ourview

Farm economics in budget 2016

In fixing institutional issues, the budget leaves a few loose ends


JAYACHANDRAN/MINT

Finance minister Arun Jaitley said in his budget speech on Monday that the government will reorient its interventions in the farm and non-farm sectors to double the income of farmers by 2022. Though this target may seem unrealistic in a span of six years, the National Democratic Alliance government's third budget speech was clear in terms of its priority—agriculture. This year, the agriculture ministry has more than doubled the previous year's fund allocations at its disposal to fix the problems plaguing the distressed farmer.

Whether these funds will revive Indian agriculture, —which, in the words of the Economic Survey, is the "victim of its own success"—however, remains to be seen. The cereal centric, regionally biased, input-intensive agricultural sector of the Green Revolution era which consumes generous amounts of land, water and fertilizer is no longer a viable option for India. The budget has done well in recognizing this fact.

To address the issue of price wedges in the agricultural sector, the budget had several proposals up its sleeve.

First, decentralized procurement of crops by states and online procurement by the Food Corporation of India was proposed to improve targeting under minimum support price (MSP). Second, the Uniform Agricultural Marketing e-Platform is being rolled out with increased urgency to fix the problem of price misinformation. The role of such an initiative in enabling farmers to fetch better prices has been discussed in this space before. Third, the allocation for the price stabilization fund has been increased to contain the prices of essential commodities, especially pulses.

To normalize the risks, 15% of agricultural funds were dedicated to the Pradhan Mantri Fasal Bima Yojana, a national crop insurance to protect the farmer from the adversities of agriculture. This is also in line with the recommendations of the Deepak Mohanty Committee Report on Medium Path to Fiscal Consolidation. However, the latter part of the recommendation phasing out the distortionary interest subvention scheme seems to have fallen on deaf ears.

The budget was also liberal in its allocations for building rural infrastructure. The Pradhanmantri Gram Sadak Yojana coupled with the Mahatma Gandhi National Rural Employment Guarantee Act, and the proposal for 100% foreign direct investment via the Foreign Investment Promotion Board (FIPB) route for food produced and marketed in India, indicate that the government means business when it comes to enhancing rural linkages. Parmparagat Krishi Vikas Yojana, soil health cards and introduction of four new dairy-related initiatives also indicate an effort to diversify and bring about more quality to cropping culture in India.

The budget did well here. But in the context of fixing infrastructure and institutional issues, it leaves a few loose ends.

To address the water crisis of the agricultural sector, the solutions rolled out were the amalgamated Pradhan Mantri Krishi Sinchai Yojana, the Long Term Irrigation Fund under the National Bank for Agriculture and Rural Development (Nabard) and the proposed project for sustainable use of groundwater. The Economic Survey notes that despite the low per capita availability of water, India spends more water per unit crop than similar economies. The above funds will be a mere washout if this inefficiency is not addressed via fixing lacunae in other areas such as rural electrification, which is essential for drip irrigation.

> Input-intensive farms consuming generous amounts of land, water and fertilizer is not viable for India

The budgetary proposal to introduce direct benefit transfers (DBTs) for fertilizer subsidy on a pilot basis is a welcome step. But the decontrolling of urea prices still remains a non-issue in policy quarters despite it hugely distorting the ideal ratio of nutrient content in soil. The Nutrition Based Subsidy (NBS), which was intended to fix this issue and eventually reduce the subsidy burden, has ironically accomplished the opposite.

Facilitating field trials of genetically modified (GM) crops, incentivizing agricultural research to produce better high-yielding varieties with seed replacement features and building better value chains with better agri-logistics should also be part of the bigger agricultural vision.

Underlying many of these issues—from lack of crop diversification to degrading soil quality and food inflation—is the need for a shift from distortionary mechanisms such as MSPs and the public distribution system to income support and DBTs. Ongoing rural distress means the budget has been constrained in this context. But it is a goal future budgets must not lose sight of.

As M.S. Swaminathan rightly said, "If farm economics and farm ecology go wrong, nothing else can go right in agriculture."

What other measures can be used to alleviate farmer distress? Tell us at views@livemint.com