Ind. Jn. of Agri. Econ.
Vol. 63, No. 1, Jan.-March 2008

PRESIDENTIAL ADDRESS*

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It is a privilege for me to be addressing this very distinguished audience on the occasion of the 67th Annual Conference of the Indian Society of Agricultural Economics. I must thank Dr. Johl for his initiative in getting me to this podium. I have the greatest regard for Dr. Johl and in my two years of working with him on Punjab, I have learnt a great deal from him. In fact it would be correct to say that as far as Indian agriculture is concerned, he is my Guru. However, I am exonerating him from blame for anything I say here which he may want to disagree with.

I must compliment the Society on the choice of the three subjects for the keynote papers. Rural Finance, Risk Management in Agriculture and Trading in Livestock and Livestock products are three very important areas and we have three excellent papers from Dr. K.G. Karmakar, Dr. P.S. Birthal and Dr. Srijit Mishra. I have also read the many other papers that are being presented at the Conference. I am sue that at the end of the Conference we will appreciate better the importance of the major issues with regard to crop diversification and risk management in India agriculture.

I must first of all confess that the focus of most of my work on the Indian economy has been in the area of industry, trade and macro-economic reforms. The last time I did research work on agriculture was for my doctoral dissertation, when I had developed a model for the Indian economy which emphasised the importance of the supply side constraints emanating from the agricultural sector. The model was used some years later to explore linkages between agriculture and industry in the Indian economy in a joint paper with C. Rangarajan. Subsequently, I reconnected with agriculture through my association with the International Food Policy Research Institute (IFPRI). My experience there provided me with an opportunity to look at issues in agricultural development from a wider perspective in the context of a changing world trade scenario for agriculture and particularly, a new regime for intellectual property rights which has changed the way in which cutting edge research is taking place in agriculture today. Both CGIAR centers and the national research systems have to adapt to this change. More recently, in the past three years, I have been working on the various aspects of the economy of Punjab and have seen the challenges facing Punjab agriculture from close quarters.

Of course, no Indian economist is ever far from the problems of Indian agriculture. Although the share of agriculture has declined to 22 per cent, it still

*Presidential Address delivered at the 67th Annual Conference of the Indian Society of Agricultural Economics held at Bankers Institute of Rural Development, Lucknow on November 5, 2007.

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provides the major source of sustenance for over 50 per cent of our population and their welfare is therefore crucially dependent on agriculture. We also know that agriculture has not shared in the resurgence of growth in India in the past decade. In fact, quite the opposite has happened. Growth of agricultural gross domestic product (GDP) slowed down from 3.5 per cent per annum during the period from 1981-82 to 1996-97 to less than 2 per cent per annum in the Ninth Plan period from 1997-98 to 2001-02. This was much lower than the target of 4 per cent. In the past three years, there has been some improvement but growth in the Tenth Plan is likely to be much slower, once again, than the plan target of 4 per cent. However, the average growth of 4 per cent per annum over last two years is comforting and its suggests that if the right policies and institutions are put in place, it should be possible to attain the target of 4 per cent per annum growth of agricultural GDP in the Eleventh Plan.

There has been a lot of debate and discussion on the causes of agricultural deceleration and how policies towards agriculture have to take account of the stagnating agricultural yields, escalating subsidies and declining public investment in agriculture, and how Indian agriculture has to diversify to complete in the world markets. The impact of the removal of quantitative restrictions on imports the issues of market access and subsidies in the ongoing trade negotiations at the WTO, and more generally, the opportunities as well as the challenges of opening Indian agriculture to world trade are still to be fully factored in by the policy makers, farmers, and other stakeholders. There is also greater (though not adequate) realisation today that the depletion of the natural resource base in India is a very real problem which, if unattended, could seriously limit our ability to raise agricultural growth to 4 per cent per annum as is targeted in the Eleventh Plan.

I will touch on only some of the important issues. I am happy to note that the crucial areas of rural finance and risk management as well as the issues relating to one of the most dynamic sub-sectors of agriculture, i.e., livestock, are being discussed and analysed in depth in this Conference.

It is well known today that the well-irrigated regions of the country like Punjab and Haryana which played a leading role in launching the Green Revolution in the late 1960s are not only experiencing technology fatigue but also facing a deterioration in their natural resource base at an alarming rate. These states benefited from agricultural research geared to breeding high-yielding varieties of individual crops which typically focus on improving yields through intensive farming involving both water and fertiliser. The yields seem to have reached a plateau and have been stagnating for some time. Rice yield stagnated pretty much all through the 1990s and has recovered a little since then. Increase in wheat yield also slowed down in the 1990s, and after some improvement towards the end of the decade, has been declining since 2000-01.

