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Rapporteur's Report on New Economic Policy and Indian Agriculture

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I

BACKDROP

It is now more than four years since India launched economic reforms in June 1991. New Economic Policy (NEP) had essentially two components. The first component comprised largely policies targeted towards macro stabilisation. These included large cuts in budget deficits as well as devaluation of rupee. The other component contained several policies aimed towards structural adjustment of different sectors of the economy, most prominent of them being a package for delicensing a large part of industrial activity. Structural adjustment is also being sought in public sector, financial sector, various public utilities, etc. The agenda for reforming Indian economy appears to be very comprehensive both in terms of its width and depth. However, agriculture did not appear in any significant way in the structural adjustment programme (SAP), although recently a Draft Agricultural Policy Resolution was placed in the monsoon session of Parliament in 1995. Nevertheless, changes in policies directed towards macro-stabilisation as well as SAP for other sectors do have significant implications for investment and growth in agriculture. Also, there are distributional consequences for different categories of farmers and agricultural labourers. Further, it is increasingly becoming clear that the future policies are likely to rely more on market principles and less on perennial subsidies. It is against this backdrop that the present theme of the Conference was picked up to gauge the likely impact of these policies on agriculture, as also suggest some corrective measures based on their analysis of different situations. In all 33 papers have been accepted for discussion at this Conference. They have been grouped into four categories. First relating to macro policies under NEP and their impact on agriculture; second, which primarily relate to the issues of input subsidies and their impact on agriculture; third, those relating to General Agreement on Tariffs and Trade (GATT), NEP and agro-exports; and fourth contains those papers which have miscellaneous points pertaining to NEP and Indian agriculture and are not covered under the three categories listed above. This report summarises the main arguments of various papers in each of these four categories, and then spells out issues for discussion.

II

MACRO-DIMENSIONS OF NEP AND ITS LIKELY CONSEQUENCES FOR INDIAN AGRICULTURE

Dr. Manmohan Singh, in his inaugural address to the Indian Society of Agricultural Economics last year, pointed out how high protection to industry and overvalued exchange rate have discriminated against agriculture in Indian policy framework. He also spelt out how his policies to cut down tariff walls on industrial sector would correct this hitherto bias against agriculture. How large can these potential gains be for agriculture through correction

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of trade and exchange rate policies? One would have expected some papers on this critical issue, but the set of papers received does not contain any empirical exercise on this issue. Instead, papers with macro-perspective concentrate more on the likely consequences of globalisation and marketisation of agriculture on different categories of farmers and agricultural workers. Different views have been expressed in this regard. One of these views is expressed in a paper by R. Mukherji wherein he sharply criticises government's reliance on market forces for reforming Indian agriculture. In his opinion, "market forces are blind, violently inequitable and unable to cope with the rampant misuse, waste and sharp deterioration in the natural resource base.... How can the new economic policy based on the atrocious market forces address the multifarious problems of the Indian economy and bring genuine relief to the working population mainly engaged in the agricultural sector?" As per his analysis, it would be a road to disaster to open up the economy to international finance capital. By implication, the country should largely remain insulated from the global economy and work with its own rigidities. Sukhpal Singh's paper also is apprehensive of the emerging scenario under the NEP. The paper argues that with the emergence of new trade regime under GATT and the likely dominance of agribusiness corporations in the years to come, there would be serious distortions in the rural economy. The small and marginal farmers are likely to lose their land and swell the ranks of landless workers. The only way to avoid this gloomy scenario would be to promote producers' organisations of various types like co-operatives, informal groups, and the political pressure groups.

The papers listed above have expressed legitimate concerns regarding the probable impact of globalisation and marketisation of Indian agriculture on different segments of farmers and agricultural workers. Their apprehensions are more on the negative. But it would be worth testing their apprehensions by asking: will globalisation of industry and agriculture create a more favourable environment for investments in agriculture than has been the case so far? Will it promote more capital formation and higher growth in agriculture? Will globalisation of agriculture help in bringing in latest technology to raise crop yields? Would the introduction of market principles in pricing and distribution help in promoting efficient growth of agriculture? If small and marginal farmers get out of agriculture with increased off-farm activities in rural areas, will it help in promoting 'economically viable' farm holdings? It is these types of questions that need to be responded to before coming to any conclusions regarding the impact of globalisation on Indian agriculture as well as on its various players.

