitution, agricultural marketing is placed in which list, making the APMC Act a state law?

A. Union List

B. Residuary powers

C. State List

D. Concurrent List

See answer ↓

6. Which Act of 2020 let farmers trade outside the physical premises of notified APMC markets?

A. Warehousing (Development and Regulation) Act

B. Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act

C. Farmers (Empowerment and Protection) Agreement Act

D. Essential Commodities (Amendment) Act

See answer ↓

7. The 2003 Model APMC Act allowed which of the following?

A. A ban on direct sale to contract sponsors

B. Private individuals, consumers or producers to set up markets

C. Fixed national prices for all crops

D. Abolition of all state APMC Acts

See answer ↓

8. Which condition must a state's APMC Act meet before its mandis can join eNAM?

A. One single trading licence valid across the state

B. Market fee must be charged at every mandi separately

C. Crop prices must be fixed by the Centre

D. Mandis must be closed to private traders

See answer ↓

9. What upper limit on the market fee did a 2014 committee of State Ministers recommend?

A. 8.5% of the produce value

B. 2% of the produce value

C. 10% of the produce value

D. 5% of the produce value

See answer ↓

10. India's Green Revolution is considered to have started from which town?

A. Delhi

B. Bengaluru

C. Pantnagar

D. Kanpur

See answer ↓

11. Which of these correctly lists the three tiers of India's short-term cooperative credit structure, from the apex down to the village level?

A. State Cooperative Bank → District Central Cooperative Bank → Primary Agricultural Credit Society

B. NABARD → District Central Cooperative Bank → Primary Agricultural Credit Society

C. District Central Cooperative Bank → State Cooperative Bank → Primary Agricultural Credit Society

D. Primary Agricultural Credit Society → District Central Cooperative Bank → State Cooperative Bank

See answer ↓

12. NABARD provides short-term (seasonal agricultural operations) refinance.

Which pair of institutions receives it through sanctioned credit limits?

A. Primary Agricultural Credit Societies and Urban Cooperative Banks

B. State Co-operative Banks and Regional Rural Banks

C. Primary Agricultural Credit Societies and Regional Rural Banks

D. Scheduled commercial banks and Primary Agricultural Credit Societies

See answer ↓

Answer Key

1. **C.** The Foodgrains Policy Committee of 1957 recommended a dedicated body for procurement and storage, an idea realised eight years later as FCI. ↑ Q1
2. **B.** FCI's third statutory objective is maintaining buffer and operational stocks, distinct from setting MSP itself, which is a separate government function. ↑ Q2
3. **C.** Former Himachal Pradesh Chief Minister Shanta Kumar chaired the committee, which recommended narrower FCI procurement and greater private-sector involvement. ↑ Q3
4. **A.** FCI's storage capacity stood at more than 482 lakh metric tonnes as of November 2025, spread across over 2,500 operational godowns. ↑ Q4
5. **C.**
   The answer is **State List**. Agricultural marketing falls under Entry 14 (Agriculture) and Entry 28 (Markets and fairs) of the State List, Seventh Schedule.
   That is why states, not one central law, govern agricultural marketing. States may make their own APMC law, but not every state has one.
   Bihar repealed its APMC Act with effect from 1 September 2006. Kerala has no APMC Act.
   ↑ Q5
6. **B.**
   The answer is the **Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020**. It let farmers trade outside notified markets and set up a framework for electronic trading.
   The Agreement Act dealt with contract farming. The Essential Commodities change eased stock limits. The Warehousing (Development and Regulation) Act, 2007 set up the legal framework for negotiable warehouse receipts. The electronic e-NWR system was launched later, in September 2017.
   ↑ Q6

7. **B.**
   The answer is that private individuals, consumers or producers could **set up markets**. The Model Act also let farmers sell directly to contract sponsors and offered a common registration for market intermediaries.
   It did not abolish state Acts. Agricultural marketing stays a state subject, so states had to adopt it themselves, and many adopted only parts.
   ↑ Q7
8. **A.**
   The answer is **one single trading licence valid across the state**. Two more criteria apply. The state Act must allow e-auction for price discovery. The market fee must be levied at a single point across the state.
   So even a national digital platform depends on each state amending its own law.
   ↑ Q8
9. **B.**
   The answer is **2% of the produce value**. The committee said the market fee should be at most 2%.
   It set commission limits separately: at most 2% for food grains and oilseeds, and 4% for fruit and vegetables. The market fee and the commission are two different charges.
   ↑ Q9
10. **C.** India's Green Revolution is traced to Pantnagar, home to an early agricultural university and research farm. ↑ Q10
11. **A.** The correct answer is State Cooperative Bank, then DCCB, then PACS. RBI says the short-term structure has three tiers. PACS sit at the village level. Central cooperative banks sit at the district level. StCBs sit at the state level. NABARD's chart lists the StCB as Tier I, the DCCB as Tier II and the PACS as Tier III. NABARD is not one of the three tiers. ↑ Q11
12. **B.** The correct answer is State Co-operative Banks and Regional Rural Banks. NABARD's page says this refinance goes to StCBs and RRBs by sanction of credit limits. Each withdrawal is repayable within 12 months. NABARD's refinance pages do not name PACS as borrowers. DCCBs can borrow directly from financial institutions that RBI regulates or approves. NABARD also developed the STMPCP to assist StCBs and DCCBs. ↑ Q12

Quick-check answers

1. **False.** ↑ 1

2. **False.** ↑ 2

3. **False.** ↑ 3

4. **False.** ↑ 4

5. **True.** ↑ 5

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