The Planning Commission has been arguing rightly that besides continuing to work towards technological breakthroughs, it is important now to focus research on cropping systems and cultivating practices which would have a bearing on natural resource management in these regions. However, the fertiliser subsidy policies have exacerbated the problem. It is well known that the heavy bias towards subsidising urea has created imbalance in the use of fertilisers with inadequate application of potassic and phosphatic fertilisers and its consequent effect on soil and the yield. The need for replenishing micro-nutrients is also well documented scientifically, but the fertiliser subsidy regime has tended to turn a blind eye to this problem.

Excessive use of ground water for farming is another pervasive malaise which is aggravated by irrational pricing of electricity which is again a policy-induced irrationality. The policy of free electricity for farmers in Punjab has been criticised by many. In fact, the so called low agricultural charges elsewhere are just as bad, because they are based on the connected load of the pumpset and not actual electricity used so that the marginal cost of electricity is zero. This has led to excessive use of ground water everywhere. There is little incentive for farmers to conserve either water or electricity. The system is also regressive because richer farmers use more expensive pumpets depriving others of access in the system to water and electricity. Punjab has the highest development blocks in Punjab, over 85 per cent are now classified as over-exploited or dark blocks. As the water table declines, the economic cost of pumping water also rises along with its environmental cost.

As Punjab and Haryana need to reduce their over-specialisation in foodgrains and move towards crop diversification to ensure sustainable high growth of their agriculture, other regions can meet the food security needs of the country. The Planning Commission has reported that the scope for yield increase in many crops in many parts of he country using existing technology and better cultivation practices is as high as 60-100 per cent. In this context, it is important to exploit the potential of the existing technologies by extending their application to the eastern parts of the country with renewed effort to provide irrigation in this region. This will enable newer states to play a role in contributing to food security. But an important point to note is that as food prices are expected to rise globally in the foreseeable future owing to increasing diversion of land from foodgrains to feedstock in industrialised countries, the Government of India must be willing to pay the farmer market-related price for procuring the foodgrains. Critics of globalisation who claim that farmers lose when prices fall internationally have to consider what to do when they rise as they will for foodgrains. I feel the farmers should get the benefit of higher world prices, and consumer concerns should be addressed through targeted subsidies. The present highly inefficient public distribution system should not be the reason for hurting the farmer in the name of the poor consumer. We may be better-off issuing food vouchers for consumers.

The acceleration of growth and the associated rise in incomes in the country had led to a shift in consumption away from foodgrains to vegetables, pulses, milk, eggs, fruits, etc., but there has not been enough diversification to respond to the changing demand patterns. The Planning Commission has estimated that the targeted growth of 4 per cent per annum in agricultural GDP in the 11th Plan will require foodgrains to grow at 2-2½ per cent per annum while GDP in horticulture, livestock, fisheries and poultry will need to grow at 6-8 per cent. The implicit targeted diversification within agriculture is ambitious and will call for large investments in infrastructure such as roads, dedicated market yards for high value crops, modern storage facilities, etc. The sharply increasing burden of visible (fertiliser and food) and invisible (power and irrigation) subsidies has constrained the government's ability to invest in infrastructure. This must change.

A successful transition to high value crops also requires a strengthening of institutions which provide rural finance. In recent years, there has been a large increase in rural credit from commercial banks. But this is mainly to large farmers. The decline in the number of rural accounts has caused some concern. However, if the intention is to reduce the population dependent on agriculture, then it is likely that not only landless labourers but also marginal farmers will move out of agriculture. In fact, the marginal farmers may well be willing to lease their land provided they have an assurance that they can get it back and when they want. In a recent NSS survey, 49 per cent of the farmers indicated that they want to leave farming. What are the likely scenarios, and indeed what should be the desirable scenario to facilitate exit?

A move towards diversification into fruits, vegetables and floriculture also requires adoption of scientific modes of farming and investment in logistics. It inevitably implies grater risk than producing for assured markets at prices determined by the government. What kind of crop insurance can be devised which protects the farmers against production risk and what kind of forward markets can protect them from price risk? It is worth examining the experiments with BT cotton which have been important in an environment dominated by risk and apprehension. Output of cotton doubled between 2003 and 2007 as average yields increased by about two-thirds largely because of lower rates of pest infestation with the use of BT cotton. In 2006, 2 million small farmers planted an average of 1.6 hectares of BT cotton. How do we assess their experience? In any case, there is no room for complacency as we work towards evolving a dynamic strategy of pest management.

Contract farming is another new institutional mechanism that is gaining ground. How should it be encouraged? Are there problems of contract enforcement? Should farmers form co-operatives to deal with private contractors? There is clearly need for a larger role than at present for the private sector in marketing, logistics, cold chain and transport. The biggest revolution is on its way. Companies such as Reliance and ITC are already in the market, while Bharati-Walmart are forging an alliance to bring more competition in the organised retail sector. The existing intermediaries are likely to be affected adversely, but the real question is: will the farmer and the consumer gain?

While agriculture cannot be the engine for growth in the years to come, its resurgence is crucial for achieving the important objective of inclusiveness of the overall growth process in India.