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Book Reviews

Investment in Indian Agriculture: Macro and Micro Evidences, S. Bisaliah, S. Mahendra Dev and Syed Saifullah, Academic Foundation, New Delhi, 2013. Pp.229. Rs. 795.00.

Investment or capital formation in agricultural sector is essential for its sustained growth, which is proved by a plethora of studies carried out not only in India but all over the world. The debate in the capital formation sector participated among others by Nilakantha Rath, S.N. Mishra and B.D. Dhawan is still very perceptible to understand the issues in capital formation in agriculture. Irrigation development, rural roads, research and development activities on agriculture, rural electrification, watershed development, farm machineries including pumpsets, market infrastructure and warehousing facilities, reclamation of lands, horticulture development, etc., will not be possible without investment in agriculture. Although both public and private investment help in increasing the growth of agriculture, public investment is proved to be paramount for agricultural growth mainly because of two reasons. First, the increased public investment generally believed to act as stimuli for the private investment (complementary effect) which results in overall increase in gross capital formation in agriculture. Second, the increased public investment in areas such as irrigation, rural roads, rural electrification network, etc., helps in reducing the cost of cultivation including the transaction cost to the farmers that ultimately allows them to reap higher profit from crop cultivation. Any investment in agriculture is important for its growth, but most studies related to investment in agriculture in India have essentially looked at two major issues: (a) whether any complementary effect exists between public and private investment in agriculture (scholars from the Institute of Economic Growth and Delhi School of Economics have extensively worked on this issue), and (b) how does the investment impact the growth of agriculture (Nilakantha Rath's work on "agricultural growth and investment in India" is the most important one on this). Despite the fact that increased investment in agriculture helps to alleviate the rural poverty, the scholars somehow have turned a blind eye towards the impact studies at the micro level and even at the state level. As a result, the micro-level issues of investment in agriculture using field survey have remained untouched. Keeping this perspective in view, the book under review certainly adds to the existing literature and highlights some important issues pertaining to investment in agriculture using both macro and micro level data.

The book altogether has six chapters but essentially has addressed five important issues related to investment in agriculture. First, it addresses the cross country experiences on the relationship between capital formation and growth as well as between agricultural growth and poverty. Second, what has been the macro level experience in the growth of investment in agriculture including the complementarity between public and private investment. Third, since the investment promotes the growth of agriculture, it tries to find out as to what is the relationship between capital formation, agricultural growth and poverty? Fourth, as the farm level evidences on investment in agriculture will be different from that of the macro level evidence, it covers the farm level evidences about the growth of capital stock and its composition as well as the importance of agricultural capital stock in influencing farm level gross value of output and productivity of agricultural labour. Five, it addresses the crucial aspects of the determinants of capital formation in agriculture. Finally, it presents the substantive inferences and policy directions.

An in-depth canvas on the international experience presented in the second chapter clearly shows that the most important contributor to growth in agriculture is capital formation. But largely the countries referred are the ones that follow capitalist mode of production and are treading the new path of the market led growth. The high capital intensity also positively impacted the labour productivity leading to low prevalence of poverty in different countries, which has been clearly highlighted. While analysing the Indian experience using macro level data, the trends in public and private capital formation including its associated methodological issues (data related problems) has been once again analysed in detail. However, the debate on complementarity between public and private investment has occupied the centre stage in the analysis. The elasticity of private investment estimated treating public investment as dependent variable has turned out to be different for different time periods used by different authors. One needs to reconcile this theoretically. While some explanation for this varied estimate is provided in this chapter, it suggests that the impact of public investment on private investment is not the same across different time periods. Another issue which B.D. Dhawan also emphasised in his work is the relevance of considering the canal irrigation intensity to study the complementarity between public and private investment has been rightly underlined in this book. However, it is not very clear whether the Dhawan's proposition can be used in today's context of canal irrigation development, where a large quantity of water planned and stored for irrigation purpose has been transferred to non-irrigation purposes (domestic and industry). How to capture the impact of public investment on canal irrigation development is a serious issue today for which there are no answers from this book. The macro level issues discussed in this book are rather repetition of the earlier issues wrapped with new attire of data.

