Budget 2014-15: The continuing neglect of the 'rural'*

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The Union Budget assumes importance for the agricultural sector in the country for at least the following two reasons. First, the budget comes in the background of an agrarian crisis in the country, persistent since the late nineties, also coinciding with the period of a policy thrust on export-oriented agriculture and competitiveness of Indian farmers in global markets. The Budget as a statement of intentions on part of the government is significant with regard to its effectiveness in addressing the challenges in the agricultural sector. Secondly, the political vote for change amid the rising campaign and aspiration for change in living conditions among the electorate attributes added importance to the Union Budget 2014-15, particularly in rural areas.

Needless to say, a budget statement alone cannot address and remedy all existing problems in Indian agriculture, though it is reflective of the new direction, if any, in the government's thinking vis-à-vis the sector. The budget, of course, needs to be looked at in unison with other policy steps and measures being adopted by the Union government in order to build a comprehensive understanding of the latter's holistic approach to agriculture.

The Background of the Agrarian Crisis:

Examining any Union budget from the perspective of agriculture cannot ignore the reality of the agrarian crisis that has emerged since the late nineties. While for most of the period in the last twenty years, the agricultural growth rate has remained below 3 per cent, there has been some revival of the same in the Eleventh Plan period (2007-12) to 4.1 per cent. However, the agrarian crisis is much more than the growth rates in the agricultural sector. It depicts a situation where large majority of the peasant households are unable to undertake a simple reproduction of their peasant systems, thus plunging into cycles of indebtedness. Sections of the rich and middle peasantry also find it difficult to save enough surpluses, which they can channelize into productive investments.

A set of simultaneous factors and processes has imposed a tight constraint on the profitability in agriculture for the majority of marginal, small and medium farmers in the country. Greater crop price volatility with frequent adverse movements and increasing input costs with partial or full decontrol of input prices like that of fertilizer and fuel cause a squeeze on farm incomes, a typical 'scissor's crisis'. Trends in real output prices have been typical stagnant or non-increasing for commercial crops like cotton and oilseeds for over a decade.

The worsening real income situation of farmers is further compounded by the shrinking availability of institutional credit for majority of farmers. With the banking sector reforms recommended by the Narasimhan Committee in 1991, there was a distinct decline in rural branches and the share of rural credit disbursed by commercial banks. This pushed farmers towards greater dependence on private moneylenders and traders to meet their credit needs, borrowing at annual interest rates of 24 per cent or more. The reduced emphasis and deterioration in expenditures made via public investments for irrigation or seed research also meant that the opportunities for improvement in crop yields for majority of farmers became limited.

The worsening situation of farmers amidst a neo-liberal policy thrust on competitiveness and efficiency of the agriculture sector is aptly represented by the following two phenomena. First, between 1995 and 2012, 270940 farmers have committed suicide in the country, primarily driven by the scourge and ignominy of indebtedness. Secondly, there is a veritable trend towards quitting of farming, again primarily due to inadequate profitability in cultivation. Between 1991 and 2011, 14.2 million farmers have left cultivation averaging 2000 farmers per day (*'Over 2000 fewer farmers everyday', The Hindu, by P. Sainath, May 2, 2013*).

The redemption of this agrarian crisis requires an urgent scaling-up of food management interventions by the government, enhance the volume of public investments and increase the availability of cheap institutional credit to farmers, all of which requires significant increases in the budgetary support towards the agricultural sector. This also needs to be supplemented by a policy of greater support to small-scale agriculture in the context of an intensified global competition.

Union Budget 2014: Continuing with Fiscal orthodoxy?

The Union Budget 2014 does not exhibit any apparent break from the clutches of fiscal conservatism that has characterized budgets during the period of economic reforms. The adherence to a fiscal deficit target of 4.1 percent of GDP in the absence of any remarkable revenue mobilization initiative fuels apprehensions of expenditure cuts in actual terms during the fiscal year. Given the tax concessions provided to the corporate sector and the upper middle sections of the population, the revenue increase of 16 per cent projected in the budget seems unrealistic and reaching the fiscal deficit target may be difficult without undertaking a downsizing of the announced expenditures (*Union Budget 2014-15* by Prabhat Patnaik, July 15, 2014, www.macroscan.com). The optimistic assumptions maintained in the budget regarding tax buoyancy, unlikely to be realized, further raise the scepticism regarding expenditures (*How "Buoyant' are Central Government Taxes?* by Ghosh and Chandrasekhar, July 22, 2014, www.macroscan.com).

