Agriculture Sector and New Economic Policy

S.S. Johl

The new economic policy being implemented since mid-1991 has progressively started posing new challenges in all the sectors of the economy and is also opening up new opportunities in the national and international markets. For the agriculture sector these challenges come primarily amidst:

(i) resource crunch that is developing as the economic management progressively moves from a regime of physical controls, licensing and administered or partially administered prices to an environment of competitive free market, making it difficult and even imprudent to sustain heavy input subsidies and output price supports;

(ii) opening up of the economy to the influences of global markets through more free imports and exports of goods and services;

(iii) entry of multinational companies and corporations (MNCs) in agro-based processing industry and input supplies such as superior quality hybrid seeds, patented technology (including patents on plant and animal materials), contract production for processing for domestic and export markets;

(iv) pressures for improvement of quality of production with cost-effectiveness so that the products (or the produce) becomes competitive in the national and international market.

There is, therefore, a dire need for developing state-of-the-art production, processing and market technologies and strategies in order to capture due share of the international market and effectively face competition from foreign suppliers in the national market. Also the rural agricultural credit system needs to be streamlined in order to provide adequate and cost-effective financial support to the commercialisation of agricultural business in the country. Concomitantly, the National Agricultural Research System (NARS) needs to be made efficient, responsive to the changing physical and economic environment and adequately incentive oriented in order that it generates improved technologies that not only compete with foreign patents, but also produces its own technologies that compete in the international market under Trade Related Intellectual Property Rights. The World Trade Organisation (WTO) set up under the General Agreement on Tariffs and Trade (GATT) provisions in this respect throws daunting challenges and opens up vast opportunities in this respect. Above all the agricultural sector cannot (and should not) ignore the influences that would be exerted on small and marginal farmers that account for over 91 per cent of the farmers in India (Table 1), who are also the largest consumer group, implying thereby that development process based on competitive free market system cannot afford to ignore large majority of resource poor farm producers as it cannot do so in respect of socio-economically handicapped sections of consumers.

* Keynote paper.
† Professor of Eminence in Economics (Retd.), Ludhiana-141 001.
TABLE I DISTRIBUTION OF OPERATIONAL HOLDINGS IN INDIA

<table>
<thead>
<tr>
<th>Holding size (ha)</th>
<th>1985-86</th>
<th></th>
<th>1990-91</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Number ('000)</td>
<td>Cumulative percentage</td>
<td>Area ('000)</td>
<td>Number ('000)</td>
</tr>
<tr>
<td>Less than 1</td>
<td>56,147</td>
<td>57.8</td>
<td>22,042</td>
<td>62,106</td>
</tr>
<tr>
<td>1.0 - 2.0</td>
<td>17,922</td>
<td>76.2</td>
<td>25,708</td>
<td>19,971</td>
</tr>
<tr>
<td>2.0 - 4.0</td>
<td>13,252</td>
<td>89.8</td>
<td>36,666</td>
<td>13,913</td>
</tr>
<tr>
<td>4.0 - 10.0</td>
<td>7,916</td>
<td>98.0</td>
<td>47,144</td>
<td>7,630</td>
</tr>
<tr>
<td>10.0 and above</td>
<td>1,918</td>
<td>100.00</td>
<td>33,002</td>
<td>1,667</td>
</tr>
<tr>
<td>Total</td>
<td>97,155</td>
<td>100.00</td>
<td>164,562</td>
<td>105,286</td>
</tr>
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</table>


RESOURCE CRUNCH

The Indian economy is in a sort of paradoxical situation. The country held foreign exchange reserves worth more than 25 billion dollars as at the end of March, 1995. Foreign currency reserves also amounted to more than 20.8 billion dollars. This reserve money led to expansion of broad money by over 22 per cent in 1994-95 (Table II). Over 36.4 million tonnes of foodgrain were held in stock in the country as on July 1995. These stocks have been bulging up considerably since 1992-93 and have doubled over the last three years through rapidly increasing procurements and declining distribution through the public distribution system (Table III). Both these stocks, i.e., foreign exchange and foodgrains are highly potent resources that can be used to enhance the supply of goods and services in the market that would discipline the market prices effectively and control the rate of inflation. Holding of these stocks is also instrumental in creating stability conditions for the economy and generates confidence in the management of the economy. Yet, these stocks held in quantities larger than those the effect of which can be absorbed without developing inflationary pressures in the economy and for too long a period, may not be a very prudent policy option. Holding of foodgrain stocks in excessive quantities involves substantial financial costs as well as spoilage and losses.

