

The Crisis in Agriculture*

C.P. Chandrasekhar and Jayati Ghosh

Farmers' movements and farm loan waivers in different states across India have driven home the fact that the viability of agriculture is under challenge. This is surprising, since the comprehensive framework for reviving agricultural production, introduced in response to the agricultural crisis in the mid-1960s, is in principle still in place. There were many components to that framework besides the adoption of Green Revolution technology. The aspects of most relevance to this discussion are the measures that were aimed to ensure the viability of agriculture.

The measure directly relevant to the purpose was the promise to procure at a pre-specified, cost-plus remunerative price, any supplies of identified crops that farmers chose to sell to the government. With these minimum support prices (MSPs) revised each year, this measure was aimed at ensuring that there was a rising floor to agricultural prices, which would stabilize income increases and guarantee farmers a return on investments that helped raise productivity. There were two problems deriving from this measure that needed to be addressed: managing the supplies procured by the government; and, insulating the consumer from increases in market prices at rates much higher than the procurement price. With respect to the first, the government decided to dispose of the stocks it procured and accumulated through the public distribution system, which was already in place to manage regional differences in food grain availability. This was to be done at affordable prices, which given the procurement, storage and transportation costs incurred by the government, had to include a subsidy that moderated prices paid by the consumer. Thus, it was hoped that agricultural production would be incentivized, farmer incomes would be stabilised and consumers would be protected against agricultural price inflation.

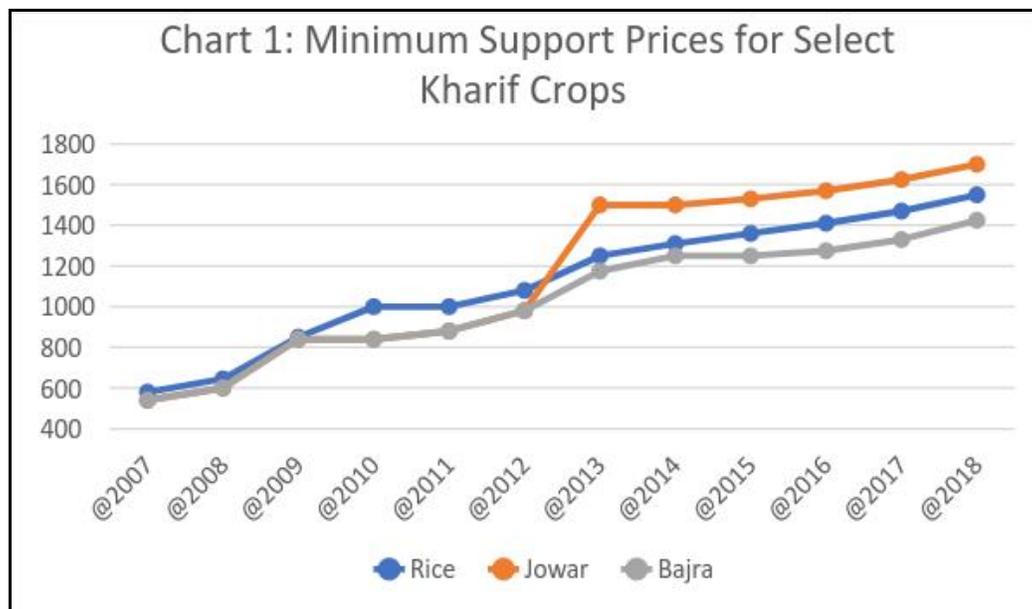
Many years have passed since this system was first put in place, so country-wide coverage should have been ensured and the government should have accumulated enough experience to implement it without difficulty. The result should have been a viable agriculture and satisfied consumers. So, the evidence that crop production is increasingly unviable is indeed surprising.

