



FIXING THE FARM

Recasting agricultural subsidies is long overdue. But can the government do it in the present environment?

THE NARENDRA MODI government is reportedly working on reorienting the country's agricultural subsidy architecture to make it WTO-compliant. The recasting of agricultural and food-security support is a long-overdue reform. But while we need to move away from wasteful consumption and input subsidies that distort incentives and decision-making, the quantum of government support for the sector should not come down. Given the low growth rate of agriculture and increasing distress because of low crop realisations, which are in turn largely due to depressed global prices, and production setbacks on account of bad weather, we need more money flowing to the farm sector. But this should be targeted at increasing productivity — spending on rural roads, agricultural R&D, irrigation infrastructure, warehousing must be increased — and providing insurance, while the fertiliser and input subsidy regime as well as the public distribution and procurement system are rethought.

As pointed out by the Shanta Kumar panel, it isn't worth spending approximately Rs 1,15,000 crore annually on a food security programme with almost 50 per cent leakage, and where grain is purchased from hardly 6 per cent of India's farmers — procurement only touches the lives of surplus wheat and rice producers in a few states. Further, delivering food security doesn't require physically procuring, stocking and distributing, say, rice at the economic cost of Rs 30/ kg and then selling it at Rs 3. A significant part of this rice naturally finds its way into the open market, where prices are Rs 25/ kg or higher. Instead of the government procuring vast quantities of wheat and rice, poor consumers, who still consume more than their entitlement of grain, would be better off given the subsidy in cash — using Aadhaar-seeded Jan Dhan bank accounts — which they can use to transact in a less-denuded market. The government could keep maintaining a strategic stockpile of grain to counter price volatility.

As far as farm support is concerned, we should dismantle the input subsidy regime, let farmers take market-linked decisions, and move to a per-acre subsidy and insurance system. But this would require an overhaul of land records first. It is well known that the urea subsidy is fiscally unsustainable both for the government and the industry, besides encouraging nutrient usage damaging for soil health. In the long run, the farmers are the losers. While the solutions are well known, reform can be painful in the short run. The land bill being seen — rightly or wrongly — as anti-farmer has constricted the government's elbow room. Whether it will be able to effect these reforms in a timely manner is an open question.