People Power

Growing Agrarian Crisis

As the Finance Minister gets ready to present the budget for next year, the sector which causes him the greatest anxiety must be agriculture. The past year has been relatively good in terms of rain fall and the Rabi yields should be encouraging. But in general, for over a decade now agricultural growth has been sluggish, stuck at about 2%. And there are four good reasons to be concerned about low agricultural growth rates.

First, sustained high GDP growth rates demand doubling of agricultural growth from 2% to 4% per annum. Second, unless agriculture yields better incomes for the rural population, domestic demand for manufactured goods and services is bound to taper off, adversely affecting growth in secondary and tertiary sectors. Third, the share of agriculture in our GDP is rapidly declining. Agriculture accounted for 31.3% of GDP in 1991-92 but by 2003-04 this share fell to 22.1%. This relative decline is leading to misery and a sense of deprivation in rural India. Finally, nearly 60 percent of population still depends on agriculture directly or indirectly, and jobs in non-farm sector are not created on the required scale to absorb the agricultural workers and new entrants to labour pool.

If these challenges are not addressed swiftly and aggressively, there could be serious social strife and political volatility. Already the evidence of rural distress is mounting, with endless news of hunger, farmer suicides and large scale migration to urban areas in search of livelihood. The spread of left wing extremism across large tracts of the country over the past decade is one more manifestation of growing despair and anger in rural India. The numbers are revealing. The income per capita of over 55 percent of Indians dependent on agriculture is only 23% of the rest of the population. Such deprivation of the vast majority of people in a poor country has debilitating consequences to our economy and polity.

What can the FM do to stimulate agriculture and rural economy? Protection from cheap imports is certainly necessary. But in an increasingly globalized world our consumers will not accept higher prices of edible oil and pulses when cheaper imports are possible. Cotton farmers can be given added protection by higher tariffs. The past few years have seen over 100 lakh bales of cotton import, which exceeds the preceding 30 years' cumulative imports! But with the end of the WTO quota regime, India must aggressively expand its market share in garment sector. Therefore, cotton prices cannot be allowed to rise beyond a point, if our garments are to be globally competitive.

A lot of needless subsidies have only sucked up precious resources (urea) or led to growing corruption without benefiting the farmer or consumer (food subsidies and cotton procurement). Most of these subsidies can be rationalized or ended, and those resources can be channelized into capital in agriculture sector to boost productivity. Credit expansion is already a stated policy goal, but it yielded mixed results. Excessive state control of credit cooperatives, extortion of predatory public officials, poor land records, weak credit infrastructure, and sluggish demand for agricultural products limit the credit expansion. The state extension machinery is virtually dysfunctional, and the corruption and incompetence of public agencies is resulting in short supply of seeds and sale of substandard inputs. Effective institutional mechanisms must be evolved to address all these issues – subsidies, credit, extention and inputs.

In addition, focus on three areas is critical for the future of agriculture. First, agricultural markets need to be reformed and opened up. Regulated markets enjoy a monopoly, and corruption and incompetetence are rampant. While the mandis function tolerably well in same states, in other states they are a source of political patronage and corruption. In case of vegetables, fruits and fish, the farmers are entirely at the mercy of local mafias and extortionary middle-men. Years ago, when Andhra fish farmers wanted to enter Kolkata markets, they had to submit to extortionary demands of local mafia. Only timely intervention of the then chief minister Mr Jyoti Basu helped both the farmers and the consumers. Agricultural marketing is a state subject and strong incentives are needed to nudge states to quickly reform the markets.

Second, value addition to agricultural produce is the key to the future. Tomatos sold at Rs 16 per kg a month ago in Andhra Pradesh, and they now sell at Re 1 a kg! The story on onion price fluctuations is too well known to bear repetition. These price fluctuations in case of perishable commodities is very common. While a few lucky farmers may benefit from high prices, most are driven to despair, and often the low price does not cover even the costs of harvesting. Agro processing on a massive scale will stabilize process, add value, raise incomes, assure markets, boost local economy, and create new jobs. Budgetary support for infrastructure and investment, and policy support to boost agro-processing are vital to revive agriculture.

Third, millions of rural youth are both unemployed and unemployable. Declining agriculture cannot give them livelihood, and industry cannot absorb them. A massive programme to promote skills and boost investment in small and medium enterprises in rural areas is essential for job creation.

For years, budget pronouncements have been long a rhetoric and short on action when dealing with agricultural revival. Will the 2006-07 budget be different?

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