More recently, the problem appears to be that annual increases in the MSP have been smaller than earlier with farmers complaining that support prices have not kept pace with costs. Since support prices, at which the government offers to procure as much as farmers want to sell, influence the level of market prices, the latter too have been depressed. The net result, according to farmers, is a closing of the gap between costs and prices, despite the claim that MSPs are computed on a cost-plus basis by the Commission for Agricultural Costs and Prices, with an average cost taken for the whole of the country in the context of often substantial regional variations.

This view has been corroborated by the market observers. Thus, a research report from rating agency CRISIL has found that "While the average annual growth [in MSP] between agriculture year 2009 and 2013 was 19.3 per cent, it was only 3.6 per cent between 2014 and 2017," and argues that this deceleration during the tenure of the current government has added significantly to farmers' distress. A study specifically of pulses reported that: "Cost of cultivation increased 3.7 per cent year-

on-year in agriculture year (July to June) 2016-17, compared with 2.8 per cent in the previous year and hence increase in MSPs did little to stem the fall in their [farmers'] earnings."

As Charts 1 and 2 show, the record varies across crops. In the case of some (like rice, jowar and bajra) the rate of growth of prices has tapered off. In some others (such as wheat and barley) the medium term trend has been a slow increase in prices. But there does appear to be a more generalised trend towards deceleration in MSP increases in recent years (Chart 3). While the increase in MSP over the tenure of the NDA matched that under UPA 1, they were way below increases during the tenure of the UPA 2 government.

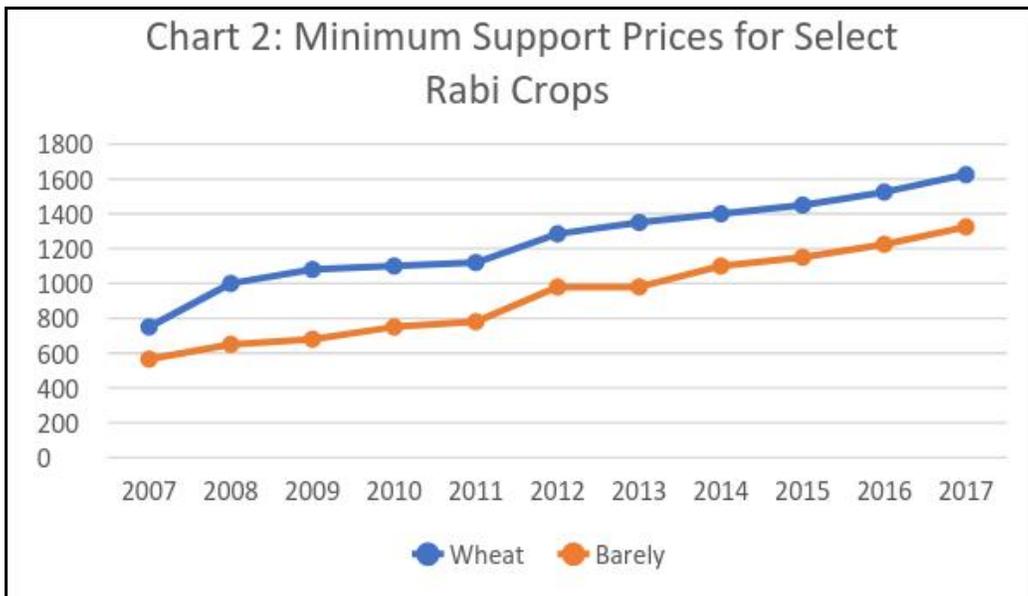


In addition, the gradual liberalization of trade in agricultural commodities has increasingly linked domestic to international prices. Overall, policies deregulating input prices, curtailing subsidies, freeing imports and lowering import tariffs have subjected agriculturists to rising costs and competition from low cost imports. This is true across crops, including those crops supposedly under the MSP. This has also meant that in poor harvest years farmers are not necessarily compensated by an increase in crop prices, while in bumper years low prices would hit their net incomes, depending on how global prices move. Farmers can lose out as a result of falling market (as opposed to procurement) prices in good harvest years, but not gain in terms of higher prices (even if affected by lower output and revenues) in bad or indifferent monsoon years.

