Farmers need economic freedom

Since this was a pre-election Union budget, it was expected to cater prominently to the voting constituency most in need of supportive signals. After the Gujarat election, it was clear that the rural and agriculture sectors would receive greater attention. Some commentators recalled the fate of the former chief minister of undivided Andhra Pradesh, who received a drubbing in the 2004 election, presumably because he neglected the rural and agriculture constituency. All election analyses are inherently flawed, and outcomes gloriously uncertain, but it’s accepted wisdom that the software magic in Hyderabad could not prevent the backlash from the hinterland in 2004.

Cut to the present, and we find farm incomes have virtually stagnated for the past four years, mostly owing to falling prices, an output glut, large untimely imports and demonetisation. And such slow growth in farm incomes doesn’t augur well for the government’s stated objective of doubling farmer incomes by 2022. So naturally the finance minister has proposed a slew of measures to improve the fortunes of the farm sector.

Roughly half the workforce is engaged in the farm sector which contributes only 15% of national income. How to improve their incomes and productivity, and how to wean away a big chunk of the workforce from agriculture, is an herculean task. Many years ago, as part of a national survey, when farm households were asked the question, 40% responded that they would gladly leave agriculture if there were viable options. Anecdotally, in a recent interaction with a regional university at their annual convocation, when the chief guest asked the students (most of whom came from agricultural households) whether they would like to continue to be in farming, none raised their hands. Such is the plight of the impoverished folk, most of whom feel imprisoned in the farm sector.

Even then, some of the budget measures deserve to be applauded. The tax holiday for farm producer companies is one example. This enables collective (shareholder-style) action, with the full benefit of a corporate entity (bank loans, working capital, marketing, distribution) and greater clout than an individual farmer could ever have. Nabard (the National Bank for Agriculture and Rural Development) has been pushing this model for many years with limited success. Another farm-friendly measure was the announcement of 22,000 village-level mini-marts that would enable a direct link between farmer producers and consumers, and thus bypass the burdensome APMCs (agricultural produce market committees). Despite three model laws to modify or substantially dilute the constrictive features of APMC, the farm-to-fork linkage is still undeveloped. These village mini-marts are a step in the right direction.

The biggest announcement, of course, was the promise of a 50% margin over cost of cultivation, as minimum support price (MSP) for all crops. The MSP has always been a political instrument. The recommendations of the Commission on Agricultural Costs and Prices (CACP) have often been overruled in the cabinet, to accommodate the political demands of coalition partners from certain states. MSP decisions have become more rational, but remain political nevertheless, as this budget announcement proves. The MSP itself is like a free “put” option sold to the farmer, and becomes operative only if the market price falls below the threshold. In that sense it is an insurance mechanism. But in the last two years we have seen many instances when farmers have had to resort to distress sale below MSP. In any case, it benefits farmers with a surplus to sell. The actual fiscal resource set aside for the large MSP hike is not very much. Besides, there is some lack of clarity on the base for calculating the cost of cultivation.

But more fundamentally, this is a solution which has been tried umpteen times and which has failed. The price intervention in the output market (and also inputs) is the bane of agriculture, which harks back to the early days of industrialization and import substitution in the 1950s. Indeed, some may say that the Nehruvian approach of keeping food (and farm) prices low so as to keep industrial wages low, was itself inspired by the Stalinist Soviet style central planning. Ever since then, the farm story has been one of continuous and intrusive price and movement controls, monopoly food procurement, storage and distribution, with massive attendant leakages, with innumerable piecemeal Band Aid-type fixes. Farming is never accorded the status of a business, to be run along capitalist principles, with unshackled economic freedom, so that the farmer can plan, sow, reap, sell and distribute as he deems best. Denied direct access to consumers, to forward markets, to capital, technology and to corporate structure, this is a basic flaw in our approach to farm policy. Indeed, it's in countries where bourgeois capitalism sprouted and flourished in agriculture (e.g. Japan, Switzerland) that farmers enjoy a high standard of living.

In India, turning the fortunes of the farm sector, one of our highest priorities, is like turning the Titanic. But, at the very least, it is important to accept the paradigm that what the farmer needs is more economic freedom, not more price and quantity controls, and cleverly designed subsidies. For instance, removing the concept of a minimum export price for all crops is a step in that direction. It acknowledges the right of the farmer to tap into an international price, without constraint. So while we may debate the 50% hike in MSP, let's not lose sight of the main goal, which is to truly unshackle the farmer and farm sector.

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