After having analysed the macro picture of investment in agriculture, the book shifts its focus towards the micro evidences on capital structure, its growth and intensity as well as its impact on productivity. For this, the data from comprehensive

cost of cultivation scheme being operated by the Ministry of Agriculture, Government India has been utilised. The investment pattern in agriculture is decided by the productivity of the state (gross value of output-GVO) and therefore, high productivity state (Punjab), medium productivity (Andhra Pradesh) and low productivity state (Orissa) has rightly been considered for this analysis. As expected, the analysis shows the influence of capital formation on the gross value of output is different from different selected states. This is not something unexpected because the cropping pattern followed in the selected states is different and therefore, this ought to happen. Although capital invested in irrigation, the single most largest investment, and hitherto proved to be significantly influencing the value of output in any given region, the variable representing irrigation did not figure in any of the regression results presented in chapter four which is indeed a surprising result. Does it mean that irrigation investment is not significant variable in determining the value of output in the three selected states?

Capital formation in agriculture is not the same between the irrigated and rainfed regions because of various economic reasons. But, the studies on investment in agriculture somehow have not adequately analysed the differential structure and the determinants of capital formation between the irrigated and rainfed regions. One of the important contributions of this book is the analysis on the capital formation of irrigated region as compared to rainfed regions. The analysis carried out utilising the data from comprehensive cost of cultivation scheme reveals that the composition of capital stock is different between the irrigated and rainfed regions. Farm machinery and irrigation capital accounted for a larger share in the composition of capital in the irrigated region which is not observed in the rainfed region. This is generally expected because the intensive agriculture followed in the irrigated region warrants farm machineries to complete the agricultural operations in time and also to tackle the labour scarcity. However, surprisingly the regression coefficient of irrigation investment turned out to be negative in determining the gross value of output for which no convincing explanation is given in the chapter. Is it not necessary to use investment as a lagged variable to capture its impact on value of crop output?

Needless to emphasise that declining investment in agriculture over time at the macro level will have deleterious impact on the performance of agriculture, which is also reflected from both macro and micro level analysis presented in the book. Therefore, considering the importance of investment in agriculture, the book at the end provides various policy prescriptions not only to increase the investment in agriculture but also to revamp the existing investment structures. These are mostly available in the literature but presented in a lucid manner. As public sector investment in irrigation constitutes the single largest component, it presses the importance of improving the management and operational efficiency of irrigation projects. It also rightly underlines that "Policy initiatives are required for coordinating the choice between new projects and better utilisation of existing ones", which is indeed an important policy direction. Overall, this book contains useful

analytical content on various aspects of investment in agriculture, which will be useful to researchers, teachers, policy makers and students working on the policy issues of Indian agriculture.

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Reinventing Development Economics-Explorations from the Indian Experiment,
N.A.Mujumdar, Academic Foundation, New Delhi, 2014. Pp.268. Rs.995.00.

While everything about this book including penning of an introduction was completed, ironically, the author Dr. N.A. Mujumdar (NAM) passed away on April 6, 2014 before seeing a printed copy. But, the message he wanted to convey to economists and policy makers particularly of this country stands out loud and strong enough through the pages. NAM represented a school of thought of his own combining development economics, ethics borne out of Indian culture and heritage and inclusive principles of growth. According to him, the mindless pursuit of market theology since 1991 de-emphasised development. He bemoans that at some point of time in the economic history of a nation, 'there are occasions when somebody has to speak the truth like the innocent boy who spoke about the emperor's clothes.' NAM takes upon himself this job 'with one foot on the grave' with 'not so much in anger as in agony'. The appeal is so strong that as one goes through the pages, this agony engulfs the reader as well. The book is an anthology of articles mostly published by him in the *Free Press Journal* as a columnist commenting on contemporary economic and financial policies and the economic paradigm and philosophy underlying these policies over the years particularly of the recent period.

On the Economic Development Paradigm

History is replete with unfulfilled dreams. In politics, the dream has been a world without wars and sustained peace and in economics, the dream is a world without hunger and poverty. In both, the stark reality has been the opposite. There is no evidence that wars have diminished and occur less frequently and that poverty has waned and the number of hunger stricken people declined. Poverty has become more of an algebra in the hands of economic science and practicing economists have shunned away from dealing with nuts and bolts of reducing poverty. In this respect, NAM stands out as an exception.

