25 Years of Economic Reforms: Agriculture*

Jayati Ghosh

In the fateful month of July 1991 when the devaluation of the Indian rupee presaged the introduction of a whole series of liberalising economic reforms, agriculture was very far from the minds of most policy makers and commentators. The immediate focus was on the balance of payments, and thereafter on industry and other sectors (like the "modern" services"). Indeed, subsequent policy measures, oriented towards trade and foreign investment liberalisation and deregulation of domestic industry and then finance, tended to reinforce the emphasis that was being put on non-agricultural sectors as the means to both faster economic growth and development in terms of structural transformation.

The basic philosophy underlying this was relatively simple, and remarkably it has scarcely changed in essence in the decades thereafter, despite the succession of different (and politically quite opposed) governments that have been in power at the Centre. The economic strategy is one that pins its faith on large investments by private corporate capital that are expected to deliver both more rapid growth, and more formal employment, and the required diversification out of low-productivity primary activities and petty services. To that end, the various shackles on such capital, in the form of internal and external regulation, were sought to be removed, and in addition, over time various incentives were provided to encourage more rapid rates of private investment.

This strategy had very little in it for small producers, whether in agriculture or other activities – indeed, the implicit idea seemed to be that the process of growth would render such production archaic and lead to more formal employment in large-scale enterprises across all sectors. Obviously, that expectation is very far from being met; but the underlying premise still seems to pervade the perceptions of economic policy makers in India, such that small and micro-enterprises (which very much also includes peasant producers) have largely been ignored or even discriminated against by the very unfolding of the reforms.

So in the initial years, the reforms package did not include any specific policies specifically designed for agriculture. In the early 1990s, it was felt that the devaluation of the rupee already provided sufficient incentive to agriculture, because it was expected to make it more attractive to export crops and thereby improve farm incomes. Subsequently, the presumption was that freeing agricultural markets and liberalising external trade in agricultural commodities would provide price incentives leading to enhanced investment and output in that sector, while broader trade liberalization would shift inter-sectoral terms of trade in favour of agriculture.

However, even if no explicit attention was paid to agriculture, various economic policies and other changes in patterns of government spending and financial measures had significant implications for the conditions of cultivation. These were often quite different from those that had been anticipated by the architects of the reform process. There were four important policy areas that had effects on agriculture, many of which were adverse for the first decade or more, and then had to be corrected or reversed in the mid-2000s. These relate to public expenditure, food management, access to institutional finance and trade liberalisation.

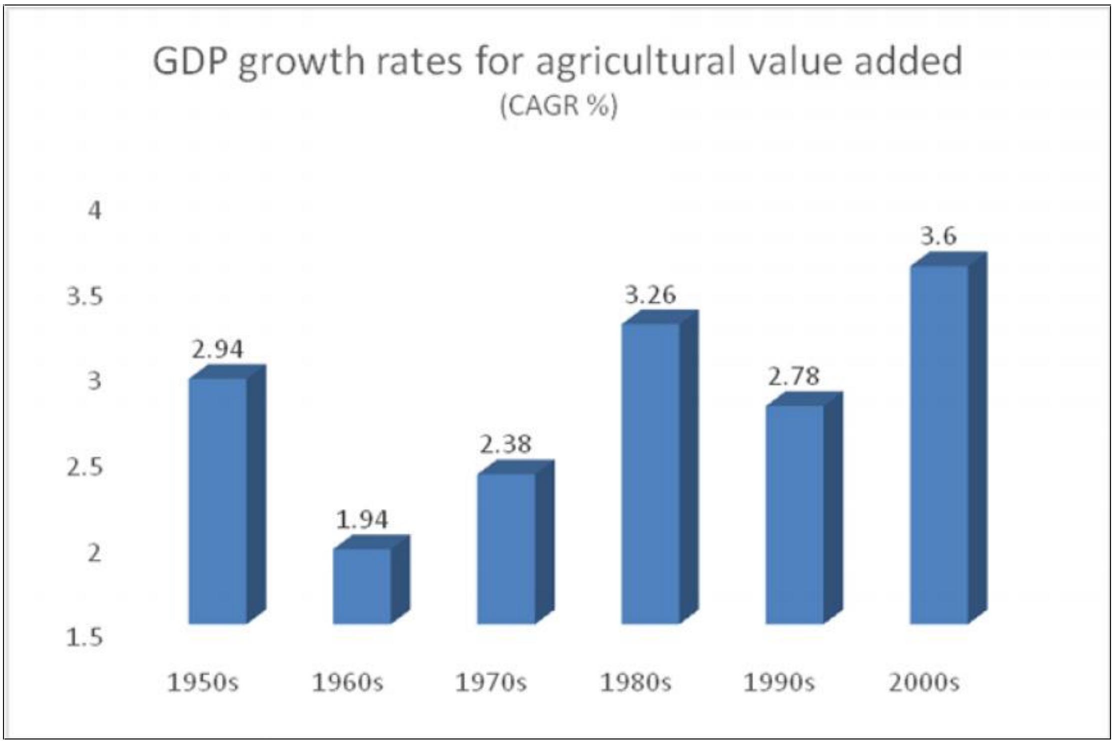
Over the initial period of economic reforms, which coincided with government attempts at fiscal stabilisation, there were actual declines in central government revenue expenditure on agriculture and rural development. Thereafter, there were cuts in particular subsidies such as on fertiliser in real terms, and the 1990s experienced overall decline in per capita government expenditure on rural areas. Associated with this, there were also very substantial declines in public infrastructure and energy investments that affect the rural areas. These were especially marked in irrigation and transport, both of which matter directly and indirectly for agricultural growth and productivity through their linkage effects.

