

"Growth and the farmer: Consumer bias in food policy reduces incentives for farmers."

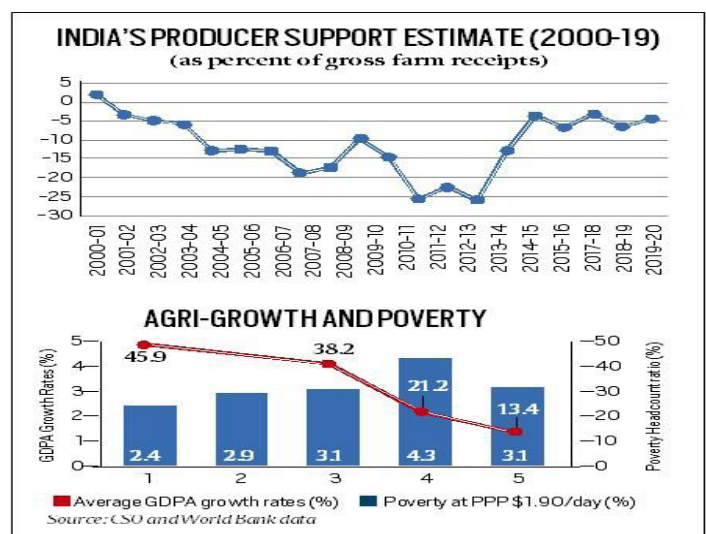
Last month, Montek Singh Ahluwalia's book, *Backstage: The Story Behind India's High Growth Years*, was released. It is an account of India's economic reform journey—a process in which Montek was an insider for about 30 years. Besides some very interesting episodes pertaining to Montek's personal and professional life, the book is full of useful insights into policy debates and their complexities. At many places, it provides evidence of the impact of these policies. This can be extremely useful as we try to rejuvenate the country's sluggish economy and abolish poverty. It is impossible to do justice to every issue covered in the book. Here, I will confine myself to the policy debates and choices in the agri-food space.

Agriculture strategy appears in the chapter on inclusive growth. During the UPA period, from 2004-05 to 2013-14, it was believed that inclusive growth is not feasible unless agriculture grows at about 4 per cent per year while the overall economy grows at about 8 per cent annually. The reason was simple: More than half

of the working force at that time was engaged in agriculture and much of their income was derived from agriculture. But many political heavyweights, even within the Congress, did not believe that agri-growth could reduce poverty fast enough.

The main instrument of agricultural strategy was the Rashtriya Krishi Vikas Yojana (RKVY), which gave more leverage to states to allocate resources within agriculture-related schemes. This, along with other infrastructure investments in rural areas, had a beneficial impact on agri-growth, which increased from 2.9 per cent during the Vajpayee period (1998-99 to 2003-04) to 3.1 per cent during the UPA-1 period (2004-05 to 2008-09) and further to 4.3 per cent during UPA-2 (2009-10 to 2013-14). I strongly believe that the agri-GDP growth during UPA-2 was driven not as much by RKVY as it was by high agri-prices in the wake of the global economic crisis of 2007-08.

Agri-GDP growth had a significant impact on poverty reduction, whichever way it was measured — the Lakdawala poverty line or Tendulkar poverty line, which is higher. The rate of decline in poverty (head count ratio), about 0.8 per cent per year during 1993-94 to 2004-05, accelerated to 2.1 per cent per year, and for the first time, the absolute



number of the poor declined by a whopping 138 million during 2004-05 to 2013-14. Interestingly, this holds even on the basis of the international poverty line of \$1.9 per capita per day (on 2011 purchasing power parity, PPP, also see graphs).

However, instead of celebrating this success of the growth strategy in alleviation of poverty, several NGOs and even Congress stalwarts remained sceptical. They advocated food subsidy under the Right to Food Campaign. Sonia Gandhi and her National Advisory Council (NAC) came up with a proposal to subsidise 90 per cent of people by giving them rice and wheat at Rs 3/kg and Rs 2/kg. Montek tried to convince them that this was likely to create an unsustainable burden on the exchequer. He also argued that India could end up importing grains to the tune of 13-15 million tonnes per year. Montek favoured a cap at 40 per cent of the population to be covered under the Food Security Act as the poverty ratio (HCR) in 2011-12 was 22 per cent. He also favoured providing smart cards to the beneficiaries so that they could opt for buying more nutritious food rather than just relying on rice and wheat. That would have also allowed diversification of agriculture and augmented farmers' incomes. But he could not win over the NAC — although the coverage for food subsidy was reduced from the original proposal of 90 per cent to 67 per cent of the population.

Montek also argued against export bans on agricultural commodities as these impacted farmers' incomes adversely. But the government of the day often ended up taking the consumer's side, as that was considered pro-poor. This reduced the incentives for farmers, who then had to be compensated by increasing input subsidies.

No wonder, years later, when we estimated the producer support estimates (PSEs), as per the OECD methodology — used by countries that produce more than 70 per cent of the global agri-output — we found a deeply negative PSE. This indicates implicit taxation of agriculture through trade and marketing policies, even when one has accounted for large input subsidies going to farmers (see graph on PSE).

Today, the food subsidy is the biggest item in the Union budget's agri-food space. In the current budget, it is provisioned at Rs 1,15,570 crore. But this factoid hides more than it reveals. Lately, the government has been asking the Food Corporation of India (FCI) to borrow from myriad sources, and not fully funding the food subsidy, which should logically be a budgetary item. The outstanding dues of the FCI are more than the provisioned subsidy, and if one adds these dues to the budgeted food subsidy, the effective amount of food subsidy comes to Rs 3,57,688 crore. This displays the consumer bias in the system.

How do we move forward and what lessons can one learn from Montek's engagement with policy formulation? The Economic Survey of 2019-20 makes a case for restricting food subsidy to 20 per cent of the population — the head count poverty in 2015 as per the World Bank's \$1.9/per capita per day (PPP) definition was only 13.4 per cent. For the others, the issue prices of rice and wheat need to be linked to at least 50 per cent of the procurement price or, even better, 50 per cent of the FCI's economic cost. Unless we make progress on this front, it is difficult to unlock resources for the growth of agriculture, which slumped from 4.3 per cent during UPA-2 to 3.1 per cent during Modi 1.0.

Expected Questions (Prelims Exams)

Q. Consider the following statements:

1. 'Backstage: The Story Behind India's High Growth Years' is a book written by Narendra Modi.
2. Lakdawala and Tendulkar Committee are related to the determination of poverty line.

Which of the above statements is / are correct?

- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

Note: Answer of Prelims Expected Question given on 14 March., is 1 (d)

Expected Questions (Mains Exams)

Development of agriculture sector depends on price rise of agricultural commodities, more budgetary allocation for agriculture, etc.' Do you agree with this statement? Comment. (250 words)

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.

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