A Viable Agriculture Policy for Sustained Growth

S. S. Tarapore

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"Free Enterprise was born with man and shall survive as long as man survives".

- A. **D. Shroff**
Founder-President
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INTRODUCTION

Indian agriculture continues to be susceptible to periodic bouts of drought – every two out of five years. Once again, a spectre of drought is looming large in 2012-13! While it is too early to measure its true dimensions, what is evident is that large parts of the country, including several key agricultural producing States, are severely affected by the deficient rainfall so far. The Indian Meteorological Department has officially announced an overall 15% deficit in rainfall during the current monsoon season.

Such a major setback would doubtless lead to contraction in production of food-grains, oilseeds, cotton, etc. In the context of current overflowing stocks of food-grains, managing overall food availability may not pose a major challenge, but efficient handling of distribution logistics through PDS and other private channels would indeed be strenuous and challenging. In case of pulses and oilseeds, wherein the supply-demand position is already delicately poised, the government may have to arrange for large-scale imports. The impact would also be felt on the overall inflation outlook, which appeared to be moderating in the last couple of months.

There would be many other adverse fall-outs on the economy depending upon the severity of drought. Thus, the overall real GDP growth rate would decelerate to less than 6% in 2012-13; and agricultural GDP may even contract in absolute terms. Several other productive activities from hydro power generation and water supply to agro-based industries would suffer a major set-back. Livestock farming would be constrained for want of fodder availability. The industrial sector would be hit hard not only because of supply side constraints, but also due to erosion in the discretionary consumer spending on manufactured products. Managing drinking water supply both in urban and rural areas would pose immense problems. Already strained fiscal position of the governments (Centre and States together) would come under severe pressure on account of demands for increased allocation of funds drought relief and NREGA operations.

Surely, these are short-term, immediate challenges confronting the Indian economy in general and agricultural sector in particular. But what is of even greater importance is to evaluate how the Indian agriculture has performed keeping in view the longer-term perspective of India's development strategy. Two key questions are: What ails Indian agriculture? What needs to be the elements of "viable" agricultural policy to strategise its future growth? Of course, as the governments and policy makers confront the present tough agricultural problems and the Planning Commission seeks to firm up the Twelfth Plan document, we expect a lot of ritualistic debate and discussion as well as seminars would be organized on this subject in the course of the current year.

But what is of relevance is a well thought out articulation of diagnosis and policy strategy to shape the future of Indian agriculture. Keeping this aspect in view, we are, indeed, pleased to present to our avid readers an excellent article on the subject authored by an eminent economist Mr. S. S. Tarapore. *(Mr. Tarapore joined Reserve Bank of India as a Research Officer in 1961 and retired as its Deputy Governor in 1996.)* This booklet is a reproduction of his article published in quarterly journal INCLUSION (April-June 2012 issue). While reflecting on crucial aspects of the subject under consideration, the author brings to the forefront the most worrisome phenomenon of rapidly shrinking share of agriculture and allied activities in India's GDP, while proportion of population living in rural areas continues to be disproportionately high. As a consequence, it is pointed out

that such "sectoral distribution of income triggers migration of rural to urban area ....” .

He then proceeds to highlight the essential area of policy conflict thus "allowing the pace of rural-urban migration to continue or even accelerate would result in break-down of urban infrastructure. Given the political economy of India, prohibiting migration would unleash severe social explosion".

What follows thereafter is his lucid analysis of fault-lines in the existing policy framework and exposition on his own strategic policy options. The obvious underlying objective is not only to enhance the performance of the agricultural sector, but to endow the Indian economy with viable and sustainable developmental structure. There are many striking features of his policy suggestions, but in particular, we would like that extreme focus needs to be given to (a) making India a major producer and predictable exporter of agricultural products; (b) overhauling existing procurement pricing policy; (c) expanding production of pulses and oilseeds; (d) selective corporatisation of agriculture in presently uncultivated government land; and (e) promotion of allied activities in the field of livestock, fisheries, horticulture and floriculture, etc.

We certainly share the concerns of Mr. Tarapore on the fundamental issues associated with excessively large population living in rural area even in the wake of inevitable shrinkage in agriculture sector's contribution to the overall GDP of the country. But we wish that the official national accounts statistics must also now work out authentic data on distribution of GDP according to Census classification of rural and urban areas of our country. We believe that there are many "off-farm" activities by way of rural industrialisation, extension of services sector, etc. in the rural India. Also, in the recent years, transfers by way of subsidies for agricultural sector and rural welfare activities are rising. All such transformational changes are not adequately captured in the current assessment of the agriculture sector's GDP. Therefore, such GDP classification on an annual basis (and not just current pattern of sector-wise distribution of GDP) would help in better formulation of policy strategy on rural development and urbanisation.