In addition, financial liberalization measures, including the emerging scope of what was designated as priority sector lending" by banks, effectively reduced the availability of institutional credit. Although the problem of credit access to cultivators was far from solved in India, the nationalisation of banks had caused some positive differences, as public sector banks made more efforts to open rural branches and rural accounts, and to provide more crop loans to farmers. But after 1993 in particular, the various financial liberalisation measures and the explicit and implicit incentives provided to public sector banks made all this much less attractive for bankers who anyway faced very high transaction costs when dealing with agricultural lending. Branches, accounts and lending to agriculture all decelerated and in some states showed declines. This forced many cultivators, particularly smaller famers, tenant farmers and those without clear titles to land, to seek recourse from informal channels of credit like input dealers and traditional moneylenders. All this made farm investment and working capital for cultivation more expensive and more difficult, especially for smaller farmers.

Inputs for cultivation became a particular concern, as public extension services no longer provided adequate information, access to subsidised quality inputs was reduced, and various subsidies were sought to be lifted. Spurious seeds, greater reliance on expensive seeds provided by large domestic and multinational companies that involved "terminator genes" that did not allow subsequent local reproduction, problems with price and quality of fertiliser and pesticides and excessive use of both, often in wrong proportions: all of these became frequent problems that affected the quantity and quality of output as well as the margins available to farmers.

All these forces led to a slowdown in agricultural growth (apparent from Chart 1) and by the late 1990s, widespread distress in the countryside. The most extreme form of expression of such distress was in the spate of farmers' suicides, which occurred typically when heavily indebted farmers whose farms had lost viability could find no other recourse. By the mid-2000s, it was evident that the problems facing agriculture were severe and would require express policy attention. The Congress-led UPA government that came to power in 2004 had in fact made the problems facing cultivation and rural distress generally a major plank of the electoral campaign, and they sought for some years to reverse the pattern of declining public spending, with increased public investment on irrigation and rural infrastructure, and more central government spending on agricultural research and extension, as well as increased credit to rural areas. These positives were very limited in extent, but they did partially reverse the trend of rural decline, aided by high and rising prices of agricultural goods in global trade. However, by the end of the decade of the 2000s, these forces were also somewhat spent and such expenditure also wound down, just as they did for spending on the MNREGA, which peaked in 2010.

Chart 1.



Source for Charts 1,2 and 3: CSO National Income Accounts

Note: Compound annual growth rates based on three year averages of the first three years of the decade.

Liberalization of external trade became an important element of the reform process, first through lifting restrictions on exports of agricultural goods, and then by shifting from quantitative restrictions to tariffs on imports of agricultural commodities. A range of primary imports were decanalised and thrown open to private agents. Import tariffs were very substantially lowered over the decade. Exports of important cultivated items, including wheat and rice, were freed from controls and subsequent measures were directed towards promoting the exports of raw and processed agricultural goods.