Given this conservative fiscal discipline imposed on government expenditures, the budget allocations made to agriculture and rural development does not promise much in terms of addressing the agrarian crisis. Table 1 presents the budget expenditures in Agriculture and Rural Development for 2013-14 (BE and RE) and 2014-15 (Interim Budget and BE). The increase in nominal expenditures in Agriculture and Rural development between 2013-14 and 2014-15 in terms of Budget Estimates is 4.3 and 4.5 per cent respectively. This is clearly inadequate when we compare this with the above 9 per cent inflation rate over the last year.

Table 1: Budget Allocations for Agriculture and Rural Development (in Rs. Crores)

Ministry	2013-4 BE	2013-4 RE	2014-5 IB	2014-5 BE	Increase: 2014-5 BE over 2013-4 BE
Agriculture	29773 (2.11)	26071 (1.57)	29963 (1.88)	31063 (1.73)	4.3%
Rural Development	80250.5 (5.69)	61864 (3.71)	82261.5 (5.17)	83852.5 (4.67)	4.5%

Source: Computed from *Expenditure Budget, Vol.1, Union Budget 2014-5*
Figures in parentheses denote share in total expenditure

The lack of real increases in expenditures is also evident from the shares of these sectors in the total expenditure. For both Agriculture and Rural Development, the share in total expenditure (figures in parentheses, Table 1) declined between the 2013-14 BE and the 2014-15 Interim Budget. This declining trend of expenditure in rural areas, characteristic of the budget in the neo-liberal economic reforms period (except for occasional years when schemes like the NREGA was introduced), also continues in the budget of the new NDA government. Clearly, even with the change of leadership in the government, these sectors have failed to climb up the priority list and continue to lose out amidst the competing claims on limited public resources (limited by fiscal conservatism).

The other more concerning observation is the large reduction in actual expenditures compared to what initial allocations were. In 2013-4, for Agriculture and Rural Development, the Revised Estimates are 12.4 and 22.9 per cent lower than Budget Estimates. This reflects the process through which the fiscal deficit targets are actually met in the event of low revenue mobilization. Given the scepticism regarding the revenue targets in this budget as discussed above, it can be expected that there would be similar squeeze on the actual expenditures, thus wiping off even the paltry nominal increases in expenditure for these sectors.

The expenditure allocation of Rs. 33989 crores for NREGA is a stark example of under-spending in this budget. With a pending wage bill of Rs. 5000 crores and another Rs. 5000 crores roughly spent more than the 2013-4 allocation (Rs. 33000 crores), if one takes into account the inflation rate in the last year, the expenditure allocation in the 2014-5 budget against this scheme should have been Rs. 47000 crores in order to maintain the allocation in real terms. The allocation made in the budget is around 28 per cent in real terms. (Patnaik, July 15, 2014)

New Ideas *despite* Limited funds?

One argument within the public discourse has been that while it is not possible for the new government to come out of the fiscal discipline within such a short span of time and markedly enhance expenditures in rural and other social sectors, there has been new ideas which they have put on the table and the same can make a qualitative impact on development in agriculture and rural areas. In other words, the new government should not be judged solely on the basis of allocations but more by the new schemes that have been launched. Given the roadmap for fiscal consolidation that the Finance Minister has declared whereby the fiscal deficit is expected to be reduced to 3 per cent by 2016-17, it is clear that the government does not have any intention even in the medium term to operate outside the most important neo-liberal paradigm of fiscal conservatism. Nevertheless, it may still be worth looking at the new schemes that the Union government wishes to operationalize.

When we look at the sub-heads of allocation within agriculture, we find that certain schemes like the Rashtriya Krishi Vikas Yojana, Integrated Watershed Management programme and Soil Health Card see an increase in allocation (by Rs. 201 crores)[i]. However, the cuts in nominal expenditures on major schemes like National Food Security Mission, National Horticulture Mission and National Mission for Sustainable Agriculture are heavier (by Rs. 1050 crores). The higher reductions in the existing schemes help in releasing funds for new schemes that the government has launched, expectedly so as the overall allocation increase for agriculture is less than adequate.

Two significant schemes for agriculture introduced in the budget are the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) and the Price Stabilization Fund for Cereals and Vegetables. As far as irrigation is concerned, it needs to be pointed out that the Rs. 1000 crores allocated to PMKSY is less than the Rs. 1758 crores that has been reduced for the Accelerated Irrigation Benefit Programme compared to the Interim Budget. Even without an elaboration of the outlines of PMKSY, it can safely be concluded that the PMKSY and its allocation does not represent any major thrust towards irrigation, public investment towards which has been declining for a long period with economic reforms.

