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Rethinking India's Battles against Chronic Agrarian Distress

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Farmers during Kisan Mukti March on way to Parliament Street demanding special session of Parliament to implement Kisan Mukti Bill on Liberation from Debt and assured remunerative prices, in New Delhi on November 30, 2018. Photo: Sandeep Saxena / The Hindu

In the run up to the 2019 general election leading political parties have promising payouts to the poor as part of the country's policy measures to stamp out poverty. Rural India, particularly the agriculture sector which absorbs most of the nation's employment, is in need of effective and workable solutions if the promises of a 'New India' are to be met. In this article, *Sangeeta Shroff, Professor, Gokhale Institute of Politics and Economics, Pune, and currently In–Charge of the Institute's Agro-Economic Research Centre,* ***explains the causes for chronic agrarian distress and discusses the efficiency of giveaways as a policy instrument.***

Indian agriculture has been passing through a period of severe crisis since long and the overall scenario in this sector is that of stagnation, under-performance and lack of dynamism. During the Tenth Five Year Plan (2002-03 to 2006-07) while the industry and service sector grew at a little more than 9 per cent per annum, that of the agricultural sector was a minuscule 2.3 per cent per annum. The Eleventh Plan (2007-08 to 2011-12) was equally discouraging as agriculture could not achieve its target growth rate of 4 per cent per annum. Finally, the recent Twelfth Plan ended in 2016-17 with a growth rate for agriculture of 3.2 per cent against an overall growth rate for the economy at 7 per cent per annum. These figures make it amply clear that Indian agriculture is ailing and becoming an un-remunerative economic activity.

The government is of course not complacent towards this important sector of the economy and a host of measures, increasing in number, since independence and till date, have been directed to this sector. These measures are mainly in the form of huge subsidies for almost every input, viz., fertiliser, water, power, seed, etc. Other measures include public procurement of output at higher than market prices whenever required, loan waivers, providing public works to rural sector to generate additional employment during lean season and hence supplementary income, and many more.

Each year when the budget is announced, the allocation made to the agricultural sector is a priority as well as sensitive issue for the policy makers and it ignites great discussion and debate in the media. The Interim Budget 2019, being an election year coupled with great anxiety in the agricultural sector had to thus come out with major announcements. The budget other than certain subventions to agriculture also announced an income support to farmers under the scheme *Pradhan Mantri Kisan Samman Nidhi* or *PM-Kisan*. States such as Telangana and Odisha have already provided some form of empowerment to farmers through an income support and this budget followed suit. Under the *PM-Kisan* scheme, farmers who have up to 2 hectares of land, will be provided direct income support of Rs 6.000 per year in three equal instalments. *It may be noted here that the criteria for the income support is fixed at "up to 2 hectares", irrespective of whether the land is irrigated or not,*

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although it is clear that irrigated lands not only fetch higher returns per hectare, but also allow for cropping in two or three seasons in a year, due to availability of water.

The data from the Agricultural Census (2015-16) indicates that there are 14.57 crore holdings in the country out of which 9.98 crore holdings or 68.52 per cent are marginal owning less than 1 hectare of land and the average size of a marginal holding is 0.38 hectare. The number of small holdings is 2.6 crore or 17.69 per cent of total holdings with an average size of 1.41 hectare. Together marginal and small holdings are 12.56 crore or 86.21 per cent of total holdings and cultivate 47.3 per cent of total area cultivated in the country which is about 15.7 crore hectares. Considering that 12.56 crore farmers are the beneficiaries of the PM-Kisan scheme, the financial burden to the central government is a gigantic sum of Rs 75,000 crore for 2019-20. Further, the scheme is also in retrospective effect as one instalment amounting to Rs 2,000 will be paid to the beneficiaries from December 1, 2018, which will cost an additional Rs 20,000 crores to the Exchequer. This huge income support has increased the share of agriculture in the interim budget 2019-20 by 144 per cent compared with the previous year, as the share, which was Rs 57,600 crores in 2018-19 has gone up to Rs 1,40,764 crores in 2019-20. Therefore, the share of agriculture in the budget, which was on an average 2.14 per cent during the period 2014-15 to 2018-19, has increased to 5.2 per cent in the interim budget 2019-20. However, possibly due to this increase, the government could not maintain its targeted fiscal deficit of 3.1 per cent of Gross Domestic Product (GDP) and it now stands at 3.4 per cent.

Understanding chronic agrarian distress

It is important to understand the causes for such distress in the agricultural economy because of which in addition to subsidies and price support even income support to farmers is required. The sector wise status of the economy can be observed from Table 1.

