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REDUCING FARM DISTRESS DURING A PANDEMIC

Relevant for: Indian Economy | Topic: Agriculture Issues and related constraints

Social distancing and living under a lockdown appear to be the only effective ways of dealing with the pandemic. As India lacks the resources to significantly ramp up testing, imposing a lockdown was the government's preferred option. Although there is limited evidence to suggest that this strategy may be working in containing the spread of the virus, its after-effects on thousands of migrant workers is already out in the open. Distrustful of the government's promise of providing support, most migrant workers decided to walk back to their home States despite efforts by the state machinery to prevent them from moving out.

Migrants are not the only ones who are facing the after-effects of the lockdown. With the economy coming to a complete halt in most of the informal and formal enterprises in urban areas, the lockdown is also likely to affect the large population in rural areas, a majority of whom are dependent on agriculture. At a time when the rural economy was witnessing declining incomes, both for casual workers and self-employed workers, even before the pandemic broke out, this lockdown is only going to hurt the agricultural economy further. Even before the lockdown, rural wages were declining in real terms but there were hopes for agricultural incomes rising with food prices rising until January 2020. However, recent data on prices suggest that the trend is reversing with the decline in agricultural prices in most markets.

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In the short run, we will likely witness a breakdown of supply chains of agricultural produce with no facilities for transportation of produce. This is likely to hurt those engaged in the production of fruits and vegetables, which are perishable goods and cannot be stored. With horticultural production exceeding foodgrain production in the last decade, many farmers are likely to face uncertain or no markets for their produce. Media reports have already confirmed that farmers are finding it difficult to dispose horticultural produce. Some of them have taken the extreme step of destroying their produce.

There will also be short-term impacts on foodgrains and other rabi crops that were ready to be harvested at the beginning of April. In some cases, harvesting may be postponed but it is difficult to do so beyond a week or a fortnight. While the government has exempted operation of agricultural markets and mandis from the lockdown, it will be difficult for farmers to harvest the agricultural produce in the surplus States of Punjab, Haryana and Uttar Pradesh in the absence of migrant labourers. Even if standing crop is harvested, April is the labour-intensive month. Labourers are required for packing, processing, transporting and selling the produce. This year is expected to register a record in the production of cereals, pulses, cotton and oilseeds. Most of these are labour-intensive crops and the absence of working labourers during the harvest and post-harvest season is likely to affect the prospect of higher incomes in agriculture.

Some of the short-term impacts may affect price realisation by farmers but the real worry for farmers is going to be the decline in prices for the majority of agricultural produce. There are already signs of a collapse in agricultural prices, which predates the outbreak of the pandemic. The food price index of the Food and Agricultural Organization, which was showing a rising trend in food prices until January 2020, reported a 1% decline in prices month-on-month in February 2020. This is likely to worsen further, particularly for cash crops. It is well-known that commercial crop prices follow a similar pattern as other primary commodities, particularly petroleum prices. With the sharp decline in petroleum prices, most of the commercial crops have seen a downward pressure on prices, which is likely to worsen in the coming months. But even for foodgrains and other crops, there is likely to be downward pressure on prices due to declining demand. The slowdown in the economy domestically and the expected recession worldwide will contribute to lower demand for agricultural commodities. At a time when the agricultural sector was already battling declining demand and lower prices, the faint hope of better prices appears unlikely to materialise. It is the decline in prices which is likely to hurt the income of farmers in the long run more than the short-run supply disruptions and labour shortages.

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While it is clear that agriculture will be affected due to short-term disruptions and the long-term economic impact of the pandemic, there is an opportunity for the government to help farmers through state support. Political expediency and fiscal concerns led the government to stock up foodgrains, with the Food Corporation of India (FCI) reporting 77 million tonnes of cereals in stocks as against the buffer requirement of 21 million tonnes as on April 1. However, with the lockdown forcing a humanitarian crisis and with most migrants heading back to the rural areas, it is also time for the government to release the food stocks through the public distribution system. The Central government has already announced that for the next three months, 5 kg of free grains will be distributed in addition to what people are entitled to under the National Food Security Act, but this has not yet reached the State governments due to the lockdown. While this may free up FCI godowns to some extent, it will be prudent to extend the scheme to all residents, particularly migrants who may not be able to avail of free grain in urban areas.

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While raising procurements is desirable and may be necessary for the forthcoming rabi crops, the state is also expected to intervene and assure remunerative incomes to farmers. One way of ensuring this is to reduce the input costs through existing schemes of subsidies such as the fertilizer subsidy and through price reduction in petrol/diesel meant for agricultural purposes. But for the immediate short-term, farmers need to be compensated for the loss of income and the best way to do it is through the PM-KISAN scheme. Unfortunately, the only announcement in this regard is the disbursal of the first installment of the transfer which is due in April. However, the scheme only used two-thirds of its budget allocation for 2019, so efforts should be made to not only enhance the coverage monetarily but also include tenant farmers and wage labourers who are as much dependent on agriculture as the land-owning cultivators. Such a step is necessary not just for the survival of the agricultural sector but also for the overall economy which is expected to see a sharp slowdown and decline in demand. While income transfers may not be the best way of supporting the agricultural sector at times like these, they are the best available instruments to raise rural incomes and create demand.

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