Foreign exchange absorption capacity of the economy is very closely, yet negatively related, to the quantum of fiscal deficit. With a high and growing fiscal deficit (Table II), escalating foreign exchange reserves have a strong inflationary influence that puts the income and expenditure on revenue account out of gear. That is exactly the position the Indian economy is in today. Over and above that the foodgrain stocks held and not supplied reduce the market supply by equivalent quantity. This has inflationary effects in the primary as well as retail market. Excess holdings of foodgrain stocks, thus, is also not a prudent policy option. Thus excess of money supply due to foreign exchange reserves and constraining effect of the excessive grain stocking policy on supply of goods and services, are both fuelling the inflationary pressures in the economy which set in a vicious circle of escalating demand, increasing prices and increasing expenditure of the government on revenue account, which has been met for several years by diverting capital funds to the revenue account. Since committed non-plan expenditure suffers from indomitable downward rigidity, this puts a strong crunch on revenue resources under the inflationary environment. This is a situation of scarcity developing amidst abundance. Increasing agriculture sector production, accumulation of huge foodgrain stocks, substantial inflow of foreign capital, both in terms of
portfolio and direct quality investment, increasing export earnings, improving balance of trade and even increasing revenue resources are proving to be inadequate to tame prices and put government budgetary position in a comfortable position.

**TABLE II. FINANCIAL INDICATORS, INDIA, 1990 TO 1995**

<table>
<thead>
<tr>
<th>Year end March</th>
<th>Foreign currency assets (million US $)</th>
<th>Foreign currency resources* (million US $)</th>
<th>Broad money supply M3 (growth rate per cent)</th>
<th>Inflation annualised point to point (per cent)</th>
<th>Fixed deposit (Rs. crores)</th>
<th>Budgetary deficit (Rs. crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
<td>(7)</td>
</tr>
<tr>
<td>1990</td>
<td>3,368</td>
<td>3,962</td>
<td>19.4</td>
<td>9.05</td>
<td>44,632</td>
<td>11,349</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(8.33)</td>
<td>(2.12)</td>
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<tr>
<td>1991</td>
<td>2,236</td>
<td>5,834</td>
<td>15.1</td>
<td>12.10</td>
<td>36,325</td>
<td>6,855</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5.90)</td>
<td>(1.11)</td>
</tr>
<tr>
<td>1992</td>
<td>5,631</td>
<td>9,920</td>
<td>19.3</td>
<td>13.56</td>
<td>40,173</td>
<td>12,312</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5.72)</td>
<td>(1.75)</td>
</tr>
<tr>
<td>1993</td>
<td>6,434</td>
<td>9,832</td>
<td>15.7</td>
<td>7.02</td>
<td>60,257</td>
<td>10,960</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(7.66)</td>
<td>(1.39)</td>
</tr>
<tr>
<td>1994</td>
<td>15,068</td>
<td>19,254</td>
<td>18.4</td>
<td>10.81</td>
<td>61,035 A</td>
<td>6,000 A</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(6.70)</td>
<td>(0.66)</td>
</tr>
<tr>
<td>1995*</td>
<td>20,809</td>
<td>25,186</td>
<td>22.2</td>
<td>10.41</td>
<td>57,634 B</td>
<td>5,000 B</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5.50)</td>
<td>(0.48)</td>
</tr>
</tbody>
</table>

*Sources: Reserve Bank of India, Reserve Bank of India Bulletins; Reserve Bank of India Bulletin Weekly Supplement, April 8, 1995; Report on Currency and Finance (Various issues); RBI Annual Reports (Various issues); Government of India, Office of the Economic Adviser, Ministry of Industry, New Delhi.

* Comprising Foreign Currency Assets, Gold and SDRs.
\* Provisional.
Figures in parentheses are percentages to Gross Domestic Product.

**TABLE III. PROCUREMENT, DISTRIBUTION AND STOCKS OF WHEAT AND RICE IN INDIA, 1990-91 THROUGH 1995-96**

<table>
<thead>
<tr>
<th>Year (1)</th>
<th>Procurement (2)</th>
<th>Distribution* (3)</th>
<th>Stocks on 1st July* (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>23.75</td>
<td>14.50</td>
<td>20.64</td>
</tr>
<tr>
<td>1991-92</td>
<td>18.00</td>
<td>18.84</td>
<td>20.76</td>
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<tr>
<td>1992-93</td>
<td>19.43</td>
<td>17.74</td>
<td>15.11</td>
</tr>
<tr>
<td>1993-94</td>
<td>27.10</td>
<td>14.93</td>
<td>25.66</td>
</tr>
<tr>
<td>1994-95</td>
<td>25.37</td>
<td>13.43</td>
<td>32.19</td>
</tr>
<tr>
<td>1995-96</td>
<td>-</td>
<td>7.19</td>
<td>36.44</td>
</tr>
</tbody>
</table>

*Source: Government of India, Ministry of Food, New Delhi.

* Stocks for 1990-91 pertain to as on 1st July, 1990 and so on. The figure for 1995-96 (on 1st July 1995) includes transit and storage losses.
\* Distribution for 1990-91 pertains to calendar year 1990 and so on. The figure for 1995-96 is upto end June, 1995.