Table 1: Status of Agriculture in India (Sector-wise percentage share in Employment and Gross Domestic Product)

Sector	1981		1991		2001		2016-17	
	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP
Primary	68.87	41.8	66.75	34.92	59.9	27.3	42.74	15.11
Secondary	13.48	21.58	12.77	24.48	11.9	24.28	23.79	31.12
Tertiary (Services)	**17.65**	**36.62**	**20.5**	**40.6**	**28.2**	**48.42**	**33.48**	**53.77**

Source: Census of India and National Accounts Statistics (various issues), https://statista.com

It can be observed from Table 1 that employment in the agricultural sector which was 68.87 per cent in 1981 declined to 42.74 per cent in 2016-17. This raises two issues. Firstly, agriculture is still the major source of employment after more than 7 decades of independence, but its contribution to GDP is declining very rapidly and is only 15.11 per cent (2016-17) which speaks of low labour productivity in this sector. Secondly the workforce that has moved out of agriculture is mostly to the service sector, perhaps casual self-employment. It appears that the industrial sector is not able to absorb the increasing labor force and perhaps the *Make in India*initiative, an attempt in this direction, has to still unfold and stimulate the manufacturing sector to create employment.

An important reason for low productivity in the agricultural sector besides lack of usage of suitable technology is poor irrigation facilities. Agriculture, till date, is largely dependent on monsoons, failure of which leads to crop failure. Only 47.68 per cent of gross cropped area is irrigated and the picture is worse when one looks at the State-wise share (Figure. 1). States like Maharashtra where agrarian distress appears to be chronic, has barely 18 per cent of area under irrigation. Low irrigation also results in low cropping intensity (which is barely 142 per cent) as farmers are not able to take a second crop for want of water. There are also huge fluctuations in yield due to lack of irrigation facilities. For example, soyabean is an important oilseed crop

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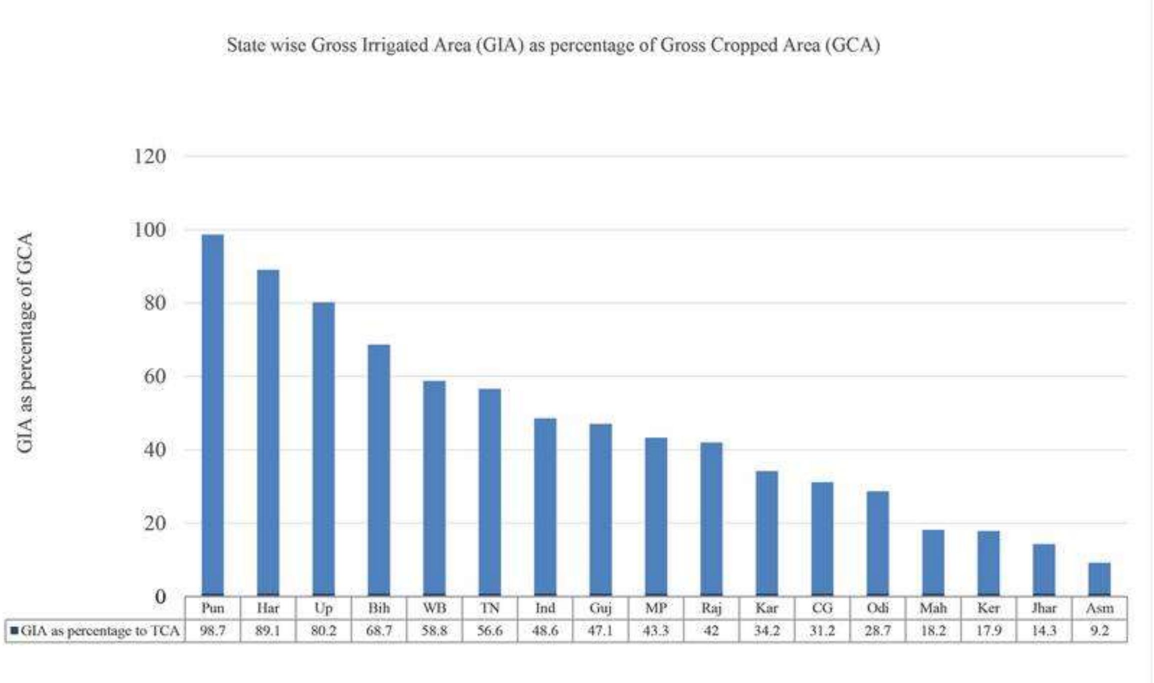
in Maharashtra which has replaced not only other oilseed crops but also other kharif crops such as jowar. However, the crop has only 0.3 per cent area under irrigation. When the State suffered a severe drought in 2015-16, the yield of soyabean was 557 kgs per hectare, but in the following year, 2016-17, when the monsoons were favourable the yield jumped by 116 per cent. This indicates the importance of water for the crop. The favourable yield in 2016-17, however brought with it another set of problems.