We also feel that agricultural renewal is inextricably linked with (a) expansion of irrigation potential; (b) more equitable and efficient utilisation of existing irrigation capacity; (c) water harvesting and water conservation; and (d) improving the viability of small and medium size farming through appropriate organisational and technology development. Most of these propositions have been made time and again, but now is the time to walk the talk!

We are confident that many of the policy issues raised by Mr. Tarapore would generate further constructive debate so that long-term policy strategy relating to the agricultural development in Twelfth Plan would find definite reflection of the author's views and insights.

Sunil S. Bhandare

Editor

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by

S. S. Tarapore*

The share of agriculture and allied activities in India's GDP has fallen from 28.4 per cent during the decade ended 1999-2000 to 19.4 per cent during the decade ended 2009-10; furthermore, the share declined to 14.4 per cent in 2010-11. The falling share of agriculture is by itself not a cause of concern; in fact it conforms to the experience of a number of countries during the development stage. What is of concern is that while the share of agriculture and allied activities is only 14.4 per cent of GDP, 70 per cent of the population lives in rural areas. The present sectoral distribution of income triggers migration from rural to urban areas, particularly metropolitan cities, and despite efforts to improve urban infrastructure, urban areas are unable to cope with the migration resulting in the emergence of urban slums. With the crude birth rate per thousand of population at 23.7 in rural areas and 18 in urban areas, the problem

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of massive migration is likely to increase in the ensuing few years unless effective measures are taken to generate more activity in rural areas. Allowing the pace of rural-urban migration to continue or even accelerate would result in a breakdown of urban infrastructure. Given the political economy of India, prohibiting migration would unleash severe social explosion.

Planners hope that agriculture will grow at **4** per cent per annum while overall growth will be 9 per cent; this implies an automatic reduction in the share of agriculture and allied activities in GDP which, in turn, will trigger massive migration to urban areas. Thus, a major plank of macroeconomic policy has to be to reverse, or at least slow down, the decline of the share of agriculture in GDP. A viable agricultural policy must be put in place in order to make growth sustainable. Some elements of such a policy are outlined below.

Become a Major Commodity Producer and Exporter

Despite industrialisation, economies such as USA, Russia, Australia and Brazil are generally major commodity producers. To be a major commodity producer, a country has to look beyond its own frontiers and become a major commodity exporter. In this context India's track record is miserable. Barring tea, where India has a large domestic market as also a large export base, the performance has been abysmally poor in all other commodities.

End Export Control Raj

The freeing up of commodity exports is necessary to ensure fair treatment to producers of agricultural commodities.[1] There is also a crying need to free agriculture

from the shackles of subsidising urban consumption of agricultural commodities. If agricultural commodities fetch better prices abroad, it will only be equitable to freely allow exports of these commodities. The benefit will be that domestic sales to urban areas will then fetch higher returns for rural areas. The export control raj must be totally abandoned.

India has, since 1990-91, consciously moved away from micro-managing the economy. Yet, commodity exports are punctuated with bouts of bans on exports alternating with massive gluts requiring sporadic exports. Exports are treated as a safety valve to reduce pressure points in the economy, India cannot become a significant commodity exporter if its policy is one of sporadic export whenever there are surpluses. Bans and prohibitions are meant to be used in very exceptional circumstances and not imposed routinely. There is an erroneous belief that an export ban is the answer to inflation and permitting exports is a panacea for falling prices.

India has a long history of being a sugar exporter, but our share in global markets is small as we are an unpredictable supplier and hence we do not have a niche market. In cotton, it is hardly surprising that foreign importers are turning towards more reliable sources. It is stultifying that the cotton export policy is reviewed every fortnight. Again, in the case of onions the minimum export price is periodically scrapped and then reintroduced. For many years India has had a chronic shortage of rice but with the mountain of public sector foodgrains stocks, India has temporarily become the world's largest exporter of rice. Such flip-flop policies discourage producers from an enduring augmentation of supplies. There is need to restrict bans or prohibition of exports only to items injurious to health. There should be legislation to ensure that bans or prohibition on exports which are normally traded in international markets do not become the norm, and legislation should make routine bans and prohibitions subject to strict scrutiny.