Indeed, the GATT Uruguay Round agreement required this liberalisation of agricultural trade, but over the 1990s, most policy makers in India seemed to think that this posed no threat to farmers since in the early 1990s most domestic crop prices were well below international prices. The initial round of tariff binding commitments to the WTO made by India reflected this misplaced optimism: the country agreed to zero tariff bindings (maximum permitted levels of import tariffs) for a wide range of crops. It was only as global prices fell precipitously that the adverse implications for import surges and impact on farmers' livelihoods became apparent, when India was forced to go back to the WTO and renegotiate more appropriate tariff bindings for crops like wheat, rice, sugar and oilseeds.

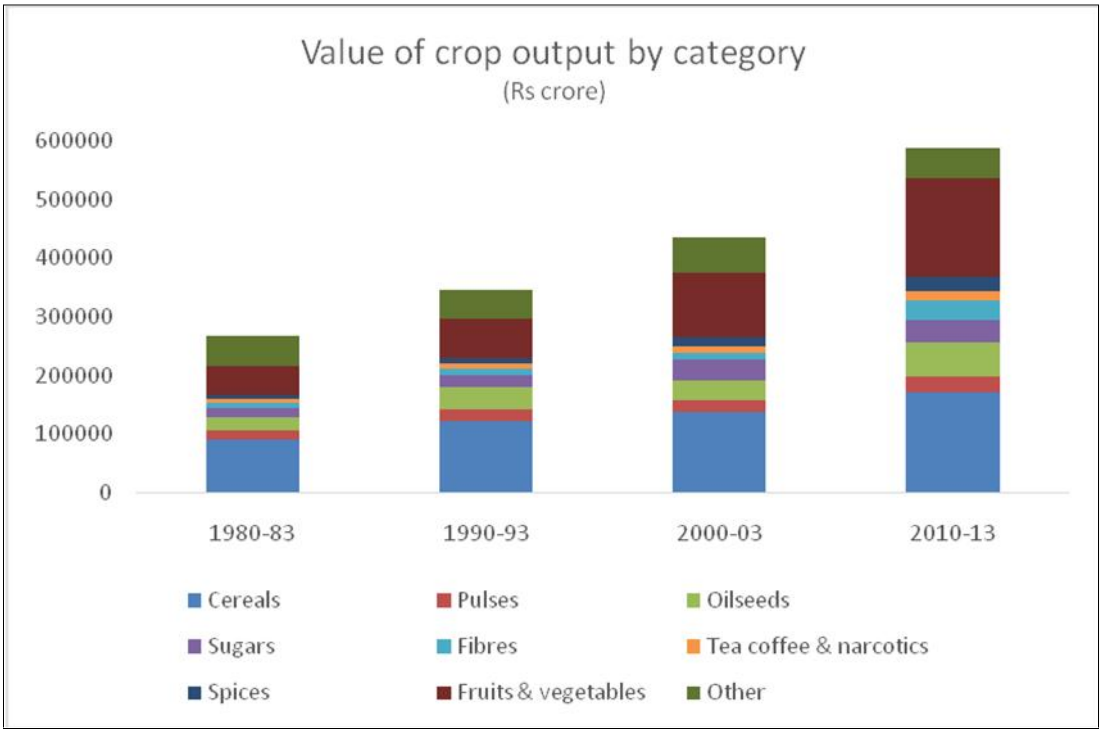
However, what this meant was that Indian agriculturalists were increasingly exposed to global competition even as the protections they had in terms of support prices, input assistance and public extension services were gradually being reduced or even withdrawn. The international competitiveness of Indian agriculture became more critically dependent on world price movements which were still more volatile than domestic prices. This made it unlikely that more open trade would automatically stabilise domestic prices or ensure that farmers get adequate incentives or even the correct price signals for the future. Indian farmers therefore faced much greater volatility in a more unprotected environment.

For Indian agriculture, this led to a peculiar combinationof low prices and output volatility for cash crops. While output volatility increased especially with new seeds and other inputs, the prices of most non-foodgrain crops weakened, and some cases plummeted. Further, farmers were squeezed as input costs kept rising, either because reduced subsidies and rising input prices, or because of the need to use more and more inut (such as seeds, fertiliser and pesticides) to achieve the same levels of output.

