

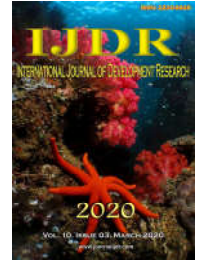


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ROLE OF AGRICULTURE IN THE ECONOMIC DEVELOPMENT

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ABSTRACT

The Reserve Bank of India (RBI) was established in the year 1935 in accordance with the Reserve Bank of India Act, 1934. The Reserve Bank of India is the central Bank of India entrusted with the multidimensional role. It performs important monetary functions from issue of currency note to maintenance of monetary stability in the country. Initially the Reserve Bank of India was a private share holder's company which was nationalized in 1949. Its affairs are governed by the Central Board of Directors appointed by the Government of India. Since its inception the Reserve Bank of India had played an important role in the economic development and monetary stability in the country. This paper is an attempt to explore into the role, functions, and contribution of RBI in Indian Economy. Evolution of RBI the Royal Commission on Indian Currency and Finance appointed on August 25, 1925 has suggested the establishment of the Central Bank in India, later the Indian Central Banking Enquiry Committee, 1931 stressed the establishment of the Central Bank in India. The Reserve Bank was established on April 1, 1935 under the Reserve Bank of India Act, 1934. The main object of Reserve Bank of India is, "to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage". The Reserve Bank of India was established as a private share holder's bank. The Central office of Reserve Bank of India was initially located in Calcutta which was later shifted to Bombay. The Reserve Bank of India issued first of its currency notes in January 1938 in the denomination of Rs.5 and Rs.10 and later in the same year denomination of Rs.100, Rs.1000 and Rs.10000 were issued. Post Independence the Reserve Bank of India was nationalized in the year 1949 through the Reserve Bank (Transfer of Public Ownership) Act, 1948 and all shares were transferred to Central Government.

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INTRODUCTION

In India most of the people depending upon agriculture. Agriculture sector plays a significant role in the process of economic development of a country. The history of England clearly shows evidence that Agriculture revolution preceded the industrial revolution there. In USA and Japan also agriculture development has helped to a greater extent in the process of industrialization.

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.

Therefore, the role of agriculture for the development of an economy may be stated as below:

Contribution to National Income: The lessons drawn from the economic history of many advanced countries tell us that

agricultural prosperity contributed considerably in 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 food supply of all the countries of the world—whether underdeveloped, developing or even developed. Due to 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 of food products, it is found to affect adversely the growth rate of the economy. Raising supply of food by agricultural sector has, therefore, great importance for economic growth of a country.

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 upon 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 agricultural sector provides 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, "In view of the urgent need for enlarged foreign exchange earnings and the lack of alternative opportunities, substantial expansion of agricultural export production is frequently a rational policy even though the world supply—demand situation for a commodity is unfavorable.

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 commercial sector.

Relief from Shortage of Capital: The development of agricultural sector has minimized the burden of several developed countries who 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 in Phasing out Economic Depression: During depression, industrial production can be stopped or reduced but agricultural production continues as it produces basic 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 per cent of their total export earning. 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 heavy deficit in the balance of payments resulting in a serious foreign exchange problem. However, primary goods face declining prices in 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 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.

Agriculture sector provides funds for capital formation in many ways as

- (i) Agricultural taxation,
- (ii) export of agricultural products,
- (iii) collection of agricultural products at low prices by the government and selling it at higher prices. This method is adopted by Russia and China,
- (iv) Labour in disguised unemployment, largely confined to agriculture, is viewed as a source of investible surplus,
- (v) transfer of labour and capital from farm to non-farm activities etc.

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 labour 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 nutritious diet including eggs, milk, ghee and fruits. They lead a comfortable life having all modern amenities—a better house, motor-cycle, radio, television and use of better clothes.

Extension of Market for Industrial Output: As a result of agricultural progress, there will be extension of market for industrial products. Increase in agricultural productivity leads to increase in the income of rural population which in turn leads to more demand for industrial products, thus development of 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 an increased demand in industrial production." In this way, agriculture sector helps promote economic growth by securing as a supplement to industrial sector.

CONCLUSION

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

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