There is, thus, limited scope in the near future for higher budgetary allocations for agricultural subsidies and for that matter any subsidy. Although the level of subsidy in the Indian agriculture sector estimated at about 5 per cent of the agricultural product is much below the permissible limit of 10 per cent under GATT provisions and according to some estimates the agriculture sector in India is in fact net-taxed (Gulati, 1987, 1989), yet the budgetary burden of agricultural inputs and output subsidies is becoming progressively unbearable for the national exchequer. There would, therefore, remain an implicit emphasis as well as explicit effort at curtailing both input subsidies as well as support to the output prices. It is a different matter that this year the allocation for these subsidies has been
increased keeping in view the elections due early next year. This can, however, be taken as an aberration of the general trend. This would directly affect cost of production, returns and profit margins in the agriculture sector, specially for foodgrain crops, because these are the crops that are major users of subsidised inputs and derive the main benefit on account of support and procurement prices. Again, reduction in tariffs on imports of competing products, allowing the imports more freely may pose stiff competition for the farmers in the domestic market in the years to come.

Thus in a situation of resource crunch, the agriculture sector will have to perform move away from the regime of subsidies. Easy situation on foodgrain stocks is likely to impel the government to go easy on administered prices and procurement through support price system. The public distribution system may also not remain in demand to that extent. Unless these surpluses find reasonable export market, in a competitive market environment there would develop pressures for diversification of production patterns away from foodgrains and traditional crop systems to high value products that would be suitable for processing and would be more in demand in the national and international markets. Indian agriculture thus operating in a free competitive market will have to face international competition in both the domestic and international market.

COMPETITIVE DOMESTIC AND WORLD MARKET

Under the dispensations and compulsions of new economic policy the agriculture sector has to drop the crutches of support/procurement/administered prices and farm subsidies, and also out of its own necessity and in response to GATT challenges and opportunities that will emerge in the international markets in the near future, agricultural market is bound to get progressively integrated with the global market. It will be difficult, and even not very prudent in the ultimate, to insulate the domestic agricultural market from global influences. Thus the traditional production system based on a captive domestic market will have to undergo somewhat of a shock treatment of international demand and supply forces. Market prices cannot remain uninfluenced by the world market prices. Domestic market will have to be perhaps opened up for imports at least to a certain minimum, specially when no balance of payment problem would exist to be used as an alibi for putting physical controls in action or invoke tariff instruments to check imports into the domestic market. This will no doubt put India in a position to avail itself of the opportunities available under GATT provisions to export services and also of wider markets for goods in which we have comparative advantage such as textiles. Yet, the Indian farmer has to face the onslaught of international suppliers in the domestic market. Liberalised regime of Open General Licence (OGL) imports in respect of several products such as pulses and oils is a kind of forerunners of the developing open market situation where global competition will be the watch word. This can develop into a healthy market situation only if agricultural production in the country becomes cost-effective and quality oriented.

The process has to, therefore, start from the domestic market. Before the country can dream of the agriculture sector competing in the world market, or fend for itself in the domestic market, it has to become competitive and develop adequate level of responsiveness to the market supply and demand forces. The agriculture sector cannot be expected to perform well under the liberalised policy regime in the national and international market until domestic market distortions are removed and the agriculture sector is enabled to operate in
a free and competitive market environment.

It would be, therefore, essential to develop a market structure that conducts and performs as a good conductor of impulses of market demand and supply. At present, market distortions are adversely affecting the growth and development of the agricultural sector. At the time the country achieved Independence, the producer-sellers were operating in the buyer’s market. Unjust market charges on the producer-sellers, delayed payments, pooling by the traders and lack of an open bid system, to mention a few of the malpractices, were rampant throughout the country. As a result, the national market was operating in a highly segmented manner. As a consequence, the government, specially in the surplus producing areas like Punjab and Haryana started enacting and enforcing regulations to ensure fair play in the produce markets. It worked to the advantage of the producer-sellers. Yet, as the government started entering the market as the biggest and compulsive buyer to maximise procurement of agricultural commodities, especially foodgrain, product markets turned inhospitable to the producer-sellers. It is one thing to support the producers in the market against gluts and price slumps in the post-harvest periods, but it is quite another to endeavour to maximise procurement, based on higher and higher targets every year, for meeting the ever-increasing needs of the public distribution system. This necessitates the creation of market conditions wherein prices are artificially forced down to the level of procurement prices. Such measures, as putting limits on stocks the traders can hold, denial of market credit in post-harvest seasons, not supplying the railway wagons and restrictions on movement of commodities, do not go well with the concept of a liberalised competitive national market. Without expatiating any further on this issue, it needs to be emphasised that unless the agricultural product markets are cleared of such distortions and correspondingly the supply market is allowed to develop in consonance with the liberalised free national market, farmers as sellers of farm products and purchasers of inputs will not be able to measure up to the challenges of a competitive market. Whatever may be the level of procurement prices offered and however large be the amounts of farm subsidies injected into this sector, these will not remove the underlying distortions leading to the dissatisfaction of the farmers. Yet, these measures will keep adding to the burden of farm subsidies on the state exchequer.