Deal with the Foodgrain Mountain

Ashok Gulati, Chairman of the Commission on Agricultural Costs and Prices (CACP) in a seminal article in the Economic Times dated 10 May 2012 has candidly stated that by June 2012 public sector stocks of foodgrains would have exceeded 75 million tonnes but covered storage capacity is only around 50 million tonnes. Hence, there is need for urgent action to contain the colossal damage. Notwithstanding all possible measures, the government has to recognise that there will be a loss of at least 10 million tonnes of foodgrain by way of damaged stocks. Understandably, the authorities cannot acknowledge such an eventuality.

The foodgrain mountain is not something that has suddenly emerged; it has been in the making for the past five years. It is both a success story as well as a failure. It is a success story in that there has been sustained growth in the marketable surplus of major foodgrains, but the failure is of not being able to evolve policies to bring about a better balance between commodities in excess supply and those reflecting shortages. In a sense, the authorities are trapped in a political-economic-social imbroglio. The incentives to increase marketable surplus of rice and wheat have created strong vested interests and any attempts to change the system will result in major upheaval. The system of 'fixing the procurement price based on costs of inputs has worked well in the past but now needs an overhaul.

It would appear that it is too late now to take corrective action in the current financial year and the country needs to face up to a major loss as stocks turn into a waste heap. The least that should be done is to alter policies which will obviate repeated episodes of large losses. In the absence of a long-term sustainable policy, immediate measures are at best second best solutions, but are necessary for quick results:

- First, the carrying cost of foodgrains by way of storage costs, interest costs and damage through open storage could be so high that it might be better to export even at prices 20 to 25 per cent below the minimum support price. Export markets are not easy to come by and, as stated earlier, the government should totally eschew export bans or controls.
- Second, while free distribution of foodgrains creates a medium-term problem for the normal distribution of foodgrains under the Public Distribution System (PDS), given the immediate choice of free distribution of foodgrains to segments of the population which are starving or offering foodgrains to rats, the priorities are clear and the government will have to face up to the medium-term problem.

- Third, leap-frogging bonuses by state governments are not desirable but this is not a new phenomenon. In the 1980s, various facilities were withdrawn from state; which offered bonuses above the minimum support price. It may be necessary in the present context to take strong measures to discourage states from offering bonuses above the minimum support price.

- Fourth, incentives could be provided during periods of excessive public sector foodgrains stock by effective incentives being provided for keeping the land fallow or diverting to crops which are in short supply. Over the years, USA has used a system of "parity" between incentives for keeping land fallow and the price at which the government has bought commodities to augment stocks.

Promote Production of Commodities in Short Supply

For the past sixty years we have been waxing eloquent about all that has been done to lift the disadvantaged out of dire poverty, yet the numbers give a different story. In a country like India, where major protein intake is by way of pulses, it is shameful that per capita daily net availability of pulses has fallen from 69 grams per day in 1961 to 31.6 grams in 2010. It is true that production in 2010-11 rose sharply to 18 million tonnes, but will predictably fall back to 14-15 million tonnes in the ensuing few years. Pulses are grown by marginal farmers in arid areas and as such any sustained increase in production is unlikely.

Another area where there is chronic shortage is vegetable oils. Here again, there is a major deficiency of policy as India is chronically dependent on imports.

The recent increases in the minimum support prices for pulses and oilseeds is a salutary measure. The shortage of these two commodities is so acute that serious consideration should be given to reducing foodgrain subsidy, by say 10 per cent, and diverting these resources to subsidise pulses and oilseeds. This will provide a strong stimulus to step up domestic production of these two commodities.

Selective Corporatisation of the Agricultural Sector

Corporatisation of select agricultural commodities was seriously mooted as far back as 1974 when Hindustan Lever came up with a proposal of oil palm plantations in the Andaman Islands. Predictably, when the proposal was put before the Union Cabinet, it was peremptorily shot down as we could not countenance foreign companies entering the agricultural sector. Years later, in the 1980s, when India was expending foreign exchange to import large quantities of vegetable oils, the then Prime Minister Indira Gandhi said, "We did some funny things, didn't we?"[2] Today's technology enables the desert to bloom and India needs to give serious thought to corporatising agriculture on presently uncultivated government land which could be leased out to corporates for producing pulses and oilseeds. The matter is of great urgency as the per capita consumption of the masses is coming down sharply.

