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LEAD

Removing the roots of farmers' distress

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Steps like limited procurement, boosting productivity and consolidating land holdings can help reduce agrarian distress

Recently, there has been active discussion on the strategies addressing farm distress. There are media reports that the 'interim Budget' may focus on the farm sector among other things. Agrarian distress, in the present context, is mainly in terms of low agricultural prices and, consequently, poor farm incomes. Low productivity in agriculture and related supply side factors are equally important. An issue that is connected is the declining average size of farm holdings and the viability of this size for raising farm incomes. Here are possible solutions.

Prices and incomes

Prices play a key role in affecting the incomes of farmers. Even during the Green Revolution, along with technology and associated packages, price factor was considered important. In the last two years, inflation in agriculture was much lower than overall inflation. The implicit price deflator for Gross Value Added (GVA) in agriculture was 1.1% while it was 3.2% for total GVA in 2017-18. The advance estimates for 2018-19 show that the implicit deflator for GVA in agriculture is 0%, and 4.8% for total GVA. In fact, agriculture GVA growth was at 3.8% for both nominal prices and constant prices in 2018-19, giving the price deflator of 0%. The consumer price index (CPI) also shows that the rise in prices for agriculture was much lower than general inflation in recent years. Market prices for several agricultural commodities have been lower than those of minimum support prices (MSP). All these trends show that the terms of trade to be moving against agriculture in the last two years.

When output increases well beyond the market demand at a price remunerative to producers, market prices decline. And in the absence of an effective price support policy, farmers are faced with a loss in income, depending on how much the price decline is. The 'farm distress' in recent years has been partly on account of this situation, as the loss of income is beyond the ability, particularly of small farmers, to absorb. In a strange way, it is the success in increasing production that has resulted in this adverse consequence.

A few schemes have been suggested to address the problem of managing declining output prices when output increases significantly. The scheme of 'price deficiency compensation' is one such mechanism which amounts to paying the difference between market price and the MSP. At the other extreme is the 'open procurement system' that has been in vogue quite effectively in the case of rice and wheat, where procurement is open ended at the MSP. Is there a middle way that may be effective in some crops? One of us had suggested the option of limited procurement for price stabilisation. A 'price deficiency' scheme may compensate farmers when prices decrease below a certain specified level. However, market prices may continue to fall as supply exceeds 'normal demand'. An alternative is the limited procurement scheme. Under this scheme, the government will procure the 'excess', leaving the normal production level to clear the market at a remunerative price. Thus, procurement will continue until the market price rises to touch the MSP. The suggested 'limited procurement system' will not work if the MSP is fixed at a level to which the market price will never rise. There are costs involved which will go up as production increases above the average level. The government can sell the procured grain in later years or use them in welfare programmes.

Some States have introduced farm support schemes, examples being the Rythu Bandhu Scheme (Telangana) and the Krushak Assistance for Livelihood and Income Augmentation (KALIA) scheme (Odisha). One problem with the Telangana model is that it does not cover tenants, who are the actual cultivators. Basically, these schemes are income support schemes which will be in operation year after year.

Thus, raising the MSP, price deficiency payments or income support schemes can only be a partial solution to the problem of providing remunerative returns to farmers. A sustainable solution is market reforms to enable better price discovery combined with long-term trade policies favourable to exports. The creation of a competitive, stable and unified national market is needed for farmers to get better prices. Agricultural markets have witnessed only limited reforms. They are characterised by inefficient physical operations, excessive crowding of intermediaries, and fragmented market chains. Due to this, farmers are deprived of a fair share of the price paid by final consumers. States have also not shown any urgency in reforming agricultural markets. For better price for farmers, agriculture has to go beyond farming and develop a value chain comprising farming, wholesaling, warehousing, logistics, processing and retailing.

Low productivity

The next issue is the low productivity of Indian agriculture. Basics such as seeds, fertilizers, credit, land and water management and technology are important and should not be forgotten. Similarly, investment in infrastructure and research and development are needed. Water is the leading input in agriculture. More than 60% of irrigation water is consumed by two crops: rice and sugar cane. Basically, it is not investment alone but efficiency in water management in both canal and groundwater that is important. India uses upto three times the water used to produce one tonne of grain in countries such as Brazil, China and the U.S. This implies that water-use efficiency can be improved significantly with better use of technologies that include drip irrigation. Yields of several crops are lower in India when compared to several other countries. Technology can help to reduce 'yield gaps' and thus improve productivity. Government policies have been biased towards cereals particularly rice and wheat. There is a need to make a shift from rice and wheat-centric policies to millets, pulses, fruits, vegetables, livestock and fish.

Land size

Another major issue relates to the shrinking size of farms which is also responsible for low incomes and farmers' distress. The average size of farm holdings declined from 2.3 hectares in 1970-71 to 1.08 hectares in 2015-16. The share of small and marginal farmers increased from 70% in 1980-81 to 86% in 2015-16. The average size of marginal holdings is only 0.38 hectares (less than one acre) in 2015-16. The monthly income of small and marginal farmers from all sources is only around □4,000 and □5,000 as compared to □41,000 for large farmers. Thus, the viability of marginal and small farmers is a major challenge for Indian agriculture.

Many small farmers cannot leave agriculture because of a lack of opportunities in the non-farm sector. They can get only partial income from the non-farm sector. In this context, a consolidation of land holdings becomes important to raise farmer incomes. There was a lot of discussion on this topic in the 1960s and 1970s. In the context of rural poverty, B.S. Minhas had argued even in the 1970s that compulsory consolidation of land holdings alongside land development activities could enhance the incomes/livelihoods of the poor in rural areas. Unfortunately, there is little discussion now on land fragmentation and consolidation of farm holdings. We need to have policies for land consolidation along with land development activities in order to tackle the challenge of the low average size of holdings. Farmers can voluntarily come together and pool land to gain the benefits of size. Through consolidation, farmers can reap the economies of scale both in input procurement and output marketing.

To conclude, farmers' distress is due to low prices and low productivity. The suggestions we have made, such as limited procurement, measures to improve low productivity, and consolidation of land holdings to gain the benefits of size, can help in reducing agrarian distress. We need a long-term policy to tackle the situation.

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