It is quite an anomalous situation that, in spite of huge subsidies, escalating through time on account of low input prices charged to the farmers, such as for fertilisers, farm chemicals, electricity, canal water charges, etc., and no income tax levied on the farm sector, the net effective rates of protection for the producers of important commodities like wheat and rice work out to be negative (Gulati, 1987, 1989). In fact a high protection rate accorded to the manufacturing sector has been acting as an indirect tax on agriculture. Again, it should be a matter of concern that relative product prices for farm commodities should result in adverse terms of trade for this sector (Government of India, 1992, 1993). The negative net effective rate of protection and adverse terms of trade, in a growing farm economy, would have not mattered that much, if the farm size and the marketable surplus emanating out of it could ensure a growing volume of business over time. In that case, the income terms of trade, which is the real measure of relative economic prosperity in the farm sector, could be easily improved and kept positive through the adoption of state-of-the-art production technology. Therefore, it needs to be kept in mind that the worst sufferers under this set of agricultural policy are the marginal and small farmers with no or very low marketable surplus. It is, therefore, essential that constraints of product and supply markets are removed for the farm
sector so that the farm economy is enabled to operate successfully in the competitive national market and is able to gear itself up to compete in the international market. Step by step, some broad policy actions need to be taken on the following lines:

(i) A free and competitive market for agricultural commodities should be allowed to operate through (a) providing adequate seasonal market credit to traders and also to producers against their produce stocks as collaterals, in order to ensure effective presence of buyers in the market and strengthen the bargaining power of producer-sellers, (b) placing no limits on stocks to be held by traders, unless they indulge in unhealthy practices of cornering stocks and violate norms of fair trade, (c) imposing no restrictions on movement of commodities outside the states or the regions in the country, because such restrictions keep the national market fragmented, (d) providing adequate railway transport facilities on first-come-first-served basis, and (e) developing an adequate market infrastructure and regulation of agricultural produce market in order to provide a fair deal, both to the producer-sellers and the buyers of agricultural commodities.

(ii) In order to protect the producer-sellers against any exploitation during seasonal gluts, especially in surplus producing areas, the government should continue providing for a reasonable level of support price for all commodities of economic importance to the farmers on a statutory basis. The support price should provide for only variable costs incurred and a small margin so that the farmer is not thrown out of business on account of a bumper harvest or due to traders indulging in unfair practices in a buyer’s market.

(iii) Beyond this, the government should keep off the market, not to influence it in any direction through imposing restrictions. The government in principle should act as the buyer of last resort only.

(iv) The system of operating procurement prices for achieving targeted quantities has no place in a free competitive market. It should be dispensed with immediately and without any hesitation, because this system and approach is the root cause of the distortions that have crept into the agricultural markets of the country.

(v) The public distribution system (PDS) for foodgrains, as well as supplies of other agricultural commodities to the consumers and also exports on government account, if any, should be tailored to match the quantities purchased and stocks built through operating the support price system. It would be prudent to target priorities of the PDS to the really needy and vulnerable sections of the society, rather than expanding the PDS mindlessly to cover all population groups, irrespective of their income levels and purchasing power. Unless the PDS is rationalised to contain its requirements within reasonable limits, catering only to the exigencies of natural calamities like floods and droughts and for supply only to the vulnerable sections of the society, in addition to building reasonable levels of stocks for food security, the vicious circle of escalating needs for higher procurement targets and accompanying market and price distortions will continue to play havoc to the farm economy which acts cross-purpose with the development of a free and competitive market. The State Governments in the surplus producing areas should not act over-enthusiastically to impose border restrictions on movement of foodgrains in order to fulfil targets handed down by the Central Government.
Another important aspect of market constraint is the conduct of the retail market, about which nothing worthwhile has been done anywhere in the country. It is here that the market ultimately fails the producer-sellers, especially in respect of perishable commodities. When there is an active demand in the market, the benefit of higher prices is almost completely absorbed by the retailers and these demand signals are not fully conveyed backwards. In a situation of higher production and larger supplies, the market does not ease correspondingly for the consumer. Excessively wide marketing margins are appropriated by the retailers that have no relevance to their marketing costs. As a result, the retail market acts as a 'black box' that keeps both producers as well as consumers in the dark as to what happens there. Too often the production increases to create gluts in the market and prices slump for the producers, yet the consumer seldom gets the corresponding benefit of lower prices. Thus the conduct and performance of the retail market in India fail the producer, yet the government system stands silent in every sense of the term. It is this uncertainty of the retail market, specially for perishable fruits and vegetables that is not allowing the agricultural production to be diversified to replace common-run crop rotations with high value short duration crops.