Development economics, a branch of economics which specialised and focussed upon the problems of developing and poor economies gained prominence after the Second World War, as the war-torn economies had to rebuild themselves and several countries which won independence from imperial powers had to lift their population from hunger and deprivation. As part of formation of the institution of United

Nations, two important international organisations namely the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD or the World Bank) were formed to formulate policies as well as arranging financing of balance of payments adjustments and development of poor countries. While the IMF was modelled to bring in balance of payments adjustments among member countries based on a fixed exchange rates system by what was known as the Bretton Woods system, the World Bank consisted of International Development Association (IDA) to assist and aid development of poor countries and International Financial Corporation (IFC) to assist reconstruction and private sector development.

Over time, particularly after the fall of the Bretton Woods system in mid-1970s, Russia's political fallout and China marrying market oriented economic system and policy regime and becoming a major economic power house, the mainstream macroeconomic thinking in both advanced and emerging market economies came to be influenced by values of economic and financial sector liberalisation and deregulation which meant either diminished or no role for state intervention and much less or no attention to development issues. Institutions such as the IMF and the World Bank in that process degenerated into institutions popularising and advocating these principles among member countries as 'one size fits all' including among developing and poor countries. This approach came to be known as the 'Washington Consensus', courtesy John Williamson.

According to NAM, this has been the most critical malaise afflicting policies for development including in India since about 1990s. A significant part of his book—first 96 pages on 'Growth and Development' and the last 27 pages on 'Global Environment' have been devoted to discussion on related issues both at macro and micro level, and NAM attempts in that process to reinvent development economics, drawing in particular 'attention to lessons of the recent global financial crisis and failure of the Washington Consensus' to bring about all-round development of the humankind.

NAM feels strongly that a 'development conscience' must be ingrained into individual minds encompassing self control, charity and compassion. This may sound like a 'Utopia' akin to the Gandhian dream of trusteeship, but, India had passed through some golden ages in history which may replicate with the 'God' of development economics succeeding at some stage.

On Policies for Development

While the rest of the book is devoted to discussions on contemporaneous issues of policies divided into the arenas of banking, money, fiscal and food security, the author's comments on policy issues are inseparable from his discourse on development economics. I try to capture below some of his thoughts illustratively irrespective of chapters where they appear:

- (i) One of the most disturbing policy has been India choosing to export huge quantities of wheat and rice. NAM wonders that while ostensible objective is to reduce domestic consumption of food grains through narrowly targeting public distribution system (PDS), the same policy makers did not have any qualms about subsidising exports- he feels that if Gandhi were alive, there would have been a *satayagraha* on this mindless pursuit.
- (ii) Another area NAM often stresses is the need for effective watershed management and development since future agricultural growth in India will have to be water centric.
- (iii) Financial and banking sector reforms have resulted in inequitable and paradoxical interest rate structure, pampering the private corporate sector and biased against agricultural and small borrowers generally.
- (iv) Massive imports of gold in recent years seem to threaten and erode the base of domestic savings and investment to sustain growth. What are required are some drastic steps including a quantitative ceiling on gold imports.
- (v) On the recommendations of the Financial Sector Legislative Reforms Commission (FSLRC), relating to Reserve Bank of India (RBI), NAM foresees the recent comments of Governor Raghuram Rajan. One conspicuous feature of FSLRC is its hostility to RBI and its unconcealed efforts to strip RBI of its essential functions. This would serve no purpose except decimating RBI.
- (vi) There has been a microfinance mess, after RBI started promoting for-profit microfinance institutions (MFIs) which truly represent the predatory face of financial capitalism. Since India has a healthy home grown segment of microfinance including public sector banks, regional rural banks and rejuvenated co-operative credit system, and even post offices, policy makers should do well to direct energies on further developing this segment rather than trying to reform rogue for-profit MFIs.
- (vii) Hunger insurance is of prime importance. But, one should follow a pragmatic policy. A nuanced approach would be to identify the most vulnerable sections of the population and offer protection through PDS, if necessary by offering even full subsidy. The food requirements of the rest of the population can be met through the normal market mechanism.

NAM, though retired in late 1980s, has kept himself abreast of all global and domestic developments real time and followed the mainstream thinking through

current literature. This is evident from his writings on any subject getting sprinkled with facts and figures and quotes from contemporary literature.

