The Roots of the Agrarian Distress in India*

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It did not take the current round of farmers' agitations to drive home the idea that India's agrarian sector is under stress. Low growth, poor earnings and distress behaviour such as large-scale internal migration and disproportionately high suicides have signalled that something is wrong with the rural sector in India. Agricultural growth has been, on average, lower than that in non-agriculture, including industry; but the rate of decline of the population dependent on agriculture has been discouragingly low since employment outside of agriculture has not been growing fast enough. A rough calculation suggests that gross domestic product (GDP) originating in the "agriculture and allied sectors" category rose by about 21 percent in nominal terms between 2013-14 and 2016-17, while the agriculture dependent population would have risen by about 4 percent.

> So, GDP per head of the agriculture dependent population would have risen by around 17 percent in nominal terms, whereas the index of consumer prices relevant to the rural areas rose by 16 percent.

Thus, real, inflation-adjusted incomes per head from agriculture have virtually stagnated, and in all probability would have fallen for those among the rural poor who derive a larger share of their income from cultivation.

Incomes from farming depend on both revenues and costs of cultivation, with revenues being in turn determined by output produced and sold and market prices received. When the agrarian crisis of the mid-1960s forced the then government to come to terms with the consequences of agrarian neglect, it opted for a strategy wherein it would combine efforts to raise productivity, with efforts to keep down costs (by providing implicit and explicit subsidies) and guaranteeing a cost-plus remunerative price.

The push to adopt high-yielding varieties, the system of purchase at Minimum Support Prices (MSP) that covered costs and offered a remunerative return, and the sale of foodgrains through the public distribution system at subsidised prices to protect the consumer and clear acquired stocks, were geared to achieve these objectives. Though there were inadequacies, in terms of both coverage and functioning, this strategy did have a salutary effect on agricultural production and the farming community.

The Market hasn't worked for the farmer

The policy shifts of the reform era have not been in favour of agriculture, though an early argument was that agriculture, which was a loser in the import substitution years when industry was protected and the agricultural sector was not, would gain from liberalisation and deregulation.

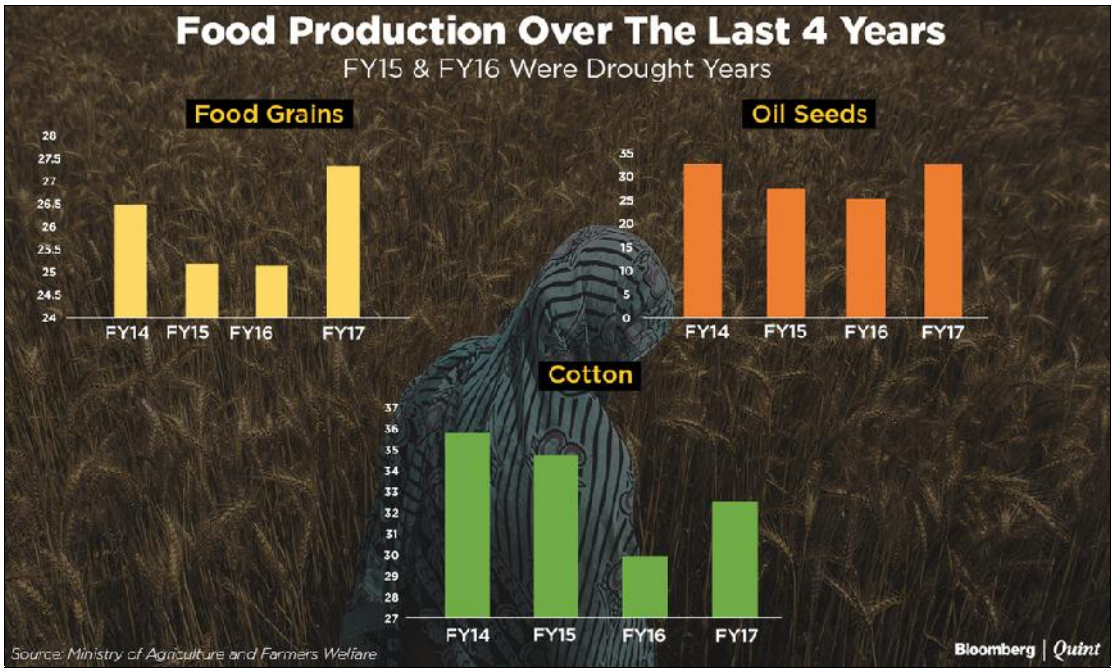
- To start with, the government's reform programme has deregulated and therefore increased prices of inputs.
- Second, over the years, subsidies have been reduced in the case of important inputs like fertiliser, raising their costs.