Since the retail market is highly diffused and scattered in the cities and towns, it is not amenable to market-yard specifications. It is, therefore, difficult to enforce any law that stipulates any rights and obligations of the buyers and sellers as has been done in the case of wholesale markets. In this respect even the consumer protection organisations cannot play any significant role. Therefore, an effective solution to the problem lies in creating some viable alternatives that are available to the consumers within their easy reach. One such alternative is to create ‘Farmers’ Markets’, which are dispersed over the cities and towns and are located on the sides of the urban settlements, which can be easily reached by the consumers. These markets may be constructed by the municipal committees and city corporations and also maintained by them in healthy and hygienic conditions. Selling booths in these markets may be given on rent to the producer-sellers, their groups or co-operatives for specific periods. No seller, other than the producer, may be allowed to sell agricultural commodities inside or in the notified areas around these markets, say in a radius of five hundred yards. If this is allowed to happen, the very face of these markets will get distorted and the producer-sellers will be crowded out of these markets. Yet, any one may buy from these markets in order to provide effective competition. This system is not intended to eliminate any marketing function. The producer-seller will take over the role performed by the middlemen and market functionaries and the consumers will get in direct contact with the producers so that the market becomes ‘good conductor’ of the impulses of demand and supply.

The second alternative is to get the producers organised into genuine co-operatives that compete in the market not only at the wholesale level, but more so in the retail market through linking up with the consumer co-operatives. The consumer co-operatives in turn be organised on the city/town level that may be affiliated multi-directionally. These co-operatives should operate at fairly large scale, dealing with a large number of complementary commodities and also perishables, i.e., fruits and vegetables. The third alternative is to allow, encourage and promote privately-owned department stores and food chains. Here MNCs have a role to play. If some food chains of international standards enter the retail market, this can bring about a healthy change for both the consumers and producers in India. In the
presence of these alternatives, the retailers, as they are operating today, will be forced to behave more rationally. The objective here is not to replace the small retail trade, but to provide viable alternatives for the consumers so that the retail market becomes fully responsive to the impulses of changing demand and supply and does not act in a monopolistic/monopsonic way.

In the supplies market, the subsidies need to be gradually phased out and whatever subsidies are to be retained should be properly targeted to reach the farmers for whom these subsidies are indeed meant for. There is, in fact, no point in subsidising the farm sector as such, especially if the product market gets rationalised through the policy instruments discussed above. The farm sector is too heterogeneous when it comes to the distribution of land according to farm size. The marginal and small farmers are the categories of farms that need farm subsidies. The farmers who have reasonable levels of marketable surplus will be able to withstand the effect of slashing, and even eliminating, farm subsidies. However, the existing system of farm subsidies in respect of inputs, as has been operated over a very long period of time, has created some strong vested interests, which are not easy to be dislodged in one sweep. The input prices, therefore, need to be raised gradually to their normal levels. The policies, loaded with ad hocism create uncertainties that distort the supply market considerably. Again, if the supply market and the product market are to be freed and rationalised, the consumers have to learn to live with some functional increase in the prices of agricultural commodities. As the proverbial saying goes, it is impossible to eat the cake and have it too. The society cannot choose to maintain consumer and/or producer subsidies and then expect their burden not to be borne by the public exchequer. In the same way the PDS cannot be run by appropriating agricultural commodities through a highly discriminating procurement system, and then keep the markets free from serious, and often unintended distortions. Above all, the nation cannot choose to open up the national market through liberalisation, privatisation and globalisation of the secondary and tertiary sectors of the economy and keep the agriculture sector circumscribed by the old set of irrelevant policies. It is only through the process of creating competitive free domestic market that the farm sector can learn to operate cost-effectively and can be enabled to face the onslaught of demand and supply pressure of the world market.

MULTINATIONAL COMPANIES

It is but expected that multinationals will enter the domestic market as a consequence of liberalisation and globalisation of the Indian economy. In the regime of planned socialistic economy, Coca Cola, IBM, etc., had to leave the country because they did not divulge their technology and failed to progressively indigenise their production. Even a few years earlier before the new economic policy was put into action, Pepsi Company entered the Indian market on the understanding that it will export four times of its imports and a large part of it out of their own local production of processed fruits and vegetables. Now under the new policy regime multinationals are coming in quite freely with even 100 per cent ownership of equity. India has a huge domestic market that is bigger than Australian and even some European markets in some respects. It is not now possible to insulate the agriculture sector from the entry of the multinationals both in the product and supply market.

