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Farm crisis, root cause of inequality

PREMIUM

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The crisis in agriculture and constraints to industrialisation are central to rising inequality.

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COMMENTS SHARE

The manner in which the Planning Commission has classified people living below the poverty line remains, as ever, a subject of heated debate. The government has shelved the Tendulkar Committee's findings and appointed another panel to look into the extent of poverty. But the crux lies in looking at poverty and inequality in tandem.

The idea that only someone with a consumption expenditure of less than Rs 28.65 per day (in urban areas) will be counted as poor is hard to believe.

However, there is agreement on one important issue — during the post-reform period, the percentage of people living below the poverty line has, indeed, fallen. This is borne out by all the methodologies — whether it is the National Sample Survey, the World Bank, or even the Tendulkar committee. So there is a unanimity of opinion, when it comes to reduction in poverty *per se* .

Policymakers need to focus on increase in inequality. Much of the increase in income inequality is on account of the poor being dependent on agriculture. The agriculture and allied sector, which supports the livelihood of around 60 per cent of the population, gets a paltry 14 per cent of the total national income.

On a per capita basis, an agricultural worker earns much less than those working in the services and the manufacturing sectors.

Factors aggravating distribution of income are of two kinds: Those specific to agriculture and those pertaining to the farm sector's linkages to industry and services.

AGRI PRODUCTIVITY

India is one of the largest producers of many agricultural products, such as rice, wheat, sunflower oil, tea and coffee. However, if one looks at productivity, India is way down the ladder. China has much less arable land in comparison with India, but its yield per hectare is almost twice that of India's.

In India, 70 per cent of the landholding belongs to tenant farmers. The big landlords are busy making money in the US and elsewhere. They have all but abandoned their traditional occupations, so farm productivity is not a priority for them anymore.

In States such as West Bengal and Kerala, a different situation prevails — Left governments were successful in initiating land reform programmes, but as a result land owners and share tenants have little resources to invest in high-yielding crops.

As crop output is dependent on rainfall, landowners are risk-averse — investing in low-yield varieties such as rice, pulses, rather than in high-yield varieties such as groundnut and castor.

Volatile agriculture output contributes to rural poverty, affecting distribution of income. It also triggers migration to the urban sector. The migration of unskilled or semi-skilled labourers into the urban informal sector only aggravates inequality in distribution of income. The workforce would have little or no chance of being meaningfully employed in the services sector.

Industrialisation

A way out of this trap, albeit an extreme, theoretical option, is to use agriculture land for industrialisation, and meet our food requirement through imports. But this is not a practical or feasible option.

The acute power shortage in rural India rules out small-scale options such as the food processing industry. This leaves us with the option of setting up large industries.

Even if the state provides the necessary infrastructure such as roads, power, water, the central problem is of acquiring land. A case in point is Singur, West Bengal, where the Tatas were not allowed to set up their plant.

Land-owning farmers were willing to enter into an agreement with the previous Left Front government to sell their land, but the tenant farmers were not willing. The reason: there is no law defining the rightful share of the tenant farmer in the compensation paid to land owners.

The irony is the Tatas have left, but the farmers are yet to get back their land, and even if they get it back in some distant future the land would perhaps no longer be cultivable.

Govt INTERVENTION

When industrialisation is a difficult proposition, the other alternative is government intervention to boost farming — procuring agricultural commodities and by giving fiscal incentives. But how effective are these? The idea behind government procurement is to ensure that farmers get the right price for their produce, especially when supply exceeds demand. Now consider this. Between 2010 and 2011, fertiliser price has doubled.

There has also been an increase in cost of daily labour and transport. All these have raised the input cost of farming by around 30-40 per cent. On the contrary, there has actually been a reduction in the wholesale market price of jute and paddy during 2011, making it a perfect case for government intervention.

Considering the market for jute and paddy in rural West Bengal, the data show that for the last two years, most of the government procurement took place in February, when it should have been done soon after the harvest; January in case of paddy, and November in case of Jute.

This is because small tenant farmers, unlike their big counterparts and wholesale traders, cannot hoard their produce. Soon after the harvest, they need to sell most of their produce to pay off their existing loan.

So delay in government procurement benefits large farmers and traders, further aggravating income distribution in rural areas.

As for fiscal stimulus, the classic case has been that of Vidarbha region in Maharashtra where, inspite of various packages being announced, farmer suicides continue.

The root cause of the problem in Vidarbha is lack of irrigation facilities, the crop output being heavily dependent upon rainfall. The Prime Minister, Mr Manmohan Singh, visited this region, and announced some relief packages, a part of which was meant to build a dam.

Better irrigation because of the dam was expected to lessen woes of the farmers. The dam was built, but the water now gets diverted to generate power to feed the nearby industry. Farmers' suicides continue, and government saves face by categorising these deaths as accidental rather than announcing them as farmers' suicide.

To sum up, the government can better address the big question of poverty and inequality by looking into the micro-issues. It is easy to be deluded by a deluge of statistics.

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