The book has been elegantly designed by the Academic Foundation. Since the chapters have been taken from the columns of *Free Press Journal* and are not arranged presumably in a chronological order, dates of these entries might have been added in each chapter.

The book overall provides an opportunity to read the mind and heart of a humanitarian economist who passionately pursued public economic interests and worked till the last day of his life. The book should serve as a useful reference for all students, scholars and policy makers at every level as also the general readers who keep national interests top in their priorities.

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Agrarian Crisis in India – The Way Out, K. Suman Chandra, V. Suresh Babu and Pradip Kumar Nath, Academic Foundation, New Delhi, 2013. Pp.525. Rs. 1295.00.

The three Editors are from the National Institute of Rural Development, Hyderabad and this 525 page volume consists of 19 papers presented at a National Seminar on the agrarian crises in India held at NIRD, Hyderabad in November 2012. The papers are arranged in five sections as under: (1) Structural, Institutional and Resource Dimensions of Indian Agriculture (6 papers), (2) Technological Dimensions in Agriculture (2 papers), (3) Emerging Trends in Agriculture and Food Security (3 papers), (4) Trends in Costs and Returns in Agriculture (4 papers) and (5) Economic Reforms, Agricultural Credit and Indebtedness (4 papers)

One of the strong points of the book is the Foreword by Shri B N Yugandhar, ex-Member Planning Commission and the introductory Chapter which tries to portray the pathetic state of affairs in the Farm Sector and of the small-holder farmers in the country. The problem faced by the authors is related to selection of papers from among those submitted to the National Seminar as the major problems which have beset India's agricultural sector have not really been covered adequately and in-depth by the various authors of the papers submitted for the Seminar. The book fails to address many issues related to the on-going agrarian crises and the failure to find implementable solutions thereto. Many papers are outdated as data is over 5-6 years old.

There are no papers on North/Central India and if the authors wish to convey the erroneous conclusion that there are no problems affecting farmers in Punjab, Haryana, Rajasthan, Jammu and Kashmir, Himachal Pradesh, Uttarakhand,

Chhattisgarh, Uttar Pradesh, Jharkhand, Madhya Pradesh, and the entire North-East, they have chosen to ignore the problems of the farmers from these States, without any iota of explanation. The papers concentrate on Andhra Pradesh, West Bengal, and Odisha only. There are no papers on the pathetic state of the rural Infrastructure in most states, lack of small warehouses, poor use of ICT by farmers, poor productivity in pulses and oilseeds, lack of quality seeds for improving productivity, stagnation in irrigation facilities for agriculture, poor investment credit availability for smallholder farmers, the failure to remove restrictive provisions of the APMC Acts in various states which hamper cultivation of vegetables and fruits, poor crop insurance and asset insurance by farmers, lack of quality warehouses and cold storages, markets and roads, non-recognition of SRI practices which reduce inputs usage and costs and ensure increased yields, enhancing production of minor millets, etc. The list of omissions is indeed staggering and the sheer neglect of training and extension services by the state governments, speaks volumes about the incompetency of most states in caring for the interests of the farmers.

Thus the book does not really study the various causes of the agrarian crises and also ignores possible and obvious solutions. The basic problems of improving the net incomes of smallholder farmers, ensuring adequate credit flow for crop loans and weather-based crop insurance facilities, better market access and communications, modern market facilities which benefit the farmer more than the trader, are all absent and ignored. De-risking of the small-holder farmers and why scientific breeding of indigenous cattle and other domesticated animals along with fish-farming to boost farm incomes, have not been actively implemented, are all major mysteries. The use of ICT to inform and aid farmers, use of mobiles to provide better knowledge about Government schemes relating to improved technologies, prices, weather and marketing information, quality inputs at reasonable prices, better use of KVKs and ATMs, are all quietly ignored. The question of climate changes, protection of biodiversity and improving the financial margins of farmers has not been adequately covered.