These multinationals present both challenges and opportunities all in one go. Challenges in the sense that their technical, financial and market-network strength as well as risk bearing
capacity can compete out the indigenous goods and services from the national market. For instance, improved and hybrid seeds (that may be patented under new GATT provisions) can capture the market at the cost of National and State level seed corporations and private domestic seed companies. Similarly, these multinationals can capture (in fact they have already entered) the business of processing of agro-products and considerably corner the domestic market on the strength of their quality products based on state-of-the-art technology used. These companies have the advantage of their strong and established international marketing network on the strength of which they can afford to give differential treatment to the domestic market in India and can thus compete out the Indian companies and corporations. To the extent the national companies are crowded out by the multinationals, they develop the strength for treating the agricultural produce market as a captive market for the supply of raw materials. Yet, opportunities that emerge, through the entry of MNCs too are tremendous by way of forcing the domestic companies to become quality conscious and cost-effective both in the supply market and product market. Also the induction of new technology and quality parameters in collaborative enterprises can go a long way in improving production and value added processing of agricultural produce. As the process catches up, more avenues of gainful employment would be created for both the educated and uneducated unemployed persons. Farm incomes will improve and gainful employment opportunities would expand. If market distortions are removed and domestic companies and farm groups, associations and co-operatives enter into collaborative projects with multinationals, state-of-the-art supply market and processing enterprises for value addition hold vast potential in domestic market as well as fast developing international market. All the entities involved, i.e., companies and corporations (domestic and multinational), farmers, labourers and consumers can thus benefit a lot from the liberalised market environment. Yet, this collaboration and competition in the domestic and international market must stem from the strength of strong orientation of the business and farm-firms towards quality based cost-effective production. For this new orientation has to be provided to the processing activity in the domestic market in order to enable them to gear themselves up for entry and competition in the international market. Today, agricultural commodities in India, especially perishable commodities, are generally marketed as such and the whole of the marketing system operates to provide only place and time/utilities through transport to wholesale, retail or terminal markets and, to some extent, through storage and cold storage of the commodities. Since very little processing is involved, the Indian consumer market largely remains a produce market and not a product market. This puts the producer-seller at a great disadvantage. The commodities cannot be held back for long by the farmers for better prices in the lean period or in the post-harvest periods. In turn, agricultural markets primarily being commodity markets, research in the improvement of crop varieties and related production technology too has remained focused on development of crops and commodities meant for direct consumption or for table purposes. As a consequence, the available crop varieties are not quite suitable for processing purposes. Therefore, most of the processing units established have not succeeded fully, because what the farmers in the hinterland of these units produced, did not suit the requirements of these plants and what the plants needed, was not produced by the farmers. For their continuous requirements of raw material, the plants often enter the
market more vigorously in the lean periods of crops. This pushes up the market price of vegetables for the consumer unreasonably. In the glut season, the requirements of these plants being comparatively very small do not help much in improving the market price for the farmers. Sometimes these plants deliberately withdraw from the market in the post-harvest periods to bring prices down. Thus the presence of processing plants under the situation has not helped the farmers much, but has often belied their hopes. This happens because the processing activity is mainly planned on the basis of assumed or expected surpluses, in excess of the normal consumer requirements for the commodities.

In respect of exports, although there exists good scope for expanding commodity exports, such as for cotton, flue-cured virginia tobacco and good quality filter tobacco, fruits, vegetables, flowers, flower seeds, fish, animal products, etc., yet with the industrial sector as it is developing in the field of agro-processing, there is no point in making extraordinary efforts towards demand creation for processable raw commodities in the international market. Further, producer interests need to be integrated vertically in the market-chain for value addition, by establishing and interlinking producer co-operatives with industrial and trade interests.

There is a vast scope of expansion in processing industry, provided production, processing and marketing are properly integrated through effective forward and backward linkages. For putting domestic as well as export market in these products on a sound footing, the use of state-of-the-art processing technology for producing quality products cost-effectively as well as maintaining international hygienic standards, is a must. The liberalised economic environment should enable foreign capital to flow in for investment in this sector and new collaborative ventures should get initiated. These units can considerably help the small farmers in the hinterland of these processing units to become viable enterprises, which is not perhaps possible otherwise. In order that production gets integrated with the market, the process has to start from the factory end. Acquisition, development and production of seed, its planned distribution to the farmers, adoption of improved production technology, cultural practices, harvest technology and its timing as well as synchronised supply of the harvested commodities to the processing factories should all be planned, guided and supervised by the processing factories, along with the rights and obligations of the contracting farmers fully and explicitly defined. This is the only way the processing industry will develop on the basis of assured supplies of the right quality of agricultural produce for processing into quality products on a cost-effective basis. In fact, the fortunes of the agriculture sector and those of the processing industry are so closely entwined that one cannot dream of healthy growth without the other remaining in full health. This is necessary for making farming a diversified activity in the competitive market in order to improve incomes in the agriculture sector.

RURAL/AGRICULTURAL CREDIT

In the commercial world no worthwhile industrial or business enterprise can be initiated or sustained without external finances. Agricultural enterprise is as good an industry or a business as any enterprise can be in the secondary or tertiary sectors of the economy. As this sector gets commercialised in the liberalised environment of new economic policy, credit requirements of the sector will increase. The financial sector of the economy has to,
therefore, gear itself up to meet this progressively growing credit demand. Unfortunately, however, the individual business size in this sector is too small and in most cases unviable. Of the 105.3 million operational farm holdings in India, 96 million (91 per cent) are below 4 hectares and 83 million (78 per cent) below 2 hectares of land (1991 Census). Any credit poured into these unviable farm holdings becomes overdue and goes in default. As a consequence, the sector suffers from credit squeeze. Regional Rural banks (RRBs) specially created to cater to the rural/agricultural credit needs ran into trouble primarily due to small business and widespread defaults. In fact a few of the RRBs that did not lend were almost the only banks that did not suffer loss. It is again a paradox here. Whereas it is absolutely necessary to provide credit/financial support to help the farms become viable commercial units, the priority lending in this sector does not generate the needed repaying capacity because of dismally small and uneconomic size of the farm units. To a serious thinker concepts like liberalisation, competitive market environment and globalisation carry no meanings for four-fifths of the farm units that are below 2-hectare size. Unless these units achieve commercial viability, for which there is little hope, these cannot move on any sustained growth path and cannot develop absorptive capacity for commercial credit even though the credit may be provided at a concessional rate and on priority. There is, therefore, a need for radical agrarian reforms that enable the farm size to increase and become commercially viable. This aspect is discussed in the next section.

