

India Budget 2019: Income Scheme for Farmers could Politically Backfire



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Summary

On 1 February 2019, India's interim Budget announced a direct income scheme for small farmers to address agrarian distress. Too little to make a difference to the economic conditions of the farmers and not covering the landless peasants, the scheme might be politically counterproductive for the ruling Bharatiya Janata Party.

Introduction

India's interim Budget was presented on 1 February 2019 against the backdrop of the impending general elections within a few months. The context was also dominated by agricultural distress, electoral setbacks for the Bharatiya Janata Party (BJP) in recent state elections and the efforts by the Congress and some regional parties to announce various support schemes for the farmers. Notwithstanding being interim, the Budget was expected to announce measures to address the farmers' distress. It announced the *Pradhan Mantri Kisan Samman Nidhi* (PM-Kisan) scheme. As Finance Minister Piyush Goyal mentioned in his [budget speech](#), the scheme would provide direct income support of ₹6,000 (S\$120) annually to around 120 million small and marginal farmers owning agricultural land of up to two acres.

Is the income support scheme the answer to India's agrarian distress? And would it ensure the BJP the political support of the farmers in the coming elections?

Limited Impact

At the outset, ₹6,000 per year to small and agricultural farmers is not going to make a huge positive impact on their economic conditions. The income, at best, can be a bare minimum to fall back on in distressed times. However, at ₹500 (S\$10) per month, the income is too little for farmers to tide over even basic costs. Much as the government might have wanted to increase the support, its poor fiscal condition constrained it from doing so. From the government's perspective, even such a meagre amount of income has led to an overall new expenditure commitment of ₹75,000 crore (S\$15 billion) – the largest allocation in the [Budget](#) after food subsidy and defence.

Economic conditions of the small farmers can improve only if they are able to achieve sustained increases in their incomes. The Budget has a two-pronged strategy in this regard. It has tried to provide a minimum income to the vulnerable farmers as a support if their earnings plummet. On the other hand, it has tried to ensure a stable income for farmers by fixing procurement prices for 22 major crops at a minimum of 50 per cent more than their cost of production. This means the state is trying to ensure farmers earn good profits by selling their crops at remunerative prices. At the same time, it is also trying to ensure the smaller farmers stay secure by obtaining a minimum income. Thus, not only does the government completely push out markets from playing any roles in determining prices and incomes, but by fixing both, it takes on an unsustainable financial burden. Furthermore, by fixing both prices of crops and incomes of small farmers, the government ends up

admitting that the latter do not benefit from procurement prices and, therefore, need to be provided direct income support. The deeper unstated admission is that the more resourceful large farmers exploit the system of high procurement prices at the expense of the small farmers – an anomaly the government is unable to correct!

Another major reason for which the direct income scheme is unlikely to make a major difference to the economic conditions of the farmers is due to its exclusion of the landless peasants. Many of the latter are tenant cultivators or agricultural labourers. They are often indebted to informal moneylenders as they do not have access to formal sources of credit. Since the PM-Kisan scheme would target only landowning, albeit small, peasants as its beneficiaries, the large chunk of landless peasants and farm workers, comprising more than half of the agricultural work force, would not any improvement in their financial solvency and economic condition.

Implications for the Elections

Would the PM-Kisan scheme tilt the scales in favour of the BJP in the general elections? The main opposition – the Congress Party – has been hounding the Narendra Modi government for its failure to address the farmers’ distress. Congress Party Chief Rahul Gandhi has promised a minimum income guarantee for all the poor in India if his party is voted to power. The slogan comes at the back of the Congress writing off agricultural loans in the states where it captured power last year – Karnataka, Madhya Pradesh, Rajasthan and Chhattisgarh. It was important for the BJP to counter the Congress’s populism through the Budget and project a pro-farmer image. It did so by drawing upon the direct income support schemes of states like Telangana and Odisha, both ruled by regional parties, Telangana Rashtra Samithi and Biju Janata Dal respectively, with whom the BJP hopes to partner in the general elections.

For the BJP though, it might be a case of too less and too late. Though disbursements under PM-Kisan scheme would begin from FY18 itself (the budget provides an additional ₹20,000 crores [S\$4 billion]), farmers might feel slighted by the small support. The feeling might even mount to anger following the realisation that it is mainly a sop doled out a few weeks before elections with the intention of grabbing votes. Such feelings would be politically damaging for the BJP.

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