Firstly when there was poor harvest in 2015-16, the farmers did not benefit by any price rise but in 2016-17 when they harvested a bumper crop, still all was not well in the soyabean economy as farmers suffered a huge price crash which was aggravated by low international prices. Prices fell below the Minimum Support Price (MSP) and government had to intervene to make purchases in order to prevent distress sales. Further, in order to bring about more stability in soyabean prices, tariffs on edible oils had to be increased to protect the domestic markets. The lesson to be learnt is that the country should become self sufficient by being more competitive in international markets, as edible oils are experiencing increasing demand fuelled by increased urbanisation and rising per capita incomes of the population.

Fig. 1 Gross Irrigated Area (GIA) (as % of Gross Cropped Area)



Source: Commission for Agricultural Costs and Prices, Ministry of Agriculture and Farmers' Welfare, Government of India, March 2018.

In addition to soyabean, in the recent past there have been several instances with respect to several crops when market prices have fallen below MSP. The same is true for horticultural crops, recently coined as TOP -tomato, onion and potato - where prices have touched such low levels that farmers not only out of frustration and helplessness, but also to avoid marketing costs, have sometimes disposed of the crop on the roads or ploughed it back in the soil as manure. The returns from certain kharif crops are indicated in Table 2. It can be observed that the earnings for each crop are over a season of at least six months which means that farmers earn barely Rs 6,522 to Rs 1,410 per month over paid-out costs. When one considers Returns over Cost (C2, which includes both fixed and variable costs) the returns are negligible.

Table 2: Returns from Major Crops

Returns From Major Crop (Rupees/ ha.) Triennium Average 2015-16		
Crops	**Return over Cost A2 (Paid out costs)**	**Return over Cost C2 (Variable + Fixed costs)**
Paddy	28,897	13,821
Maize	19,689	7,540
Jowar	11,694	4,568
Tur	39,135	22,881
Moong	12,500	5,161
Groundnut	30,847	16,308
Soybean	8,461	3,049
Cotton	30,602	14,934

Source: Commission for Agricultural Costs and Prices, Ministry of Agriculture and Farmers' Welfare, Government of India, March 2018.

Note: Cost C2 is estimated to be 25 per cent Paid-out cost (A2) plus imputed value of family labor.

While the above figures are apparently an *All India* average, perhaps farmers in some States will earn more as they may have higher yields. This obviously refers to States such as Punjab and Haryana where protective irrigation is available. However, despite entire area irrigated in Punjab, the agricultural economy is not full of bliss. Though Punjab was the seat of the green revolution, that helped the country to become self-sufficient in food production, several policies have brought about negative externalities and made Punjab's agriculture economically and ecologically unsustainable.

The food policy of the government to procure rice and wheat for the vulnerable section of the society is an incentive for farmers to cultivate these two crops as there is an assured market and inputs are heavily subsidised. However, this continuous paddy-wheat rotation is promoting the use of more and more fertilisers and also imbalance in use of fertilisers. As urea is heavily subsidised, farmers use it more than required leading to soil salinity, degradation of soil, water logging and depleting micro nutrients. Further, the water needed to absorb fertilisers is leading to increased use tube wells as a source of irrigation with ground water being further exploited due to free or subsidised electricity. As more inputs are required to produce the same output, farmers are experiencing higher cost of cultivation.

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The government, in turn, is compelled to increase the MSP. The subsidy on fertilisers for 2019-20 was Rs 750 billion with share of urea subsidy being 67 per cent. This explains the tilt towards consumption of urea and the negative externalities associated with it. Farmers are incentivised to cultivate paddy and wheat as there is massive procurement to meet the requirements of the Public Distribution System (PDS). Though MSP for crops has increased, there is no change in Central Issue Price and the huge gap between the two, coupled with huge marketing costs has ballooned the food subsidy bill to a whooping Rs 1,842 billion. To combat the ill effects of excessive use of fertilisers and its misuse, as it is heavily subsidised, the government in 2015 made it mandatory for all indigenous producers of urea to produce neem-coated urea as coating of neem oil is a promising technology which allows slow but more efficient release of nitrogen as well as less frequent applications. This will help to lighten the subsidy burden besides preventing diversion of urea to other uses. Further, to maintain soil health, another Centrally Sponsored Soil Health Card Scheme was launched in 2015 to test micro and macro nutrients in the soil. This will allow the farmers to correct any deficiency in their soil and hence bring about increase in productivity.

While food and fertiliser are major subsidies for the farm sector, there are several other schemes for the benefit of the rural economy. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) implemented in 2006 in a phased manner, is probably one of the largest schemes, perhaps even in the world, which provides safety net to the rural poor and weaker sections in years of drought or when there are limited livelihood options. The scheme has two main features, firstly provision of 100 days of employment within 15 days of registration, to every household ready to do unskilled manual work and secondly to create durable assets which will improve the quality of natural resources in rural areas. Considering that the scheme may change the face of the rural economy, the budgetary allocation to this scheme has always been generous. In budget 2019-20 the amount allocated to this scheme was Rs 600 billion. However, it is now more than a decade since this scheme has been functioning and its performance is a highly debated issue in public policy. Being carried out throughout the country, while there may be a few success stories atl east in terms of providing some employment in certain years to the poorest of poor, there are negative reports as well.