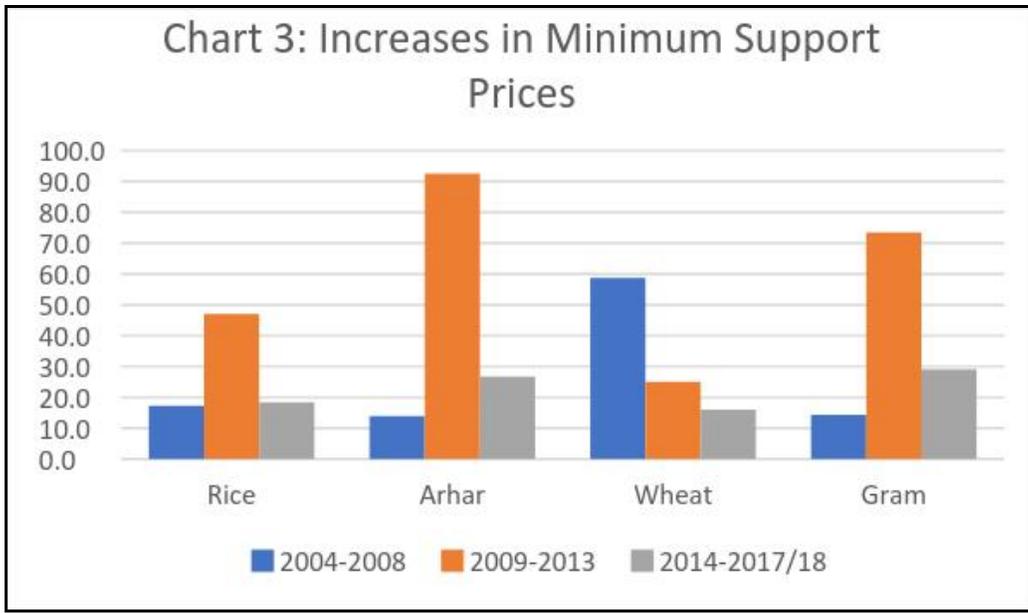
As a result of all of these factors, the viability of crop production has been eroded and farmers hit by slowly rising or falling market prices and/or rising costs find their net returns and income squeezed. An estimate, based on the official National Accounts Statistics, indicates that over the three-year period 2014-15 to 2016-17, the income per head of the agriculture-dependent population increased by 16 per cent in nominal terms. Over the same period inflation based on the Consumer Price Index for rural India rose by 16.3 per cent. This implies that the real, inflation-adjusted incomes of the agriculture dependent population have stagnated. A further consequence is that

farmers taking working capital and/or consumption loans, as well as loans for investment, are unable to pay off their debts.

There is a further problem – common across both UPA and NDA governments – that public procurement operations do not reach all farmers and all crops, even for commodities with officially declared MSPs. There are regions of the country where the procurement programme is weak and not accessible to many farmers; there are constant complaints that procurement operations are too tardy, brief and inadequate to be of real benefit in ensuring a minimum price for farmers. An official assessment conducted in 2010-11 found that, while there were significant regional variations, on average the awareness and use of the MSP programme was high. Yet, sales can occur at prices below MSP partly because of tardy procurement and partly because trade and other policies can depress market prices in good harvest years. The latter transpires, for example, because the government, which fears inflation that may hurt corporates and vocal urban consumers, 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. On the other hand, 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. Thus, even currently, market prices are reportedly ruling below the MSP for many commodities in many markets.



Clearly, restoring and strengthening the framework that was designed to stabilize prices, incentivize investment and protect consumers is the crying need today. That, rather than empty slogans claiming that farmers' income would double by 2022, should be the focus of the government.



* This article was originally published in the Business Line on October 23, 2017.