The Beleaguered Indian Farmer*

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India's beleaguered farmers are facing another threat to what is now a tenuous livelihood. That threat is the real prospect of a poor Southwest monsoon that would substantially reduce agricultural production over crop year (July to June) 2015-16. In its second stage updated forecast of the Southwest monsoon, which arrived a few days late in early June, the Indian Meteorological Department (IMD) predicts that it is likely to be "deficient", as opposed to just "below normal", as it had earlier indicated.

The revised forecast suggests that during the peak June to September rainfall months, precipitation is likely to be around 88 per cent of its long period average, as compared to the 93 per cent of the long period average the IMD had earlier predicted. The figures by region are currently placed at 85 per cent over Northwest India, 90 per cent over Central India, 92 per cent over the Southern peninsula, and 90 per cent over the Northeast.

Thus, Northwest and Central India, which together account for more than 60 per cent of India's food grain production are expected to be badly hit. Moreover, the media have been reporting predictions from a range of global forecasters that this is likely to be an El Nino year, with the probability of an El Nino event placed as high as 90 per cent. Since such an event would have unpredictable effects in terms of rainfall distribution, with drought in some parts of the country and heavy rainfall and floods in others, it too can have a significantly damaging impact on agricultural production.

This is particularly bad news for two reasons. The first is that the Indian economy has already experienced one truant monsoon with unseasonal rainfall that affected crop production adversely. Thus, according to the official third advanced estimate of food grain production during the just completed crop year (July to June) 2014-15, output is likely to fall by 5.3 per cent. An additional year of production decline following this would not only worsen the demand-supply imbalance and possibly lead to shortages that could herald the return of inflation, but also encourage speculative holding that translates that inflationary trend into a price spiral, especially in the case of food crops.

Handling this situation would be a challenge for a government committed to prioritising fiscal consolidation and fiscal deficit reduction above all else. Any attempt to counter inflation by distributing either domestically procured or imported food grain through the public distribution system at subsidised prices would require enhancing the subsidy bill paid out from the government's budget. Given the government's revenue mobilization record this would definitely increase the budgetary deficit. So it is likely to hold back on that option. On the other hand, just releasing grain from its reserve through open market sales at a price that covers 'economic cost' or the cost of procurement plus storage and transportation, would do little to hold down prices. That would only increase the volume of stocks held by the private sector, which would worsen rather than resolve the inflation problem.

The problem in India is that, if the minimum support price (MSP) at which grain is procured, which covers cost and provides a reasonable margin, is attractive for the farmers in a poor harvest year, the floor price this sets for food tends to be too high for a large section of India’s population. Hence grain released at an MSP-linked price would not find adequate takers. So the government subsidy matters from the point of view sustaining off-take from the PDS.

The government, however, is overcommitted to reducing the per unit subsidy on food. It does this in three ways. It has adopted the targeted PDS (TPDS) system, which separates the population into households below the poverty line (BPL) and a substantial section above that line (APL). Second, it plans to do away with any subsidy on sale to the APL population, making it unaffordable for those who are just above or near the so-called poverty line. Thirdly, the government restricts allocations to the states of food stocks at subsidised prices, especially those states with a strong PDS that serves the APL population as well. The result is that even in periods when the harvest is reasonable, sale of PDS grain does not rise adequately , though procurement is high, resulting in a growing discrepancy between procurement and off-take from the PDS with stocks accumulating with the government. When the harvest is deficient or poor, the impact on prices of the resulting “hoarding” by the government is likely to be adverse.

Thus, the as-yet brief period when inflation has come down under the NDA’s watch is likely to be short-lived. However, for much of the rural population and the farmers already hit badly by the unseasonal rainfall during crop year 2015-16, higher market prices are unlikely to provide much comfort. A very large section of them, especially agricultural labourers and small and marginal farmers, are net buyers of food and would lose from higher food prices. Others produce very little of the marketed surplus, though they would gain from food price inflation. But any shortfall in production would adversely hit these peasants as well. Given the losses these sections suffered during the previous year, which triggered a number of suicides, this additional burden would be difficult to carry.