This reflected not only domestic demand conditions but also the growing role played by international prices consequent upon greater integration with world markets in this sector. The stagnation or decline in the international prices of many agricultural commodities from 1996 to 2002 meant that their prices in India also plummeted, despite local declines in production. This was not always because of actual imports into the country: the point about openness is that the possibility of imports or exports can be enough to affect domestic prices at the margin. So today Indian farmers have to operate in a highly uncertain and volatile international environment, effectively competing against highly subsidised large producers/agribusinesses in the developed countries, whose average level of subsidy amounts to many times the total domestic cost of production for many crops.

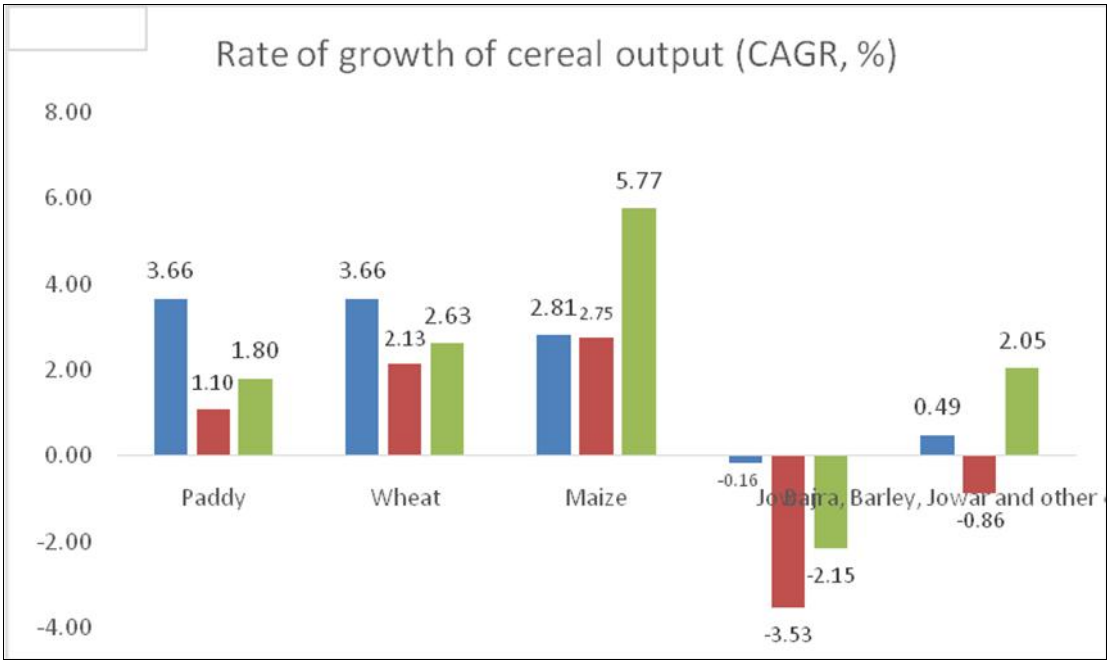
However, the period was still associated with the diversification of crop output. This is indicated by Chart 2, which shows the growing significance of cash crops in total agricultural production. It is apparent that over the deacdes, all cash crops production have increased faster than that of foodgrains. The biggest increase is apparent in horticultural activity, through the production of fruits and vegetables. This is obviously a positive development, but nonetheless the data for such output do need to be taken with a pinch of salt as they are mostly estimates that are not based on the same systems of assessment that are used to derive the other agricultrual production data. Sugarcane and fibres (mainly cotton) also show a substantial increase, but mainly in the 2000s. However, oilseeds production continues to remain a pressing concern, despite recent increases.

Chart 2.