Promote Allied Activities

With limitations on returns to production of traditional foodgrains and long-established cash crops there is neea to promote livestock, fisheries, forestry, horticulture and floriculture. Rural poverty is less where farmers concentrate on livestock.[3] Future agricultural growth will have to be necessarilywater-centricand lack of accelerating agricultural growth is because of inadequate attention to watershed development.[4] Developing activities allied to agriculture should hopefully raise per capita incomes in rural areas. And as rural infrastructure improves there will be less of an incentive to move from rural areas to urban slums.

India has great aspirations of becoming a leader in the comity of nations. But a prerequisite for this grand design will be to fix our woes. Unfortunately, the more we talk about an egalitarian and just society, the more callous we become when it comes to tackling the major problems facing the economy. We take great pride in the fact that almost two-thirds of our GDP is accounted for by services while agriculture accounts for only 15 per cent of GDP. With our obsessive focus on overall growth of the economy rising from the current 7 per cent to 9 per cent per annum, with visions of an eventual sustained growth of 10 per cent, we seem to be welcoming an inevitable shrinkage in the share of agriculture in overall GDP. But the economy will not be viable if the share of agriculture in overall GDP continues to fall while 70 per cent of the population lives in rural areas. There is no way urban areas can absorb massive migration from rural areas. Thus, the only option is to successfully implement a viable agriculture policy. If we are fixated on the view that industry and services will (and need to) grow more rapidly than agriculture, then we are resigning ourselves to eccepting that abject poverty will never be alleviated. Such a scenario cannot but be disquieting.

Refrence :

1 *A perceptive analysis of this issue is available in The Hindu Business Line Editorial, 'Export Control Raj', 5 May 2012.*

2 *M Narasimham, From Reserve Bank to Finance Ministry and Beyond, 2002.*

3 *K G Karmakar, 'Agriculture: The Land of Lost Opportunities', Inclusion, January-March 2012.*

4 *N A Mujumdar, 'Home Grown Green Revolution', Inclusion, January-March 2012.*

We are setting out below a very useful data table on Farm Output for the period 2004-05 to 2011-12. This table has been sourced from Prime Minister's Ecpnomic Advisory Council, latest report on Economic Outlook 2012-13. The outlook for 2012-13 is affected by the severity of drought condition in large parts of the country. Consequently, it is likely that the Farm' Output will drop substantially. However, given the huge stock of food grains (about 81 million tonnes), the Government is not likely to have any problem of managing availability of food through Public Distribution System (PDS)as well as other market channels.

- Editor

Farm Crop Output

			2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Rice	Million tonnes	Kharif	72.23	78.27	80.17	82.66	84.91	75.92	80.89	91.53
		Rabi	10.90	13.52	13.18	14.03	14.27	13.18	15.29	12.79
		Total	83.13	91.79	93.35	96.69	99.18	89.10	95.98	104.32
Wheat		Rabi	68.64	69.35	75.81	78.57	80.68	80.80	86.87	93.90
Coarse		Kharif	26.36	26.73	25.61	31.89	28.54	23.83	33.37	32.26
		Rabi	7.10	7.33	8.31	8.87	11.49	9.72	10.32	9.75
		Total	33.46	34.06	33.92	40.76	40.03	33.55	43.68	42.01
Pulses		Kharif	4.72	4.87	4.80	6.40	4.69	4.20	7.12	6.16
		Rabi	8.41	8.52	9.40	8.36	9.88	10.46	11.12	11.05
		Total	13.13	13.39	14.20	14.76	14.57	14.66	18.24	17.21
Food. grains		Kharif	103.31	109.87	110.57	120.95	118.14	10395	121.18	129.94
		Rabi	95.05	98.73	106.71	109.83	116.33	114.16	123.60	127.50
		Total	198.36	208.60	217.28	230.78	234.47	218.11	244.78	257.44
Oilseeds (Nine Major)	Lakh Tonnes	Kharif	141.49	167.66	140.12	207.13	176.08	157.29	219.22	207.87
		Rabi	102.05	112.11	102.77	90.42	99.11	91.53	105.57	92.25
		Total	243.54	279.79	242.89	297.55	277.19	248.82	324.79	300.12
Cotton	Lakh bales 170 Kg		164.3	185.0	226 3	258 8	222.8	242.2	330.0	352.0
Jute	Lakh bales 1 80 Kg		94.0	99.7	103.2	102.2	96.3	112.3	100.1	108.9
Sugarcane	Lakh tonnes		2,371	2.612	3,555	3,482	2.850	2,923	3,424	3.577

SHAILESH KAPADIA

(24-12-1949 – 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.

Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions. His leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai. He was member, Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice-chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various Public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

- Eugene Black
Former President,
World Bank

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