

REMOVING THE ROOTS OF FARMERS' DISTRESS



Agrarian distress, in the present context, is mainly in terms of **low agricultural prices** and, consequently, **poor farm incomes**.

Low productivity in agriculture and related **supply side factors** are equally important.

Recently, there has been active discussion on the **strategies addressing farm distress**.

The possible solutions are:

An issue that is connected is the **declining average size of farm holdings** and the **viability of this size for raising farm incomes**.

- **Prices and incomes**
- **Low productivity**
- **Land size**

1. **Prices and incomes of Agricultural Commodities:**

Prices play a key role in affecting the incomes of farmers.

- In the last two years, **inflation in agriculture** was much lower than overall inflation.
- The implicit **price deflator** (measure of the level of prices of all final goods and services in an economy in a year) for **Gross Value Added (GVA)** in agriculture was **1%** while it was **3.2%** for total GVA in 2017-18.

- The advance estimates for 2018-19 show that the **implicit deflator for GVA in agriculture is 0%**, and 4.8% for total GVA.
- The **consumer price index (CPI)** also shows that the **rise in prices for agriculture** was much lower than general inflation in recent years.
- Market prices for several agricultural commodities have been lower than those of **minimum support prices (MSP)**.

All these trends show that the **terms of trade to be moving against agriculture** in the last two years.

Adverse Consequence of Decline in prices:

When **output increases** well beyond the market demand at a price remunerative to producers, **market prices decline**.

And in the absence of an **effective price support policy**, farmers are faced with a **loss in income**, depending on how much the price decline is.

The **‘farm distress’** in recent years has been partly on account of this situation, as the loss of income is beyond the ability, particularly of small farmers, to absorb. In a strange way, it is the success in **increasing production** that has resulted in this **adverse consequence**.

A few schemes have been suggested to address the **problem of managing declining output prices** when output increases significantly.

- The **scheme of ‘price deficiency compensation’** is one such mechanism which amounts to **paying the difference** between market price and the MSP.
- A **‘price deficiency’ scheme** may **compensate farmers** when prices decrease below a certain specified level. However, market prices may continue to fall as supply exceeds ‘normal demand’.
- The other extreme is the **‘open procurement system’** that has been in vogue quite effectively in the case of rice and wheat, where procurement is open ended at the MSP.

Solution for above: Limited procurement for price stabilisation:

The middle way that may be effective in some crops, suggested option is of **limited procurement for price stabilisation**.

Under this scheme, the government will **procure the ‘excess’**, leaving the normal production level to clear the market at a remunerative price.

Thus, procurement will continue until the market price rises to touch the MSP.

The **suggested ‘limited procurement system’** will not work if the MSP is fixed at a level to which the market price will never rise.

There are costs involved which will go up **as production increases** above the average level. The government can sell the procured grain in later years or use them in welfare programmes.

Some States have **introduced farm support schemes**, examples being the

- **Rythu Bandhu Scheme (Telangana)** and

- **The Krushak Assistance for Livelihood and Income Augmentation (KALIA) scheme (Odisha).**

One problem with the **Telangana model** is that it does not cover tenants, who are the actual cultivators. Basically, these schemes are income support schemes which will be in operation year after year.

Thus, **raising the MSP**, price deficiency payments or income support schemes can only be a partial solution to the problem of providing remunerative returns to farmers.

A **sustainable solution** is market reforms to **enable better price discovery** combined with long-term trade policies favourable to exports.

The **creation of a Competitive, Stable and Unified national market** is needed for farmers to get better prices.

Agricultural markets have witnessed **only limited reforms**. They are characterised by inefficient physical operations, excessive crowding of intermediaries, and fragmented market chains.

Due to this, farmers are deprived of a fair share of the price paid by final consumers. States have also not shown any urgency in reforming agricultural markets.

For **better price for farmers**, agriculture has to go **beyond farming** and develop a **value chain comprising farming, wholesaling, warehousing, logistics, processing and retailing**.

2. **Low productivity due to Less and Conventional Method of Usage land and Water:**

The next issue is the low productivity of Indian agriculture.

- Basics such as seeds, fertilizers, credit, land and water management and technology are important and should not be forgotten.
- Similarly, investment in infrastructure and **research and development** are needed.
- **Water is the leading input in agriculture.**
- **More than 60% of irrigation water is consumed by two crops: rice and sugar cane.**

Water-use Efficiency according to the Area-Specific Approach:

- Basically, it is not investment alone but efficiency in water management in both canal and groundwater that is important.
- India uses up to **three times the water** used to produce one tonne of grain in countries such as **Brazil, China and the U.S.**
- This implies that **water-use efficiency** can be improved significantly with better use of technologies that include drip irrigation.

Yields of several crops are lower in India when compared to several other countries. Technology can **help to reduce 'yield gaps'** and thus **improve productivity**.

Government policies have been biased towards cereals particularly rice and wheat.

There is a need to make a **shift from rice and wheat-centric policies to millets, pulses, fruits, vegetables, livestock and fish.**

1. Land size: Consolidation of land holdings becomes important to raise farmer incomes:

- Another **major issue** relates to the **shrinking size of farms** which is also responsible for low incomes and farmers distress.
- The **average size of farm holdings** declined from 2.3 hectares in 1970-71 to 1.08 hectares in 2015-16.
- The share of **small and marginal farmers** increased from 70% in 1980-81 to 86% in 2015-16.
- The average size of **marginal holdings is only 0.38 hectares** (less than one acre) in 2015-16.
- The monthly income of small and marginal farmers from all sources is only around ₹4,000 and ₹5,000 as compared to ₹41,000 for large farmers.

Thus, the viability of marginal and small farmers is a major challenge for Indian agriculture.

Focusing on Non-Farm Sector as well:

Many small farmers cannot leave agriculture because of a **lack of opportunities in the non-farm sector**. They can get only partial income from the non-farm sector. In this context, a **consolidation of land holdings** becomes important to raise farmer incomes.

In the context of rural poverty, **B.S. Minhas** had argued even in the 1970s that **compulsory consolidation of land holdings** alongside land development activities could **enhance the incomes/livelihoods** of the poor in rural areas.

Unfortunately, there is little discussion now on **land fragmentation and consolidation of farm holdings**.

We need to have **policies for land consolidation** along with **land development** activities in order to tackle the challenge of the low average size of holdings.

Farmers can **voluntarily** come together and pool land to gain the benefits of size. Through consolidation, farmers can reap the economies of scale **both in input procurement and output marketing**.

Way Forward:

Farmer's distress is due to **low prices and low productivity**.

The suggestions, such as limited procurement, measures to improve low productivity, and consolidation of land holdings to gain the benefits of size, can help in **reducing agrarian distress**.

The time has come to bring **requisite changes** in the **relevant laws** governing the cooperative sector with a view to encourage farmers in the context of changed **techno-economic** and business scenario to make the **farming viable and vibrant enterprises**.

We need a **long-term policy** to tackle the situation.