A number of other papers are optimistic about NEP, but suggest to be cautious on various counts. For example, Amallesh Banerjee's paper states: "The positive aspects of the new policy is the emergence of market principle in our otherwise parasitic subsistence system. World market access has brought about an opportunity for diversification of Indian agriculture. In spite of competition and protection, the GATT agreement and WTO rules have shown a new direction for Indian agriculture to become a leading sector for economic development." The paper, however, rightly cautions that to realise this new opportunity from globalisation, three steps are urgent. These relate to real, financial and institutional reforms. Substantial investments in infrastructure, power, irrigation and research is the first set of work. A simultaneous radical step for remodelling the rural financial structure is essential. For this, the author suggests merging of Regional Rural Banks and co-operative banks. But more important suggestion with respect to banking relates to group lending on

the lines of Grameen Banks in Bangladesh, which is cited as a success story in the developing world. It is based on market principles as well as institutional framework of Asian economies, leading to minimum defaults. And finally, the third step has to be in the direction of land reform and environmental protection. The paper, however, does not dwell on the type of land reforms that would be compatible with market principles and globalisation of agriculture. On the other hand, a paper by P.K. Chatterjee does appreciate the marketisation of Indian agriculture, although cautiously. It also talks of changes needed in the land market in the new environment. "Land reforms should not just increase the number of uneconomic holdings.... Persons with uneconomic holdings or otherwise unable to efficiently carry out agricultural operations should be able to lease out their land to efficient operators who may be sometimes small and marginal farmers. Freeing the lease market may thus be conducive to both efficiency and equity." Chatterjee's paper, however, is very apprehensive on the question of globalising agriculture. It would see exports only as residual, which remains incompatible with GATT provisions, and thus remains unrealistic. Further, this paper states, "it would be a cruel joke on Indians if they with their per capita income of about \$330 are required to compete with people with per capita income of over \$15,000 for their essential consumption for the sake of globalisation of Indian agriculture." If one goes by the logic of Chatterjee's paper, perhaps the prices of commodities in India, especially essential ones, should be about two to three per cent of the prices prevailing in the world markets or the developed world. But the question that arises is: who would produce at those prices? These prices would be substantially below even the cost of production. To induce producers to produce, government will have to heavily subsidise, which goes against the market principles that Chatterjee advocates in the first half of his paper. Further, how is it that, on an average, Indians have been paying about 40 per cent higher prices for industrial commodities than those prevailing in the world markets, while their income levels remain at one-forty-fifth of the income levels in the developed countries. This has happened not only in the case of industrial commodities, but also several agricultural commodities, notably edible oils. Thus there seems to be a contradiction in the argument that prices should be set in relation to incomes across different countries. If this is done, where is the difference in development? All countries can have the same standards of living, irrespective of their productivity levels. It would be worth keeping in mind that while incomes do play an important role in determining prices across different countries, there are several other factors, most prominent among them being the productivity levels and costs of production, that go into the fixation of prices. Therefore, an appropriate approach would be to look at strategies that can raise productivity levels, contain/reduce costs of production per unit, and raise income levels. Bringing down prices to equate with relative incomes is neither feasible under an open economy environment, as visualised under GATT provisions, nor appropriate from policy perspective.

R.K. Pandey and Ashok Kumar rightly stress the need for macro stabilisation before ushering in structural adjustment in agriculture. In their opinion, NEP would bring about professionalism and dominant role of the private sector in Indian agriculture. It would also help to increase the investment flow in agriculture and thus help raise the production substantially. Increased prices of outputs in line with globalisation, and of inputs in line with market principles, would hurt the small and marginal farmers who do not have enough to sell in the market. To safeguard against any undue hardships arising out of such a situation,

they emphasise the role of employment generating programmes such as IRDP, TRYSEM, JRY, NRY, etc. For pushing agro-exports, they suggest consideration of comparative advantage principle within Indian agriculture.

B.P. Veerabhadrapa's paper also suggests that "liberalisation is expected to provide a powerful thrust to growth and modernisation of the economy including agriculture.... The point is that the farmer has now opportunities open to him to increase his output and also to widen his contacts with the markets and the world outside his village. The gains of the farmers from liberalisation would depend on the increase in production achieved by him which would be determined by his access to resources and his efficiency and skills as a producer and the returns obtained by him in the market determined by his ability to comprehend and respond to market signals and to get a 'fair' price." To enable the farmers to take full advantage of the liberalised atmosphere, Veerabhadrapa's paper rightly emphasises the role of the government in creating good infrastructure, organising research and extension and making credit available to farmers in needed quantities and at right times.