In case of the Price Stabilization Fund, again while we wait for the details, the allocation of just Rs. 500 crores suggests that this fund may be utilized more for intervening in the retail markets which have been subject to periodic price speculations for commodities like onions or tomatoes, and hence benefit the urban consumers, rather than creating a fund to shield farmers from fluctuating farm harvest prices and guarantee a minimum income; the latter would require much higher allocations.

Within rural development, apart from the under-spending in NREGA (discussed above), a significant reduction is witnessed for the Pradhan Mantri Gram Sadak Yojana (PMGSY). The allocation for PMGSY in 2013-14 (BE) was Rs. 21000 crores, much higher than the Rs. 14391 crores allocated in 2014-15. One can attribute this to the non-utilization of funds in the previous year (the revised estimates for 2013-14 is only Rs. 9700 crores). However, given the overall emphasis that Budget 2014-15 has put of infrastructure development, it clearly loses steam when it comes to rural infrastructure.

Two other significant allocations by the government are Rs. 5000 crores each in the Warehousing Infrastructure Fund and the Long-term Rural Credit Fund. These allocations have been highlighted as instances where the new government has focussed more on agriculture as a break from the past. Given the state of food storage in the country, including that of the Food Corporation of India (FCI) and the lack of credit availability to farmers, both the measures are welcome steps.

The Rural Credit Fund goes on to inject capital in NABARD and can play a meaningful role in agriculture. However, one needs to point out that with the revival of rural credit since 2005 (after the initial contraction discussed above), there has also been an increasing concentration of large loans, of more than Rs. 1 crore, often to private food corporations in urban metropolis. This meant that the revival of rural credit actually still eluded the millions of small-scale farmers in the country, who continue to depend on non-institutional credit which is accompanied with onerous interest rates. With rising corporate interests in agriculture and food processing, the additional liquidity injected into NABARD may also be cornered by big companies rather than benefitting the small/medium farmer unless the government decides to do more with regard to reinforcing priority sector lending targets.

The Warehousing Infrastructure Fund (WIF) comes in the context of a food stock of 77 million tons with the FCI. The latter does not have storage capacity for more than half of this stock. If the WIF adds to the storage capacity of the FCI and is an indication that the government wants to step up food management operations in the country, it must be unequivocally welcomed given the inadequacy and uncertainty of farm incomes on one hand and the widespread under-nutrition among the population on the other. However, some recent policy guidelines issues by the new Central government suggest precisely the opposite of this.

In a letter titled '*Declaration of Bonus by Some State Governments Over and Above MSP-Change in Policy of Procurement for Central Pool*' issued by the Ministry of Consumer Affairs, Food and Public Distribution a few days prior to the July 10 Budget clearly forbids any state to provide additional price support to farmers in the approaching Kharif and Rabi seasons. In the event of any state government announcing bonus over and above the centrally declared MSP, the Central government has warned that procurement for such states will be limited to the volume of food-grains required for running the Targeted Public Distribution System (TPDS) in that state.

This clearly reveals that the Union government is more intent upon restricting the food procurement operations, possibly based on the wrong yet dominant notion that large food stocks have accumulated in the country due to over-production of food-grains, in turn caused by the price distorting nature of MSPs. In reality, the per-capita food grains production has remained stagnant (roughly around 190-195 kgs per capita per year) from early nineties to the present. This is so despite a few bumper crop years after 2007 precisely as there was a decline in per-capita production in the nineties and part of the 2000s.The reason why food stocks have still burgeoned in the FCI godowns is due to the lack of purchasing power of large sections of population. The annual per-capita food grains consumption, which was around 190 kgs in the beginning of nineties, have reduced during economic reforms and is around 170-175 kgs currently. The long agrarian crisis and lack of formal employment with decent wages outside agriculture subject a majority of the population in rural areas to income deflation.

A real break from past policies, especially since economic reforms have been introduced in India, would be to expand expenditure in agriculture by a much larger scale than what this budget does. The focus needs to be directed in expanding the incentive system for agriculture and guaranteeing a minimum liveable income for farmers. The food management system in the country actually has to be emboldened for this purpose rather than letting market forces take a free hand. The deep incidence of under-nourishment in the country needs to be tackled through controlling food inflation but not at the expense of reducing the price incentive and incomes of farmers. It needs to be remembered that more than 80-85 per cent of food-growers in the country are also 'net food buyers'. Any consistent deflation of agricultural and rural incomes not only affect the supply side in the food and raw materials sector but also contracts the demand for a range of basic necessities, thereby seriously thwarting economic and human development.

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[i]All Figures for sub-head allocations have been taken from the document *'Has the tide Turned? Response to Union Budget 2014-15* published by the Centre for Budget Governance and Accountability, New Delhi

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