



Real is radical: Drop subsidies, offer basic minimum income to farmers

You could run a sensible subsidy and price support system at a fraction of today's cost, and still have enough money left over to offer a more generous income support to all farmers, writes T N Ninan

T N Ninan May 29, 2020 Last Updated at 21:24 IST

If you take the total subsidies paid to India's farmers, through price support on crop output and through subsidies on inputs like fertiliser, electricity, and water, and add to that outlay the direct transfer of Rs 6,000 per farmer introduced last year, the bill would comfortably cross Rs 4 trillion, or about 2 per cent of GDP. And that is without counting many elements of the subsidy regime, like that offered through low interest rates on bank loans to farmers, and the write-offs of such loans that take place with an almost predictable periodicity.

Since almost all these subsidies and price support programmes are for crop agriculture, the government's bill for the 140 million hectares of land under crop works out to more than Rs 30,000 per hectare. The annual benefit supposedly being given to a small farmer with a two-hectare holding would therefore be Rs 60,000. Tell that to any Indian farmer, and he will laugh in your face.

But since that is the sum involved, the idea of a basic minimum income for India's hardworking but perennially troubled farmers starts looking feasible — but only if the entire existing regime of subsidies and price support were to be dismantled. The very mention of such an idea makes it immediately obvious that it is far too radical for anyone in power to attempt, at either the Centre or in the states. Hence the underwhelming tinkering round the edges that was presented as agricultural reform earlier this month.

Real reform would target the over-use of groundwater, incentivised today because the electricity to run pump-sets is mostly free or massively subsidised. A proposed change in the electricity law holds out the prospect of ending such cross-subsidies, since manufacturing is today charged more to make up the cost, but it is already stirring up political trouble and is not yet law. Disincentivising excessive water use could put an end to the cultivation of paddy in water-scarce areas like Punjab, and sugarcane in dry parts of Maharashtra.

That would also put an end to the artificial boost given today to the export of both rice and sugar. Such exports are tantamount to exporting water, since paddy and sugarcane are two of the most water-intensive crops in the country. In totality, we could put an end to the spectre of growing water scarcity across the country, since more than 80 per cent of all water is used in agriculture.

Radical reform would also put an end to the over-stocking of grain and save the money that is currently wasted on the misnomer that is the food subsidy. It would end the artificial boosting of purchase prices that makes sugarcane the country's most profitable crop. That in turn makes the production cost of Indian sugar about the highest in the world, and India's sugar price 50 per cent higher than in world markets. While Indian consumers bear that cost, the government ends up paying Rs 10 per kg to make sugar exports viable.

You could argue that putting a bonfire to most of today's policies for agriculture, when most farmers live a marginal existence on the edge of poverty, is simplistic and damaging thinking of the kind that led to the demonetisation of 2016. And so it would be. That does not mean that a less disruptive, properly thought-through and carefully-phased programme of change is not possible, so long as the end objective is clear: The money being spent in the name of farmers must be spent for the genuine welfare of farmers. For instance, one could run a sensible subsidy and price support system at a fraction of today's cost, and still have plenty of money left over to offer a more generous income support to all farmers.

The government has seized on the idea that, since India can undertake radical reforms only in a crisis, the Covid crisis must not be wasted. It is far from certain that a medical crisis can be likened to, say, a foreign exchange crisis that allows an overhaul of economic policies. Still, if the idea is to reform, let it be real reform that delivers positive results.