The rampant availability of fake seeds, fertilisers and pesticides, lack of innovations in farming practises, lack of farmer education facilities and training, lead one to question the role played by the State Agriculture Departments and their role in the Agrarian Distress scenario. Farm extension services have been given a quiet burial and handed over to the “pirate” (or is it the private?) sector. NABARD and the entire banking sector seem to have abandoned the formation of Farmers Clubs and Farmers Associations which could act as ‘aggregators’ and ‘segregators’ as per quality standards and norms, as co-operatives have largely failed. However it appears that Joint Liability Groups have proliferated and this could help the Tenant Farmers and Oral Lessees. Somehow vested interests have created an impression that the farmer in India is a ‘beggar’ who needs loan write-offs, free electricity, subsidised credit and fertilisers, other inputs, etc. Farmers are not looking for free hand-outs but

they expect the state to support them and stop freebooters and carpet-baggers from plundering them.

On the frail shoulders of the Indian farmer, rest India's hopes for a sustained economic revival. A delayed or poor monsoon and the distress of the farmers is all too evident with a bonfire of hopes, some suicides and a horde of farmers abandoning their farms for an uncertain future in the city slums. Growth today is restricted to the services (tertiary) sector and is either falling or stagnant (in the agricultural/industrial sectors). With rising oil prices (which shoot up the prices of nitrogenous fertilizers and diesel-oil etc.), the input costs of farmers has risen threefold within a decade.

With poor quality infrastructure, non-availability of low-cost credit, poor technical knowledge, lack of market access and price information, poor storage facilities, lack of transportation, poor collective bargaining skills, the Indian farmer suffers in silence with only 30 per cent of the profit margins accruing to him for his production risks, weather-risks and marketing-risks, in addition to his back-breaking labour and shrinking farm-land availability, while the traders pocket a neat 70 per cent of the profits with much less risks.

The Indian farmer is born in debt, lives in debt and dies in debt, bequeathing debt to his children. He lives in the shadowy depths of our minds, an anonymous and forlorn figure unhonoured by all, poverty-stricken and uncared for, even though he is the sole custodian of our environment and the protector of our bio-diversity. It is his children who join the armed forces, maintaining vigil on our borders and keeping our enemies at bay. On his frail shoulders, rests the responsibility for food-security of our country. It is his hard labour, perseverance and nurturing skills that have made India self-sufficient in food.

Poor Policy Initiatives:

The Central Government and most States have let down the farmers and the farm sector by continuous neglect since 1985. The PL-480 Fund which built up the ICAR research institutions and agricultural universities enabled scientists to contribute to the "Green Revolution" and led India to self-sufficiency in food despite a burgeoning population. The Agri-research systems built up over the years have ensured that our seed-scientists are among the best in the world. But, there is a major disconnect. When agriculture is a state subject, why not build up state-specific and farmer-friendly infrastructure to boost agricultural productivity? Instead, the Centre and the States have parallel institutions and policies which add to all round confusion. Further, if specific targets have ever been given to these huge research institutions built up over the years, then it is a closely guarded secret. No political leaders have ever set specific attainable targets for each of these research institutions. The last Prime Minister to take some interest in Agriculture was Rajiv Gandhi, who set up 6 Technology Missions in the 1980s for Telecommunications, Water, Literacy, Immunisation, Dairy and Oilseeds all under the leadership of Sam Pitroda.

While the Technology Mission on Telecommunications was a smashing success, the others came a cropper. Today, we have the largest irrigation system in the world, the second largest country with arable land and over 51 per cent of our labour force is in agriculture. The contribution of agriculture sector to gross domestic product (GDP) has reduced to 14 per cent and is reducing over the years. Over 82 per cent of our farmers have landholdings of less than 2 hectares. In fact, the average landholding is about 1.25 hectares only and further fragmentation is on. Uniform policies at the State or Central level are meaningless in the above context and only specific district-level or block-level agriculture plans implemented over a period of 5 years, will make sense.

Problems of Technology Choices for Farmers:

Why is it not possible to concentrate the country's slender technical and financial resources on research for a few major crops, like paddy, wheat, maize, cotton, soya bean, oilseeds (groundnuts, mustard, sesame etc.), pulses (moong, arhar, masoor etc.) and minor millets (bajra, jowar, ragi) with assistance in the form of technical expertise from USDA?

Why not set annual district-level targets for cereals, oilseeds and pulses? How about encouraging peri-urban vegetable cultivation and horticultural crops for improving the farmers' margins? And if quality seed or productive-levels have not improved, remove the deadwoods who presently adorn the research institutions and agricultural universities. The Central Government must set productivity and production levels for each State and each State in turn will set the same for each of its respective districts with adequate fixing of accountability at all levels for non-performance.