Needless to say, the impact of a poor harvest would be much wider than just on grain producers. For example, among the worst sufferers of a failed agricultural policy are sugarcane growers, who have not been paid their dues by the sugar mills for consecutive seasons. Cane arrears in the current sugar season stretching from December 2014 to September 2015 are estimated at Rs. 21,000 crore. Such arrears reportedly arise when the price realised by the sugar mills is too unremunerative for them to compensate the farmers for the cane they provide. Each time arrears accumulate, governments sympathetic to the corporate sector come out in support of the sugar mills, who complain of low sugar prices that makes it difficult for them to pay the ostensibly high prices for sugarcane set by the Centre and the even higher State Advised Prices recommended by certain state governments. This year too the government has announced that it will grant up to Rs. 6,000 crore of loans free of interest for one year to the sugar mills so that they will clear at least a part of the arrears. The burden on the budget on account of interest foregone would be Rs. 600 crore. Union Minister for Road Transport and Highways Nitin Gadkari is quoted as telling reporters after the Cabinet Committee meeting that took the decision that the committee had "taken this decision in the interest of farmers."

The truth seems to be different. While sugar production this year has (at more than 28 million tonnes) been estimated to be far in excess of demand (around 24 million tonnes), resulting in subdued prices, the practice of holding back on payments to cane growers has become routine. This is the third time in recent years that the government has provided such support to the mills. The government had provided a similar interest free loan package to the tune of Rs. 6,600 crore in December 2013 and a further Rs. 4,400 crore in June 2014.

It is, however, not clear that the benefits of such support went to the farmers rather than being absorbed by the industry. That the government suspects the latter is happening is clear from certain features accompanying the most recent package. To start with, the sugar mills have been requested to provide the banks a list of sugarcane growers, payments to whom are in arrears, with their bank accounts details. This is to transfer the sums due directly into those accounts to ensure that the concerned farmers receive them. Only arrears due to those without known accounts are to be transferred to the mills themselves. What is unclear is why mills are expected to obtain and provide bank account details of the cane suppliers, if they prefer to absorb the interest subvention themselves. Secondly, the interest free loans are to be provided only to mills that have cleared at least 50 per cent of their outstanding arrears by June 30. Some evidence of commitment to pay is required to obtain government support.

Such clauses suggest that the government suspects that the mills are not using the subsidised credit to pay the farmers. Suspicion is also aroused by the fact that sugar mill owners, including many belonging to leading business groups, have criticised the government's decision to adopt such measures of ensuring that arrears are paid to the farmers, based on the subsidised credit provided. Meanwhile, stock prices of listed sugar mills have risen after the government's announcement, suggesting that 'the market' expects the mills to gain. Thus, even when the government claims it is acting in the interests of farmers, the benefits do not always accrue to them. If in addition sugarcane producers are adversely affected by weather conditions and experience crop failure, their plight would be a cause for much concern.

It is to be seen whether the political damage that any worsening of the conditions of an already neglected peasantry would prod the government to act in all ways it can irrespective of cost, to mitigate the adverse effects of a bad monsoon. It has every reason to do so. It is faced with the prospect of a return of inflation soon after celebrating a year in office, claiming that it has reversed a record of poor economic governance, conquered inflation and restored investor confidence. Inflation in turn can impact other variables. It could adversely affect foreign investor confidence and trigger the exit of investors already spooked by the prospect of an increase in interest rates in the US. Domestically, higher inflation could force the RBI to hold back on its hesitant effort to reduce interest rates to stimulate growth. All told, an economic downturn could follow another episode of inflation. It is to be seen whether, despite the political damage that could cause, the government's commitment to neoliberal reform would paralyse it into inaction. Even worse, it could limit action to those measures, such as the amended land acquisition Bill, which hurt farmers even more in order to please the corporate sector. That would be disastrous for an already beleaguered peasantry.

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