

# UNMET FARM CHALLENGE

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

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India's agricultural output grew by hardly 2.7 per cent during the last October-December quarter. That isn't bad, if one takes the corresponding year-on-year increases for the preceding 10 quarters; these have ranged between 4.2 per cent and 7.5 per cent. The cause for concern is that these reasonably good production growth rates in "real" terms haven't translated into higher farm incomes, which are a product of output multiplied by current prices. According to the Central Statistics Office, the annual growth in "nominal" gross value added (GVA) from agriculture at current prices for October-December was 2.04 per cent. Not only was this below the "real" GVA growth of 2.67 per cent, but also the lowest since the minus 1.1 per cent rate recorded way back in October-December 2004. Worse, we now have seven consecutive quarters of single-digit nominal growth rates — the target of doubling farmers' income in five years requires an annual increase of 14.4 per cent.

The above data is reflective of a phenomenon rarely seen in India: Agricultural produce deflation. That this isn't a one-off thing is established by consumer food price inflation, too, ruling below overall retail inflation now for 29 consecutive months since September 2016. The implications are not just economic — low food prices, among other things, have allowed the RBI to soften its monetary policy stance and cut interest rates — but also political. If farmers find incomes not rising or even falling despite bumper harvests, they are bound to vent their anger. Managing agrarian unrest has, indeed, been the single biggest challenge for the [Narendra Modi](#) government, especially after prices of the rabi crop planted after demonetisation crashed at the time of market arrivals in April-June 2017. Prices haven't looked up since.

If prices aren't rising because of a general economic slowdown and stagnant incomes — particularly among lower-decile households, whose elasticity of demand for food is the highest — this might be more episodic than structural. But even if that is so, agricultural policy needs a fundamental review. The supply response of Indian farmers — their ability to increase production when prices go up — has improved significantly over the past two decades. It has rendered the old approach of looking at the sector through the prism of shortages redundant. Shortages are better left to be managed by market forces than imposing stockholding limits and export restrictions. Farmers suffer when their produce prices are low. The next government, irrespective of the party heading it, should ensure that they aren't denied the opportunity to make money when prices shoot up.

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