The paper by R.K. Singh *et al.* covers a wide area of the NEP in relation to the structure of Indian agriculture and the trends in capital formation, need for food security in the face of widespread poverty, question of terms of trade, removal of all barriers to domestic trade, concerns to preserve and sustain environment-friendly growth of agriculture. The upshot of their paper is that Indian agriculture can prosper in a liberalised atmosphere but any strategy towards that objective will have to take an explicit note of the structures and other needs of Indian agriculture. Similarly, Mahesh V. Joshi's paper asks for reforming Indian agriculture, which in his opinion has remained neglected over years. While liberal policies do widen opportunities for growth of Indian agriculture, the institutional framework should be towards promoting the role of Panchayati Raj or farmers' involvement in decision-making bodies. His emphasis is on the need to look beyond the green revolution belt for widespread prosperity of Indian agriculture. Kandarpa Kr. Barman's paper also points out that agricultural strategies followed in the past did not make any substantial impact on economic development. "With the ongoing process of fiscal, monetary, trade and industrial policy reforms, Indian agricultural policies are changing so that this sector can be made vibrant, healthy and dynamic in the future." P.G. Marvania's paper throws a few posers in the context of agricultural reforms under NEP. He reiterates the rigidities in Indian agriculture and its social nature. Won't it be a hasty step to introduce market principles in such an agrarian structure?, asks Marvania.

While there are several questions relating to globalisation and marketisation, the bottom line is that India is a signatory to GATT. In view of its agreed provisions it would be futile to still talk of keeping the domestic system insulated from the world signals. It is much better to talk of the strategies that allow Indian agriculture to take maximum advantage from the emerging scenario, as also to minimise the threats that might arise therefrom.

III

NEP, INPUT SUBSIDIES AND INDIAN AGRICULTURE

Gradual phasing out of subsidies in inputs such as fertilisers, canal waters, electricity and credit, have been talked of in NEP. Except fertilisers, other inputs largely fall within the jurisdiction of states. Fertiliser subsidies have been a debatable issue since July 1991. A. Narayanamoorthy's paper looks at partial decontrol of P and K fertilisers, and shows

empirically how it has led to unbalanced use of N, P and K in different states/zones of the country. While we know that this is not a desirable situation, the point to be debated is: should India go back to total control of fertilisers or go forward and also decontrol nitrogenous fertilisers in somewhat a similar fashion as phosphatic and potassic fertilisers have been? The paper remains silent on this issue.

K.U. Viswanathan *et al.* talk of adverse implications of phasing out concessional rates of interest in extending credit to small and marginal farmers. Similar apprehension is expressed in a paper by R.K.S. Kushwaha *et al.* based on a micro level study of two districts in Uttar Pradesh. The central question in the credit sector, however, remains that of high default rates. Concessionality in credit is a smaller problem, although there are limits to cross subsidisation. The major problem remains that of overdues. The point for consideration should be how to minimise defaults. Can the Grameen Bank's experience in group lending (especially to women) in Bangladesh be worth trying in Indian conditions?

In an interesting paper by K.K. Datta and Ir.c. de Jong, a case is made out to reduce input subsidies so that public investments could be increased in resource-poor regions. At present subsidies are primarily going to better endowed regions and better-off farmers. Large subsidies on canal waters and electricity for groundwater are also contributing to increasing levels of waterlogging and soil salinity. To contain the damage to soil, group efforts at farmers' level are required, which may be helped through targeted subsidies for limited period in place of indiscriminating subsidies at present.

The issue of input subsidies has two dimensions: one, does it lead to efficient use of scarce resources such as water, electricity, fertilisers and credit; and two, who gets the larger chunk of subsidies, i.e., the issue of equity in distribution of subsidies. It is well known that these subsidies promote large scale wastes and inefficiency, as also that they are largely cornered by better-off farmers. The scale of these subsidies has increased dramatically during 1980s and early 1990s. Today, for example, for every rupee of planned expenditure on agriculture, there is more than a rupee and a quarter going towards these subsidies. Public investment in agriculture has shown decline during 1980s, indicating that these subsidies are clearly eating into investment funds. The critical issues for research in this area, therefore, are: is subsidising inputs a better way to promote growth in agriculture or raising levels of public investments? None of the papers has attempted to address this issue.

IV

NEP, GATT AND AGRO-EXPORTS

Relatively, there are large number of papers relating to agro-exports under the globalisation scenario, occasionally touching the issue of food security or GATT provisions. There is a general feeling amongst many of the authors of these papers that Indian agriculture is reasonably competitive despite its low yields; that GATT provisions do provide an opportunity for India to export her agricultural products by putting a cap on the export subsidies of the western countries; that improvement in infrastructure for exports, particularly of perishables, can go a long way in promoting India's agro-exports (Sib Ranjan Misra; B.D. Bhole; A.C. Gangwar and R.N. Pandey; M. Krishnan and B.M. Sharma; S.K. Goyal and Satnam Kaur; Usha Tuteja; R.K. Khatkar; K.K. Kaushik; Brahm Prakash *et al.*). Within these papers, there are various shades. Some have emphasised the need to promote horticulture and floriculture for exports, while others go for fisheries, tobacco, tea, coffee, etc..

