

COMMENT

Problems Remain

THE GOVERNMENT HAS BEEN providing Minimum Support Price to important crops such as wheat, rice and sugarcane. Also, farmers have increased the production of these crops because they were assured of a decent price. This success has come with its costs, however. It has shifted the farmer's attention away from other crops that could provide higher returns such as vegetables, fruits, timber, flower and orchids because of uncertainty of price here. What is needed is to expand the scope of the MSP mechanism to other crops as well. In particular it is important to support crops that have virtually unlimited demand such as Jatropha and flowers.

The Government is trying to increase the flow of credit to the farmers under the impression that lower interest rates will provide relief to them. No relief is likely to be got, however. The rural areas are flushed with funds. The credit-deposit ratio of rural banks is typically 15—for every Rs 100 of deposits the loan given out is only Rs 15. Rural banks have plentiful depositors but few applicants for loans. Farmers have the money but no opportunity to deploy it productively because of absence of profitable opportunities in villages. They deposit their money with the banks at low rates of interest of 6-8 percent because they cannot earn more than this in rural businesses. Expansion of credit will serve no purpose in this situation. It is like pouring tap water into the well. Farmers typically take loans only to avail of subsidies that come along with them. The Government must expand credit in specific areas where the profits are high such as cold storages and floriculture.

In every budget the Finance Ministers promise to increase investment in agriculture. But every investment is not farmer-friendly, especially for the small farmers. For example, increased investment in harvesters has become a curse for them. Previously, small farmers and agricultural labourers obtained most of their income at the time of harvesting when they got 1/6 to 1/10th of the produce. Now this lucrative work has been taken over by machines. The impact of investment in tube wells is altogether different. A reduction in employment takes place in the running of the water wheel, just like the harvester. But increased irrigation leads to more land being brought into cultivation of labour intensive crops like vegetables and to higher demand for their services. Thus the Government must make a social audit of various types of agricultural investments and encourage only those that have a positive impact. More tube wells and water harvesting structures and fewer harvesters will do the trick.

Public investment in agriculture also needs a close study. Mere building of more canals and increasing area under irrigation will not help because, as mentioned previously, the prices are declining. *In truth most farmers' suicides are taking place in irrigated areas.* Public investment must be fine-tuned to support value-added agriculture. For example, the global demand for organic foods—guavas, mangoes, coffee and tea is increasing. The Government must create a

certification mechanism in each district to promote this. Export subsidy may be provided to private exporters of value-added agricultural commodities to help them penetrate this lucrative global market.

The Government is trying to reduce agricultural subsidies of food, fertilizers, water and diesel to contain its fiscal deficit. It is another matter that the Government has not succeeded in this due to political compulsions. The need is not to 'reduce' subsidies but to reorient them to areas that lead to multiplier effect. For example, instead of subsidizing electricity for extracting ground water, the same money can be better utilized to provide subsidy for water recharging by building check dams, ponds and anicuts. The conditions of Indian farmers continue to decline because of these faulty policies despite massive investments by the Government. The economic policies need redesigning to provide relief to them. □□□