This will however require allocation of adequate inputs and financial resources. The KVKs and the ATMA's have failed to meet the genuine needs of the farmers. Why there is no emphasis on biotechnology and its applications in agriculture (except maybe, in bananas)? Why is our agri-productivity level suffering in comparison to China, USA, Vietnam, Costa Rica etc.? Why are spurious seeds, fertilisers and insecticides destroying the lives of farmers? Why is there no agricultural extension system which meets the requirements of improving the financial margins of the farmers as also the crop productivity? How about de-risking the smallholder farmers who bear the production risks (80 per cent) and the marketing-risks (20 per cent) without any real help from the various crop-insurance schemes?

The farmer's needs are few and he requires good seeds (with germination rates of about 90 per cent), rain-water harvesting structures on the lines of the Gujarat model, appropriate rural infrastructure (including modern warehouses, cold storages, transportation and market connectivity as also technical advice in case of emergencies such as droughts, pests, etc.). Can we not ensure these minimal requirements for our farmers? Can we not give dedicated 11 KVA lines for

agriculture so that efficient electric pump-sets are used for groundwater extraction, instead of inefficient diesel pumpsets which should be banned?

Non-Availability of Credit:

Only about 11 per cent of our farmers have access to institutional credit, which is subsidised by Central/State Governments and the effective interest works out to 4 per cent per annum, if prompt loan repayment is made. Lack of proper land records (computerisation which started in 1975, is still going on!), lack of farm accounting records, lack of transparency in sanctioning loans to farmers, the failure of the co-operatives, lack of rural ATMs and rural credit bureaus have all added to the farmers' woes. There is some flow of credit for crop loans (6-15 months), but long term loans (exceeding 3 years) are only about 15 per cent of the estimated Rs. 6 lakh crores of agricultural credit disbursed in 2013-14. Thus, while production increases, productivity in Indian agriculture is waning and this decline is attributed to the lack of long term credit availability for land improvements, mechanisation and farm modernisation. Why the Vaidyanathan-II funds for cleansing the Long-Term Co-operative Credit Structure were not made available since 2007, is an enduring mystery which only successive UPA-II Finance Ministers can answer.

The least that can be done by the RBI/NABARD is to ensure that all farmers with landholdings be entitled to a 5-year tenure KCC (Kisan Credit Card), which is chip-based for swift and secure funds-transfer. For oral lessees and tenant farmers, the Joint Liability Group credit facilities are available. The present KCC is a mere pass-book with a 3-year tenure and is not useful for the farmers. The 5-year KCC tenure takes care of the normal crop cycle of two good crops, two average crops and one bad crop year over the 5-year period. The crop-insurance scheme (and not the present crop loan-insurance scheme) must be redesigned on a weather-based model and subsidised adequately, so that farmers do not have to commit suicide in case of crop failures. The Draconian APMC provisions have also to be done away with to enable and incentivise farmers to achieve better productivity levels.

Perspectives:

De-risking the smallholder farmer is a priority by diversifying into horticulture, animal husbandry and fisheries. The farmer does not require handouts or subsidies and should be given due respect in Indian society. Efforts should be made to enhance the knowledge-base and skill-sets of all farmers, as farming increasingly becomes more scientific. The farm sector continues to be unviable for the smallholder farmers with increasing land fragmentation reducing outputs, leading to a vicious cycle of reduced access to modern technologies and credit at subsidised rates. Imbalances in fertiliser usage due to subsidies and subsidised electricity, all have their own attendant problems. The smallholder farmers should be enabled to build up their coping mechanisms with better rural infrastructure. The RIDF (Rural Infrastructure

Development Fund) which has been successfully administered by NABARD for about 20 years is reportedly under threat from the Ministry of Finance and the RBI for obscure reasons, which should not be allowed. To ensure better productivity for the farmers, long-term credit flow, infusion of biotechnology, better quality farm equipment, low-cost poly-houses, drip-irrigation systems, balanced fertilisers and micro-nutrients as per soil-tests, are all essential. If agriculture is really a priority and the plight of farmers is to be reduced, mere lip-service to the farmers' cause will not do and this is a time when actions speak louder than words. Who will plead the farmers' cause and give a helping hand when required?

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