Another equally important aspect that helps increase the absorptive capacity of these small farm units as well as the farm sector in general is the public investment in infrastructure that includes development of roads and approach roads, transport and communication, energy, specially the electricity supply and extension education and health care in the rural areas. Further, investment in lumpy resources for custom-hiring must be expanded, if not in the public sector, partially or even wholly in the private sector. What is important is that public/social investments must expand to create conditions wherein private investment and commercial credit become a viable proposition for this huge majority of small farms. Here I am not talking of the complementarity of public and private investments in the agriculture sector as a whole in the strict sense of the term as analysed by Mishra and Ramesh Chand (1995). It is only under such an investment environment that new economic policy can help these farms move on a sustainable growth path enabling these units to avail of the opportunities that would be thrown open by a competitive free market. Otherwise, these units will get lost in the quagmire of impoverishment in the free market environment being created by new economic policy.

LAND CEILINGS

It is surprising that where there is now no limit on the size of the industry and scale of business that can be operated and also no ceilings on holding urban property, it is only the agricultural holdings that are subject to ceilings. The industrial units can hold as much land as they wish, but a farmer cannot cross the limits of land ceilings. These ceilings have been lowered thrice since the country achieved Independence. In fact the agriculture sector has been used as a sort of guinea-pig for all the misplaced socialistic dispensations in the country. The redundant farm labour has been kept bottled up in the agriculture sector through low
ceilings and distribution of small uneconomic parcels of so-called surplus land. It has not been realised that farming is also a business enterprise that involves costs-returns considerations, factor use efficiency and market competition. Productivity per unit of land operated is only one consideration that may be (is) important from the point of view of total national production. Although new production technology is now providing a definitive edge to larger farms in this respect, still even if the assumption of small farms having higher productivity is assumed to be true, there is an important consideration of viability of farm size that would provide for minimum levels of income to the farm family that would make them survive and would move the farm-firm on a growth path (Johl, 1972, 1993, 1994).

The farming business can remain viable only if farm units grow through internal capital formation and adoption of fast changing improved production technology. Unviable small and marginal holdings might have had a place in a socialistic production system that seldom operates on economic principles, yet in a free competitive market system, as is being developed and promoted in the country, and the way the economy is being globalised, such small uneconomic holdings have no place. Today even a 7-hectare two-crop irrigated farm, yields a net income for the farm family, including imputed wages of family labour, less than the annual income of an Assistant in a government office. His income is also more certain than the farm income and is free from any risk. Besides, educational and health costs of comparable service are much higher for rural families. The agricultural entrepreneur in the farm sector has to be, therefore, freed from the shackles of stunting state controls on the size and scale of agricultural enterprise in order to let the farm enterprise grow strong enough to face market competition at the national and international levels. Unless agriculture as a free business/industry attracts capital investments as well as educated and informed entrepreneurs and becomes capable of using modern technology, it cannot start traversing any perceptible growth path that may generate agricultural surpluses at low cost to compete in the domestic and global market. It is therefore, essential that the Land Ceilings Act and agrarian laws are reviewed to provide the much needed impetus to growth and development in the agriculture sector.

LAND MARKET

A strong and functional land market needs to be developed for the agriculture sector. For this, provision of investment credit through Land Development Banks at reasonable rates needs to be made as priority sector lending against collaterals of the land already owned and the land to be purchased by the borrowers. This will enable the capable marginal and small landowners to grow and also those, who want to quit farming, to sell land to their neighbours and enterprising farmers at good prices. Presently the neighbours and relations do not have money to buy and often social considerations and family bonds do not permit the intending sellers to sell their land to outsiders. As a consequence, a lot of unwilling farmers having very small incomes and uneconomic holdings, perforce are sticking to their small or tiny pieces of land. This adversely affects the development of such lands and hinders labour mobility out of the farm sector. This does not help reduce the pressure of population on land and puts insurmountable hindrances on the growth of the farm-firm.

