

SOLUTIONS FOR THE JIGSAW PUZZLE THAT IS INDIAN AGRICULTURE

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

There are many stylized facts that illustrate the shackles around Indian agriculture. Local solutions need to emerge, and the Centre should undo the shackles

Finance minister Nirmala Sitharaman announced a few farmer-friendly reforms as part of the financial relief package. These included a dilution of the Essential Commodities Act (ECA) by taking some agricultural commodities off a restriction list. Such a reform is always welcome. But, in a way, this is a negative freedom, i.e. freedom from arbitrary interference by the government. The ECA is usually invoked to curb price spikes, because high food inflation hurts consumers. But such intrusiveness hurts farmers, too. For a long time, it has been the contention of farmers that India's farm and food policies have an urban bias. Even now, the Centre plans to remove food items from the ECA list, but not petrol and diesel. Since fuel is used in trucks to transport farm products, the ECA will still indirectly strangulate the farmer. This is just one example to show that a real unshackling of farmers is still a distant goal.

To understand the challenge of reforming Indian agriculture, it is best to start with some stylized facts. First, most of India's poor live in rural areas, and hence are connected to farming. Removing poverty in India is almost synonymous with improving the lot of Indian farmers. That is not to ignore the plight of the urban poor, whose distress was only too visible during this pandemic. Second, the most decisive impact on farming will come from actions outside the sector, namely reforms in industry and services. These sectors need to wean farmers away. If their fortunes rise, and jobs boom, farm distress will automatically decline. An all-India survey a few years ago revealed that more than 40% of farmers would gladly leave agriculture, if only they had the option of good-quality, well-paying jobs elsewhere. Take any random survey of the children of farmers who attend schools and colleges. You will be surprised how few of them aspire to continue in farming. Only once the share of manufacturing in India's gross domestic product rises to near 25%, which is a stated national ambition, will we have effective solutions to the problems of farmers. This is not as non-intuitive as it sounds.

Third, agriculture is a state subject, and for good reason. India has incredible agro-climatic diversity, in addition to diversity in ethnic, cultural and socioeconomic variables. One-size-fits-all policies will not work across the nation. Farm policies have to reflect local needs and exigencies, and the Centre has a limited role in this. Even where we have national policies, their success has been very uneven. Take procurement policy. In a state like Punjab, nearly all of the grain grown is sold to a procurement agency, whereas in a state like Bihar, this figure is not even 5%. It is not as if farmers in Bihar shun government procurement because they get higher prices elsewhere. They often sell well below the government's Minimum Support Price (MSP). It is suspected that some of Bihar's production is carted away to Punjab and sold there instead to get the assured MSP. So, farmers of Punjab maximize their benefits, while those of Bihar are left high and dry. This is also seen in fertilizer offtake. The MSP regime works well only in a few states like Punjab and Haryana. Indeed, in these pandemic times, 20 of the 22 crops subject to the MSP regime are being sold below the official minimum prices.

Fourth, the functioning of Agricultural Produce Marketing Committees (APMCs). Sitharaman announced that farmers will have the freedom to bypass state APMCs. But in Punjab, farmers and the state government almost seem addicted to the APMC. The mandi tax is a significant contributor to the state exchequer, and the farmer seems happy to sell his entire produce

through the APMC. Bihar repealed the APMC Act in 2006, but the state won't enact a replacement, not even the model Act recommended by the Centre. It is doubtful that repealing the Act has left the state's farmers any better off. The reality is that 94% of farmers in the country do not have access to regulated markets. As pointed out by agricultural commentator Devinder Sharma, what may be needed for better price discovery is a way to supplement the APMC market with many others within close proximity of farms.

A fifth stylized fact is that one third to 40% of farm produce is grown by tenant farmers, who don't own the land. Without collateral, how would they get a loan? Resultantly, despite large volumes of aggregate bank credit flowing into agriculture, less than 50% of farm households have access to it. This is a tough nut to crack, and some states like Andhra Pradesh have adopted innovative ways to ensure credit delivery to tenant farmers. A sixth stylized fact across India is land fragmentation, which gets worse with every generation and no sign of land consolidation. This shows that a poor farmer with a tiny piece of land dare not sell for fear of losing out. Or maybe the laws are stacked against him. Converting land from agricultural to non-agricultural use is usually a process of intrigue and darkness, hindering the functioning of land markets and consolidation. Here too, local experimentation in land pooling and farmer producer companies have shown some success.

There are many such stylized facts that illustrate the plight of and shackles around Indian agriculture. Reforming this is like solving a giant jigsaw puzzle. It cannot be solved in New Delhi alone, but in a thousand places, such as district headquarters and state secretariats, or even village panchayats and talukas. Local solutions need to emerge, and the Centre should undo the shackles.

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