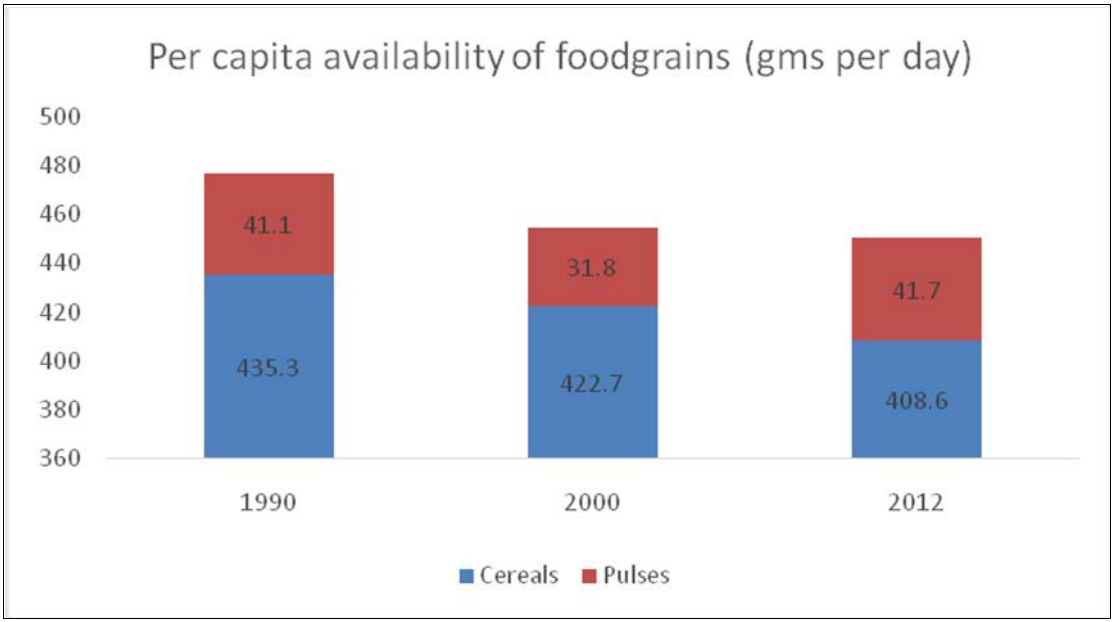
The relative failure of production has been in terms of essential food grains. Chart 3 shows how the rates of growth of production of all the essential cereals fell in the 1990s compared to the 1980s, and turned negative with respect to some of the traditional staples that are now recognised to be nutritionally valuable. The recovery in the subsequent decade was the result of active government intervention that in effect involved reversing several of the measures undertaken over the 1990s.

Chart 3.



Indeed, the inability to resolve the pressing concerns with respect to food production, distribution and availability is one of the important failures of the entire economic reform process. Chart 4 shows how per capita food grain availability – including both cereals and pulses –has continued to decline over the period of neoliberal economic reforms. The inadequacies and failures of the public distribution system for food procurement and distribution, which were amplified in the 1990s when the central government sought to complicate it through the Targeted PDS and in other ways reduced its efforts to strengthen and expand it, had the unfortunate effect of making basic food consumption more difficult and even unattainable for the poor. This combined with the rise in food prices in the 2000s had very adverse effects on household food consumption in both rural and urban areas, as our sample surveys tell us. The National Food Security Act, which was unanimously passed in Parliament in 2014 (even though the current central government has thus far displayed little real interest in implementing it) was a recognition of that failure, and an acknowledgement that this is an area that necessarily requires active state involvement if every person in the country is to be adequately nourished.

Chart 4.



Source: Economic Survey 2015-16, Statistical Appendix

Overall, agriculture, like other activities in India, also displays growing inequalities - in terms of regions and areas, as well as within areas across different categories of cultivators. There are some farmers, typically those who have access to capital and can occupy larger holdings, who have been able to take advantage of new opportunities in horticulture and other cash crops and are showing more profitability. There are others, especially those operating small or medium sized holdings, who are facing growing difficulties of the viability of cultivation, with costs rising often beyond the prices that they are able to command for their crops. There are some areas of relative prosperity, and large regions of extreme agrarian distress. Ironically, some of these – such as parts of rural Punjab – are areas that were earlier seen as oases of prosperity. But others are in the mainly rain-fed dryland regions in the heart of India, where cultivators have now faced decades of severe material pressure and even hardship, which are sometimes expressed in desperate acts of suicide but in any case are cause for very serious concern.

It is strange that an occupation that still occupies around half of the workforce of the country and provides its most essential products, should still remain so ignored by economic policy. Surely it is one of the more disturbing aspects of the broader implications of neoliberal economic reform, that so many millions of cultivators in India are still unable to meet the basic standards of economic viability.

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