- Third, fiscal conservatism has adversely affected public investment in irrigation, drainage and flood control.
- Expenditure cuts have also meant that the system of technical extension services for farmers has been allowed to decay.
- Finally, liberalised imports of agricultural commodities including foodgrains and cotton have dampened domestic prices.

All of these have adversely affected productivity, raised costs and squeezed margins. As a result, the viability of crop production has been eroded.

> Moreover, the market has worked against farmers in unusual ways. The first two of the last three years were bad monsoon years, whereas the monsoon in 2016-17 was plentiful. This has been reflected in production as is to be expected in a monsoon-dependent country.

According to the third advance estimates of production put out by the Ministry of Agriculture and Farmers Welfare, food grain production in 2016-17 would touch 27.34 million tonnes. It had fallen from 26.5 million tonnes in 2013-14, to 25.2 and 25.16 milion tonnes in 2014-15 and 2015-16, due to two consecutive bad monsoons. In the case of oilseeds, the production figures are 32.52 million tonnes as compared with 32.75, 27.51 and 25.25 million tonnes respectively, and in cotton, 32.58 as compared with 35.90, 34.81, and 30.0 million tonnes respectively. A good monsoon helped in 2016-17, ensuring production that was above normal, after two bad years.



But farmers have fared badly in both good and bad years. They have lost out in the good harvest year as a result of falling prices. Tur prices have reportedly fallen from Rs 9,000-10,000 a quintal to Rs 3,500-4,000, and soybean prices from Rs 3,600-3,700

to Rs 2,400-2,500, as a result of the supply-demand imbalance that increased production resulted in.

On the other hand, farmers of some crops did not gain in terms of higher prices (even if affected by lower output and revenues) in bad or indifferent monsoon years. The latter transpires because the government – which fears inflation that may hurt vocal urban consumers and corporates – often chooses to address production shortfalls and actual or potential price increases by releasing accumulated stocks and augmenting domestic supplies with imports from abroad. This dampens price inflation.

Moreover, in good harvest years, neither are minimum support prices increased adequately to ensure a floor price that covers costs and offers a remunerative return, nor is enough procured to ensure that even the MSP offered serves as a floor for market prices.

In sum, trade liberalisation, deregulation and a greater role for market forces have not benefited the farmer, who is trapped in a persisting crisis.

Rethinking the Playbook

It is clear, therefore, that intervention that stabilises prices, investment to raise productivity, and adoption of redistributive measures such as subsidies to rein in costs, is a must. This has been known for long. The much referred to MS Swaminathan Committee recommended, for example, that the MSP should be set at a level that equals 150 percent of costs. Yet there is a vocal section that opposes measures that either support farmers or favour agriculture.

The criticism is sharpest of loan waivers aimed at writing off the unpayable debt of distressed farmers. Waivers should be avoided, it is argued, as they adversely affect credit discipline. Note the mode of analysis.

> A current problem is denuded of its history, making the victim of wrong policies that depressed agricultural prices, solely responsible for her predicament.

This despite the fact that such policies often involved income transfers out of farming to some other sections, as reflected in the fact that prices paid by consumers have ruled much above the low prices earned by farmers. So conditions that lead to regressive income redistribution are accepted as the unavoidable norm, but the danger of credit indiscipline and moral hazard is considered too serious to ignore.

A second criticism is of regulatory policies that focus on raising the profitability of farm production as is to incentivising investments that raise farm productivity. The argument here is that investment must be driven by market signals and market competition is crucial for “efficiency”. What is forgotten here is that the shift to such market-friendly policies explains in large part the predicament of India’s farming community.

So, when devising long-term solutions to the agrarian crisis, the fact that an ostensibly successful economic strategy has not ensured the viability of the sector that accounts for close to 50 percent of employment, does not lead to a rethink of that strategy even insofar as it affects agriculture.

This compares with the demands of the farmers who seek to combine immediate, short-term demands (such as waiver of outstanding farm loans) that provide relief from distress, with longer-term issues, such as ensuring stable and remunerative prices. It is time for today's policy makers to recognise their own disconnect, and learn from the signals from the ground, the evidence at hand, and the wisdom and experience of those like MS Swaminathan.

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