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GETTING IT WRONG ON INDIA'S LEVEL OF AGRICULTURAL SUPPORT

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

The ongoing stalemate between the farmers protesting over the recently passed farm laws and the government has sparked an interesting debate regarding the level of agricultural support. Many media reports, based on data by the Organisation for Economic Co-operation and Development (OECD), have ostensibly stated that the support provided to Indian agriculture is extremely low or negative, and, therefore, net taxed. In contrast, the support provided by the Central and State governments through their various federal and sub-federal schemes is well-documented. This divergence merits a close examination for bringing clarity on this issue.

The OECD estimates the support to the farmers in terms of producer support estimates (PSE), which mainly comprises the following two elements: market price support and budgetary payments. The OECD has estimated that Indian farmers received negative support to the extent of minus 2.36-lakh crore and minus 1.62-lakh crore in 2010 and 2019, respectively. The support to farmers was consistently negative during 2000-2019, except in 2000. Surprisingly, the negative support of minus 1.62-lakh crore as estimated by the OECD was higher than the total budgetary allocation of the Ministry of Agriculture at 1.09-lakh crore in 2019.

Data | Farmers, new agriculture laws and government procurement

Let us look at the logic behind the OECD negative support to Indian farmers by assessing its components.

Despite the overall negative support, the expenditure of the Central and State governments on agriculture has increased substantially since 2000. This support increased from 1.61-lakh crore to 3-lakh crore, between 2015 to 2019, registering 85% growth. Expenditure on the Pradhan Mantri Kisan Sammann Nidhi, or PM-KISAN, the National Food Security Mission, crop insurance, input subsidies such as fertilizer and electricity, are some of the measures covered under the 2019 OECD estimates. However, the expenditure related to the operation of minimum support price and general services is not covered by it.

The massive negative market price support to the producers of different products has resulted in the total negative producer support, overshadowing the increase in the budgetary support over the years. The negative market price support was estimated at minus 4.62-lakh crore in 2019. The pertinent question here is what constitutes market price support?

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As per the OECD methodology, the market price support of a commodity is calculated by multiplying its total production with the gap between the domestic price and international prices in a relevant year. Total market support for India is calculated by adding the market price support of the agricultural commodities (of about 20 individuals) such as wheat, rice, cotton, milk, etc.

This methodology assumes that in case there is no government intervention in the agriculture market, then the domestic and international price of a product will converge, resulting in no gap in prices. What are the consequences of the OECD methodology?

First, if the domestic price for a product is less than its international price, then support for that product would be negative. To illustrate this, in respect of rice and milk, the domestic price was less than the international price, which led to negative support of minus 46,605 crore and minus 2.17-lakh crore in 2019. For the same year, the support for wheat and cotton was 4,034 crore and 4,414 crore, respectively.

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Second, a negative market price support for a product in one year can turn into huge positive support in another year on account of the relative movement of domestic and international prices. For instance, in 2018, the domestic price of cotton was lower than the international price, resulting in negative support of minus 5,102 crore. However, in the subsequent year, the domestic price exceeded the international price, and the support turned positive to the extent of 4,414 crore.

Third, even if in a particular year, the government does not provide any additional support compared to a previous year, the level of support calculated by the OECD can change. This will arise if there is a change in either the gap between the domestic price and international price for a commodity, or its production, in the two years.

Why the gap between international and domestic prices? The OECD assumes government interventions lead to a gap between the international and domestic prices. However, even if the government does not implement any programme, the gap can still arise due to domestic and international factors. Changes in supply and demand conditions in the domestic and international market due to shocks such as the COVID-19 pandemic, weather conditions, depressed international price due to subsidies given by other countries, among other factors, can generate a gap.

Given the unpredictability in the inherent data, the total support can move from huge negative to huge positive. For India, the negative support as a percentage of the total value of agriculture production has substantially reduced in recent years. It is possible that support to Indian farmers in the near future becomes one of the highest in the world due to pitfalls in the OECD methodology. This might set alarm bells ringing, particularly in the developed countries, which may aggressively question India's support measures.

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Just as beauty lies in the eye of the beholder, the amount of subsidy depends on the methodology adopted for calculating it. Rather than being swayed by the OECD numbers suggesting negative support, farmers, policymakers, and other stakeholders need to understand the pitfalls and limitations in the underlying methodology. This will help in providing a more correct perception of the level of support to agriculture in India.

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