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A New Wave of Agrarian Disquiet in India

Despite a bountiful harvest in 2016, the farmers in some Indian states such as Madhya Pradesh and Maharashtra have been driven to despair that has even led some of them to commit suicide. The debt burden of Indian farmers has been an issue recurring over the years, irrespective of good or deficient monsoon rainfall. The government's actions seem to have been slow in coming, though the problems are well-known. It is felt that the state and central governments will have to show greater alacrity to alleviate the problems of the farmers and ensure that they are not put to repeated distress.

Vinod Rai[1]

The farm sector in India has been under turmoil. The unrest which started in the state (province) of Madhya Pradesh, despite its successive years of double-digit growth in the agriculture sector since 2011-12, has spread to the neighbouring state of Maharashtra. This is despite the fact that there was plentiful monsoon rainfall in 2016 and a normal monsoon is, indeed, predicted for 2017. The forecast of a good monsoon ordinarily should have been good news to the farmers, as after deficient rain in 2014 and 2015, last year's monsoon helped in successfully reversing the decline in the farm sector. In the 2014-15 financial year, the farm sector saw a contraction

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of 0.2 per cent, followed by a nominal increase of 1.4 per cent in 2015-16. Last year saw a 4.1 per cent increase in the agricultural economy.

However, the most significant factor contributing to the dissatisfaction among the farmers at present appears to be the fact that inadequate storage facilities have led to a crash in prices following a bumper harvest. This factor mainly hit the sub-sector of pulses across states. The cycle of consumption and production of *arhar or tur dal* (pigeon pea*)* among pulses had witnessed a very significant increase in domestic production in the first place. Such an increase in states like Karnataka, Maharashtra, Telangana and Gujarat, coupled with higher imports from Myanmar, Mozambique, Tanzania and Malawi, compounded the problem of inadequate storage facilities. This, in turn, led to a sharp decline in domestic prices.[2] The prices, which had touched ₹12,000 per quintal (100 kg) (S$252 per 100kg) in December 2015, have fallen to ₹4,000 (S$84). This is about 20 per cent below the minimum support price (MSP) of ₹5,050 (S$106.05) per quintal offered by the Indian government in December 2016.

Reports from the producing areas also indicate that the farmers experienced a delay of about a month in receiving payments when they offered their produce to the government agency designated to undertake procurement. Compounding this was also the fact that these families were under pressure due to the demonetisation of certain denominations of currency which had caused shrinkage in the availability of cash on hand.

Due to the glut of pulses in the market resulting in a steep decline in the incomes accruing to the farmers, the prices having slipped to about 20 per cent below the MSP, the central government imposed an import duty of 10 per cent on 28 March 2017. By then, the retail price of *arhar dal* had declined to ₹80 (S$1.68) per kg as against ₹200 (S$4.20) per kg last year.

There have been similar stories emerging from tomato farmers in the states of Karnataka and Tamil Nadu. Onion growers in Maharashtra have also faced hardship when prices fell by about 60 per cent. The Reserve Bank of India's report stated that "incoming data suggest that the transitory effects of demonetisation have lingered on in price formations relating to salient food items, entangled with excess supply conditions with respect of fruits and vegetables, pulses and

[2] Reserve Bank of India policy statement on 7 June 2017.

cereals." This has led to the extreme indebtedness of farmers, resulting in suicides. Farmer suicides in Maharashtra have been very large.

The announcement of waiver of farmers' debt (a pre-election promise) in the state of Uttar Pradesh has encouraged the farmers in Madhya Pradesh and Maharashtra to seek similar waivers. Maharashtra has been witnessing unrest, with the Shiv Sena, one of the coalition partners of the ruling Bharatiya Janata Party (BJP), also supporting the demands of the farmers. There is a likelihood of the BJP's coalition partners joining the ongoing farmers' agitations. This placed great pressure on the Maharashtra Chief Minister, as a result of which he has announced the waiver of all farm loans.

