

# Reviewing Rural Economy

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The conditions of Indian farmers are not improving despite high rates of growth in the economy. Indeed about 40 percent of the population is now living in the cities but the majority of 60 percent will still be decisive in any major electoral battle. The main reason for this sorry state of affairs is that economic policies are badly designed. Main effort of the Government has been to increase agricultural production. The decline in prices has been ignored. Belief is that the farmer will be better off producing 20 quintals of wheat instead of 10. But the opposite can happen. An increase in production along with decline in prices can eat away the gains. In the end the farmer may incur higher cost of production due to increased inputs and still get less income due to lower sale price. The correct way to secure farmer's welfare is to secure an increase in price of his produce. The Government is today feeling mighty happy with the reduction of price of food items. The urban population will be surely benefited from this. But it is forgotten that this will bring doom to the large number of voters in the rural areas. There is a need to reassess the rural strategy from this standpoint.

The government has been providing Minimum Support Price to important crops such as wheat, rice, jute and sugarcane. And Indian farmers have increased the production of these crops because they were assured of a decent price. This success has come with its costs, however. It has shifted the farmer's attention away from other crops that could provide higher returns such as vegetables, fruits, timber, flower and orchids because of uncertainty of price there. The government must, therefore, expand the scope of the MSP mechanism to other crops. In particular it is important to support crops that have virtually unlimited demand such as *Jatropha* and flowers.

The Government has accepted the free market for agricultural commodities. And market demands dismantling of domestic agricultural subsidies by the rich countries under the WTO in pursuance of this policy. The idea is that opening of the markets of rich countries will provide opportunities for Indian farmers. But the efficacy of this strategy is doubtful because these markets will be opened not only for India but for other players as well. The resulting increase in supply can wipe out most of the expected gains in price from opening of these markets. For example, the entry of Vietnam in coffee and black pepper has wiped out the gains for Indian farmers from freer trade. India and Malaysia can join hand to increase the world price of rubber. India can likewise cooperate with Bangladesh in jute, Sri Lanka in tea and Pakistan and Egypt in cotton. This will certainly provide high prices to Indian farmers.

The Government is trying to increase the flow of credit to the farmers under the impression that lower interest rates will provide relief to them. No relief is likely to be got, however. The rural areas are flushed with funds. The credit-deposit ratio of rural banks is typically 15-for every Rs 100 of deposits the loan given out is only Rs 15. Rural banks have plentiful depositors but few applicants for loans. Farmers have the money but no opportunity to deploy it productively because of absence of profitable opportunities in villages. They deposit their money with the banks at low rates of interest of 6-8 percent because they cannot earn more than this in rural businesses. Expansion of

credit will serve no purpose in this situation. It is like pouring tap water into the well. Farmers typically take loans only to avail of subsidies that come along with them. The Government must expand credit in specific areas where the profits are high such as cold storages and floriculture.

Finance Ministers routinely promise to increase investment in agriculture in every budget. But every investment is not farmer-friendly, especially for the small farmers. For example, increased investment in harvesters has become a curse for them. Previously, small farmers and agricultural labourers obtained most of their income at the time of harvesting when they got 1/6 to 1/10th of the produce. Now this lucrative work has been taken over by machines. More investment in agriculture is projected as a pro-poor measure. But it is working in the opposite direction. The poor have been deprived of their most lucrative employment. The impact of investment in tube wells is altogether different. A reduction in employment takes place in the running of the water wheel, just like the harvester. But increased irrigation leads to more land being brought into cultivation of labour intensive crops like vegetables and to higher demand for their services. Thus the Government must make a social audit of various types of agricultural investments and encourage only those that have a positive impact. More tube wells and water harvesting structures and fewer harvesters will do the trick.

Public investment in agriculture also needs a close study. Mere building of canals and increasing the area under irrigation will not help because, as mentioned previously, the prices are declining. Remember that most farmers' suicides are taking place in irrigated areas where use of modern inputs like Bt Cotton has led to increase in production. Therefore, public investment must be fine tuned to support value-added agriculture. For example, the global demand for organic foods—guavas, mangoes, coffee and tea—is increasing. The Government must create a certification mechanism in each district to promote this. Export subsidy may be provided to private exporters of value-added agricultural commodities to help them penetrate this lucrative global market.

The Government is trying to reduce agricultural subsidies of food, fertilizers, water and diesel to contain its fiscal deficit. It is another matter that the Government has not succeeded in this due to political compulsions. Subsidies must be reoriented that lead to multiplier effect. For example, instead of subsidizing electricity for extracting ground water the same money can be better utilized to provide subsidy for water recharging by building check dams ponds and anicuts. The conditions of farmers continue to decline because of these faulty policies despite massive investments by the Government. The economic policies need redesigning to provide relief to them. □□□