These reports reveal that employment generated was unsatisfactory and also wages paid were negligible to some beneficiaries, when group work was undertaken on grounds that the group member hardly contributed to the work. However, the other indicator on the performance of MGNREGA on creation of assets for enriching water resource base and land development shows unsatisfactory performance. Further there have been administrative lapses as well as leakages in the implementation of the scheme. Besides a massive PDS in place, there is still another centrally sponsored scheme – Nutritional Support to Primary Education or the Mid-Day Meal Scheme, launched in 1995, which aims to encourage enrolment of children in schools. The budgetary allocation in 2019-20 to this scheme has been Rs 110 billion. The evaluation of these schemes again reveals their limited impact on primary education.

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While some major schemes have been touched upon, the budgetary support on other concessions such as loan waivers, interest subventions, subsidy on premium for crop insurance, huge expenditure on incomplete irrigation projects, etc. also add to fiscal deficit. Agriculture is a State subject and besides central sector schemes, each State has several schemes to revive the sector. However, the bone of contention is not the "outlays" on various schemes implemented for welfare purposes but on "outcomes". Obviously, had the schemes served the very purpose for which they were launched there would not be agrarian distress.

Breaking the vicious circle - doles or assets?

A holistic approach is needed to tackle the crisis in the farm sector. Irrigation, Watershed strategies and extension services have to be taken up on a war footing to increase productivity and therefore production. The increased production instead of leading to crash in prices and rescue operations in the form of government interventions must be used for agro processing which will provide vital synergies and linkages between agriculture and industry, create employment and thus be a growth driver. Since majority of farmers are marginal and small, joint farming can be undertaken to reap the benefits of economies of scale. Mechanisation of agricultural operations will give another boost to the industrial sector and pave the way for precision farming. Though India has huge potential to export several agricultural commodities, mainly rice - especially *basmati* - seems to be our main export. Appropriate branding, establishing traceability systems and upgrading logistics will enable us to capture more markets, especially in the horticulture sector.

By and large, when an economy develops, there is movement of labour force from low productivity agriculture to higher productivity industrial and service sectors. As labour force moves out of agriculture there is technological advancement in the agricultural and allied sector which makes the sector capital intensive. This brings about increase in productivity of crops as well as gives a boost to the livestock sector. A small share of the workforce can therefore produce for the entire country. However, a comparison of yields in India of several crops with world average or with the developed world shows that we are lagging behind. This shows that technology has a long way to go in India as farmers are resource poor and unable to invest. The public sector investment has not really proved itself and often subsidies which are at times misdirected have been overriding public investment. A vicious circle is created.

The agricultural sector is characterised by disguised employment with limited job opportunities outside agriculture which are mainly informal in nature. This state of affairs has finally led to schemes like PM-Kisan which provide a desperate attempt to somewhat salvage the situation. Although the amount provided to each beneficiary has been criticised by several opponents, it is clear that the marginal utility of money is very high for the poor and this may help to take care of their pressing needs. Further, perhaps this income support may provide some boost to other sectors. For, example, large number of items such as soap, shampoos, toothpaste, coconut oil, spices, snacks and many more daily consumption requirements are available in sachets which cost less than Rs 5 per piece. The total outlay of Rs 75, 000 crores earmarked for the fiscal year 2019-20 can thus build a strong foundation for consumer demand for several agro processed and other goods and thus gear up the economy. Even certain manufactured goods such as footwear, textiles, etc. can be purchased with the entitlement and given that about 12.56 crore farmers are the beneficiaries, there may be some revival in certain sectors, while daily requirements of rural sector can be met.

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But at the end of the day, what is required? If the huge budgetary allocations were spent on rural roads, quality school education, electricity, telecom, digital India, skill development, etc. on a war footing, with satisfactory outcomes, would that not be a better way to empower the rural sector? Such investment will help to treat the disease rather than symptoms and the chronic malaise of agrarian distress could be wiped out. What should the electorate vote for? A small “dole” in the form of PM-Kisan which is mainly a palliative measure, or an “asset” which will not only cure the disease but also empower the individual, to make a decent and sustainable living. Freebies, as is well known only create distortions in the economy and further resources are spent to correct them. While the government, whichever is in power, is well aware of the strategies involved in the path to economic and social development, and is perhaps moving towards that direction, the road ahead is still far. Only when infrastructure on all fronts is “state of the art”, can we see a “New India”.

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