Maharashtra may be better placed than many other Indian states to be able to bear the liability of a waiver from the fiscal point of view. Its fiscal deficit, as a percentage of the gross state domestic product (GSDP), has been budgeted to decline from 2.2 per cent in 2016-17 (Revised Estimate) to 1.53 per cent in 2017-18 (Budget Estimate).[3] This is decidedly lower than the all-states average of 2.98 per cent (BE). Its debt to GSDP ratio declined from 23.8 per cent in 2010 to 17.6 per cent. It can, therefore, be argued that, since these basic financial parameters are well below the Fiscal Responsibility and Budget Management Act threshold, Maharashtra could possibly bear the liability of an additional revenue loss of about ₹30,000 crore (approximately S$6.30 billion).

It is, of course, a moot point whether Maharashtra's fiscal deficit will rise to 2.71 per cent, if the entire loan waiver is to be absorbed in 2017-18, especially if there is no significant increase in its overall revenue earnings. If, however, the waiver is absorbed in a staggered manner, the fiscal capability of the state will not be under immense stress.

A larger point is that, once one state intervenes in this manner, the subvention will have a snowballing effect by fuelling demands for farm loan waivers in the neighbouring states. The cascading effect of this kind will also become difficult to limit, the added risk being that funds required for deployment in capital projects get diverted to such revenue expenditure.

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[3] PRS Legislative Research.

Madhya Pradesh has, so far, been able to resist the demand for waiver of agricultural loans. However, its fiscal deficit as a percentage of GSDP rose from 2.49 per cent in 2015-16 to 4.63 per cent in 2016-17, which gives it a very limited budgetary space to grant a waiver.

Meanwhile, the central government has cut interest rates on farmers' loans by as much as four percentage points. Earlier the rate of interest was nine per cent and it has now been reduced to five per cent on loans up to ₹3 lakh (approximately S$6,300) limit. The government has approved an interest subvention scheme for farmers, wherein crop loans of up to ₹3 lakh (approximately S$6,300) will be made available to the prompt-payee farmers at four per cent interest rate only. A total expenditure of ₹20,339 crore (about S$4.27 billion) in the current financial year as interest subsidy on short-term crop loans has been budgeted.

The issue boils down to how the situation has not been adequately addressed both in the short run and the long term. The long-term issues are the fact that 52 per cent of the farmers still do not have the benefit of irrigation. Rains are becoming unpredictable due to the increasing effect of climate change. Groundwater levels are falling, with farmers and industries drawing more than the re-charged levels. Added to this factor is the reality that the per-capita availability of land has declined substantially, leading to fragmentation of holdings, thereby making agricultural operations uneconomic. Mechanised farming becomes impossible and manual labour is scarce in view of the availability of other avenues for the traditional agricultural labour, especially through the rural employment guarantee programmes.

There have been loud protests from various quarters on the problem being allowed to build up without the government taking timely steps to mitigate the pains of the farmers when the post-drought period saw normal monsoon and a switch in the cultivating patterns by the farmers. The issues that need to be addressed are (i) an attempt to make credit cheaper early in the farm season; (ii) provision of adequate temporary storage and cold storage space (for horticulture crops); and (iii) more effective procurement operations by the government accompanied by the release of payments to the farmers without delay.

An advance payment of about two-thirds of the estimated value of the produce offered by the farmer at the time of procurement could have very substantially mitigated the debt crisis and the lack of cash with the farmers. The plight of the farmers continues to go unaddressed despite its recurrence in three-yearly cycles. The lack of timely attention raises eyebrows when one observes that it was primarily agriculture and allied activities, in addition to the spending by government, which pushed up growth in the gross value added in the fourth quarter of 2016-17. There is an urgent need to prepare long-term and short-term problem-mitigating action programmes which can be put into operation very quickly. The issues that the sector faces in cycles are not new and, hence, the preparation for taking remedial measures can also be planned well in advance.

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