Land-leasing laws also need to be changed consistent with the developing free market
conditions under the influence of new economic policy. There should be no limit put on the size and the period of leasing in and leasing out of land. There should be left no fear of losing the ownership of land. This will help the operational farm size expand and the farm business grow to generate viable enterprises and at the same time avoid unwarranted pressures on uneconomic small/marginal farms to dispose of their land. It is important, however, to carefully consider some important prevailing ground realities. Under the accelerated process of economic growth, there must occur transfer of population from the farm sector to the non-farm sectors. Unfortunately in India, sufficient shift of population to the non-farming professions has not taken place. Instead, the absolute number of people dependent upon agriculture has increased. The number of cultivators has increased from 69.9 million in 1951 to 110.7 million in 1991. Correspondingly, the number of agricultural labourers has increased from 27.3 million to 74.6 million. In the event of removing the ceilings on land holdings, it is important to visualise the emerging situation particularly as to who would be the buyers and who will be the sellers of land. Among the buyers, they will be, by and large, genuine farmers who will be interested in enlarging their farm size. But, there is a possibility that huge unaccounted money in the urban sector may get invested in the land because agricultural income and wealth is free from tax. This would raise the land prices further which are already ruling high. Concomitantly therefore, income tax provisions will have to be extended to the agriculture sector. On the sellers' side there may be some farmers who would be tempted to sell their lands and start some non-farm enterprises. This would be a healthy development. Some small and marginal farmers can, however, be tempted to dispose of their land at higher prices. Since a majority of them are uneducated, skill poor, lack information and are resourceless, they may not be able to invest their money productively elsewhere. For this, training and educational programmes for skill formation and information dissemination systems in respect of entrepreneurial and employment opportunities available would need to be developed and attractive lending terms have to be offered.

On the social front, inequalities in the rural sector may get initially accentuated, but very soon smoothening and soothing effect of the policy will start manifesting itself with the expansion of better paying on-farm and off-farm employment opportunities that the new economy policy would throw up. As the non-farm sector starts growing faster and is able to absorb growing labour from the rural sector, it would serve very well to free the farm sector from the strangulating effect of land ceilings.

Alongside, the tenancy laws will have to be made more favourable providing for free leasing in/out of land. With the progressive mechanisation of farm operations, which is bound to accelerate under the influence of new economic policy, farming has become quite capital intensive. To maintain a tractor and associated implements on small size holdings is an uneconomic proposition. On small farms tractor suffers from gross under-utilisation. Likewise, the other equipment is also under-utilised. As a result, the component of fixed costs in the total cost increases which is detrimental to the economic efficiency of farm-firms. Thus in several parts of India the agriculture sector is becoming a high cost enterprise because of excessive capital investments which are not logically related to the size of holdings. In view of the liberalisation policy adopted by the country there is a strong case for making
agricultural production a cost-effective undertaking. The majority of the farmers are sticking on to their tiny holdings because of the fear that they might lose the ownership of their land in case the land is leased out to other farmers. In spite of this, the tenancy pattern in several parts of the country is undergoing a change where the leasing-out is now done largely by the small and marginal farmers having unviable holdings and the lessees are the persons with tractors who mostly belong to the medium and semi-large farm categories. There is an unwritten law prevailing in some states like Punjab providing for making Girdawri entries in the name of the owners. This has gone a long way in reducing disputes around tenancy problems. Yet, many of the farmers live under perpetual apprehension of losing their land in case they lease out. This calls for making the land-lease market secure for the persons leasing out/leasing in land. Right to property and freedom of contract are the two pillars of a free democratic and progressive society. These have to be given strong legal support. It is, therefore, essential that existing provisions of Land Acts should be modified to allow full freedom in the matter of leasing out/leasing in of land, removing the barriers with respect to the period of lease and terms of lease with the provisions enabling the owner to resume land for self-cultivation or change the tenants. With this, the supply of land in the lease market would increase that would ease land rents. Secondly, the operational farm size would register an increase resulting in better utilisation of capital resources leading to a reduction in the cost of production. This will put the agriculture sector in a position to produce cost-effectively and compete in the national and international market that will set the stage for enhanced capital formation, technology absorption, rationalisation of production patterns, quality improvements in the agricultural produce and generation of gainful employment.

These provisions and modifications in farm policy appear to be quite radical steps, especially when seen from the standpoint of socialist dispensations that we have been administering to this sector for a period of more than four and a half decades. Yet, this policy orientation is absolutely necessary in order to release the tremendous entrepreneurial energies, which at present stand severely circumscribed and to improve the mobility of the redundant agricultural labour that is bottled up in the rural areas, as well as to boost the rate of capital formation in the agriculture sector that would generate more direct and indirect employment opportunities and internal capital resources through agricultural surpluses. Otherwise, any attempt at developing the agriculture sector will amount only to nibbling at the margin of the problem. No agricultural policy, however loud it may be trumpeted, will match up to the challenges ahead, especially those posed by the new economic policy, unless these basic structural changes are brought about in agrarian laws. At the initial stages after Independence, it was absolutely necessary to relieve the actual farmers of the burden of the capricious lust of absentee landlords and the exploitation of the tenants by the rentier class, through measures such as abolition of the zamindari system. It is now equally, rather more, essential at this stage, to unshackle the entrepreneurial energies of the farmers to develop farm business enterprises on commercial lines and match up to the challenges of the competitive free market at the national as well as international level. This shift in policy requires as much political courage and determination on the part of the present political leadership, as it was required of the leadership for the reforms that were introduced after the country achieved Independence.
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