and still others for processed agricultural commodities. Many authors have expressed concerns regarding the desirability of exporting foodgrains from India in the face of large scale poverty. Their concerns also emerge from the food security angle (Rachhpal Singh and M.S. Toor). They feel that the demand for foodgrains say by the year 2000 is going to be of the order of something like 240 million tonnes or thereabout. If one goes by their calculations, India even today should be importing sizeable quantities of foodgrains (say 5 to 7 million tonnes). But as the situation stands, at 190 million tonnes of production, public agencies have been holding 37 million tonnes at the beginning of July 1995. One can argue that these surpluses have emerged because of steep hikes in procurement prices and thereafter in issue prices. If one suppresses the foodgrain prices with good intentions of feeding the poor, demand would go up and these surpluses with public agencies would be wiped out. That raises a few fundamental questions: First, who is to feed the poor? the farmer or the general exchequer? In the past farmers have played the role of subsidising the government by accepting prices that were below what would have prevailed under an open economy framework. That is why the Aggregate Measure of Support (AMS) for Indian agriculture, as calculated by the Government of India under GATT negotiations, comes out to be negative to the tune of about 20 per cent of agricultural GDP for the triennium ending 1988. Two, if exports of non-foodgrain crops are permitted, while foodgrains exports are prohibited (although it is incompatible with GATT provisions), would it not happen that farmers start switching towards non-foodgrains very fast? That perhaps would be a more vulnerable situation from food security angle than allowing foodgrain exports from the country so that relative profitabilities across different crops are not very much disturbed. Most of the papers that have expressed serious reservations for exports of foodgrains have not addressed to the question as to how they would induce the farmers to keep growing foodgrains when other competing crops have much freer environment and higher profitability. Some of the papers are extremely critical of GATT (R.K. Patel), while others caution against reliance on world markets due to India being a large country (as in the case of sugar; Sanjith R. Nair), or some suggest the strategies to deal with issues like intellectual property rights under GATT (Gurdev Singh and S.R. Asokan).

V

NEP, AGRARIAN STRUCTURES AND OTHER MISCELLANEOUS THEMES

In an interesting paper based on a micro study of Meerut district in western Uttar Pradesh, Gyanendra Mani and V.K. Pandey make a strong case for facilitating the emergence of economically viable holdings under the NEP. As per their survey and analysis, market forces are already operating in this region towards creation of viable holdings. It will get accelerated under NEP. The law of the land should facilitate this by freeing the lease market, giving general recognition to tenancy and relaxing upper ceiling to agricultural holdings. In their opinion, "in the long run, even the equity aspect would not be adversely affected as the growth and value addition in agriculture is likely to provide enough wage and self-employment opportunities to absorb the increase in landlessness."

Some papers have tried to compare productivity changes before and after the period of economic reforms, and have attributed these changes to NEP. Although more rigorous analysis is required to test their hypothesis, yet one point that emerges clearly is that the impact of reforms would be varied across different agro-climatic regions (M. Atchi Reddy's

paper on two villages in Andhra Pradesh; N.K. Koshti and N.G. Pendse's paper on Madhya Pradesh; Narendra Shukla and C.K. Chouksey's paper on M.P.).

Jagdish Prasad's paper talks of an opportunity to develop Bihar's culturable wastelands by inviting private investments, especially from agribusiness industries, under the NEP. On traditional cultivated area, public investments need to be raised to boost agricultural productivity.

VI

ISSUES FOR DISCUSSION

On the basis of review of papers under this theme as carried out in the preceding paragraphs, following issues can be listed for discussion at the Conference:

1. How have the macro-stabilisation measures - cut in budget deficits and devaluation of rupee - affected the agricultural sector?
2. How structural adjustment measures in the industrial sector - delicensing and tariff reductions - have affected (would affect) agriculture?
3. What should be the prioritisation of reforms in agriculture - markets, prices of outputs and inputs, real sectors such as irrigation, land tenurial systems, etc. - that is compatible with the overall philosophy of NEP as well as GATT provisions? What can be the nature of these reforms?
4. What strategy should India adopt to minimise the risk of price instability in the wake of open economy framework under GATT?
5. How far Panchayati Raj institutions can be involved in the reform process?
6. Would diversification of agriculture and allied sectors towards horticulture, floriculture, fisheries, livestock, and other high value activities be good for the country?
7. What could be the role of agricultural parastatals like Food Corporation of India, Cotton Corporation of India, Jute Corporation of India, etc., under the NEP?
8. What sort of institutional framework - co-operatives, co-operative companies, contract farming, leasing out land to private companies with priority to farmers with respect to equity, etc. - needs to be adopted with respect to agro-based industries such that the benefits of processing and trade also percolate to the farming community?

These are some of the important issues that are likely to come up time and again in the years to come. It would be most appropriate to discuss and dwell upon these impartially at this stage so that the direction of change suggested should be sustainable and compatible with changes taking place in the world economy.