

Are farm loan waivers a political gimmick?

PARLEY

Several interventions are needed on the demand and supply side to alleviate farm distress

Loan waivers remain the preferred solution for governments to tackle farm distress. S. Mahendra Dev and M. Govinda Rao talk about the inability of governments to think of long-term solutions to tackle farm distress, in a discussion moderated by Vikas Dhoot. Edited excerpts:

Despite farm productivity rising, severe distress in the sector is a concern. How grave is the situation, especially for small and marginal farmers?

S. Mahendra Dev: Farm distress is real because there have been low agricultural prices and low farm incomes. The farm sector growth rate is much lower than in earlier periods. As a result, farm prices are low despite production rising. The demand is also low. So, whether the increase in farm production is enough for incomes is not clear. For small and marginal farmers, the additional problem is that the size of land holdings is declining. Earlier, the average size was two hectares, now it has come down to nearly one hectare. Marginal farmers have less than half a hectare. With these sizes, income is difficult to sustain. The recent stress is also because prices are much lower than the MSP [minimum support price] in the market, while long-term problems such as low capital formation in agriculture persist. Public investment in the sector as a percentage of GDP is also stagnant. So, these factors, along with two years of drought, have led to this. Another thing is that the non-farm sector creates jobs. As per NABARD [National Bank for Agriculture and Rural Development] data, 23% of rural income is from agriculture, so the rest is from non-farm activity. The rate of growth in agricultural wages has stagnated and is lower than in earlier years when MGNREGA and the construction sector helped boost wages. The rural economy overall, agricultural as well as non-farm, is facing a demand problem and low incomes, which has caused farm distress.

Would you say the government's focus on managing inflation in the early years of its tenure and the

inability to generate jobs that could have created non-farm avenues for the youth in farming households has contributed to the stress?

SMD: Yes. The agriculture focus is short term, [which is why we have] loan waivers, but the focus on how to generate incomes and jobs has been lacking. The construction sector was earlier responsible for higher wages and demand, but now that sector is also stagnating.

Eleven years ago, the UPA announced a massive farm loan waiver scheme. Do you think it's an easy way to deal with a far more complex problem?

SMD: Yes, the UPA did, but the impact on farm income was limited. Second, institutional credit to farmers is just 64%, so the rest is from non-institutional sources. The large farmers corner the institutional credit, and small and marginal farmers get non-institutional credit at interest rates of 25-30%. Moreover, there is a moral hazard problem as banks get affected – farmers say they don't have to repay the loans as there will be a waiver some time. There are opportunity costs for this loan waiver spending. Several States have started them, including Madhya Pradesh, Rajasthan and Chhattisgarh. This will also have fiscal implications. But some people say banks have written off ₹5 lakh crore of corporate sector debt, so why not farmers? But both the write-offs are bad.

The Centre has announced the PM-KISAN scheme under which ₹6,000 per year will be given to 12 crore small and marginal farmers holding cultivable land up to two hectares. Is this any different from the loan waiver in terms of quality spending?

SMD: This is similar but only slightly better than loan waivers, as smaller farmers could also get this amount. Telangana and Odisha have also started such schemes. The amount may not be very high for farmers, but its implementation may be relatively easier as it's a direct cash transfer. But it's also simi-



RAJENDRA SINGH HALDER

lar to farm loan waivers and is just a palliative.

The Congress had announced farm loan waivers in States like Madhya Pradesh. It has also promised a new law to waive farm loans, a separate farmer budget, and a minimum income support scheme.

SMD: In general, I support cash transfers to the poor. Farmers and agricultural labourers face several risks, so some social protection measures are important for an economy which has 90% of the workforce in the unorganised sector. But on the other hand, if you want to remove distress, these are not the solutions. In the NYAY [Nyuntam Aay Yojana] scheme announced by the Congress, it's not clear where the money will come from.

Loan waivers create a moral hazard for even those willing and able to repay their farm loans, so could this make banks wary of lending to the sector in the future?

SMD: The moral hazard is a difficult problem as borrowers don't repay in the hope of a waiver being announced.

Dr. Rao, what is your view on farm loan waivers?

M. Govinda Rao: This is certainly not a solution. First, it doesn't really help the needy farmers who borrow from moneylenders. Second, it creates a bad credit culture. As we go along, commercial banks will be-

state interventions at every step of the farming process?

MGR: Exactly. Whichever government is in power, it says it will double farm incomes, put ₹15 lakh in your account, and all sorts of things. I would consider these as election gimmicks. The details are never worked out. Even if you increase procurement prices, it will be useful only for those crops that the government procures. Many States don't procure most items. Agricultural markets are in very bad shape and marketing reforms are very important as is the removal of middlemen. Many interventions are needed on both the demand and supply side.

SMD: Yes, I think market reforms are the biggest change needed. MSP is not a solution, which focuses on cereals like rice and wheat. Dr. Rao is right – very few reforms have taken place in market infrastructure, value chains, logistics, processing and warehousing to boost farmer incomes. We also need a consistent import and export policy, which is lacking, so that farmers can sell their excess produce. For perishables, a different model is needed. Returns are much higher if the same amount of money spent on loan waivers and income support schemes is deployed on things like water and technology, research and extension services.

Would you say that institutionally the government is predisposed to such policies as it has a vast bureaucracy built around the agriculture sector? The Agriculture Ministry has multiple joint secretaries. Do we need a reboot of these structures?

SMD: Governments generally think short term. When I was in the Agriculture Ministry discussing medium- and long-term solutions, the Minister told me, "We are interested in only short-term things." They may talk about other things in normal times, but policies are geared towards short-term goals.

MGR: Political parties don't have a long-term view. Immediate solutions that lend themselves to sloganeering are the big issue. Somebody has to come and say, look, my agenda is not to double farm incomes,

but these are the reforms I will implement for a better future for farmers. Another issue is the consolidation of holdings. Small farms have become unviable. Farm labourers are not available because of MGNREGA. Many of them have migrated to urban areas in search of work. We need to legally facilitate the consolidation of holdings. Information asymmetry is a big problem too. When the farmer is going to the market with his bullock cart full of produce, he doesn't know what prices he is going to get for his produce. If prices are low, he can't just return as he has to pay rent for the cart and other things, so there is a distress sale as many crops are perishables. We have never thought of this in a comprehensive manner, and unless there is a package of holistic measures, all this talk of doubling farm incomes is meaningless.

The Prime Minister has also talked of a pension for farmers.

MGR: Giving a minimum basic income deserves to be looked at, but you can do that fiscally only when you get rid of all other subsidies and transfers. The basic issue is the sustainability of a policy measure such as minimum income. The other important thing is farm insurance, which needs to be expanded much more so that farmers are protected from the vagaries of nature.

Professor Dev, do you think farm insurance has worked in terms of protecting farmers?

SMD: Compared to earlier schemes, the recent farm insurance programme is better, but still many farmers have not benefited because of implementation problems. It's a long way to go. We don't have crop cutting experiments, State governments are not working on it properly when disasters take place. Between subsidies and investments, there is a trade-off – when subsidies increase, investment declines. On old-age pension, there was a scheme that gave ₹200 a month earlier. State governments have offered ₹2,000 in some places. Farmers also come under that scheme. I agree basic minimum income can be considered if you remove non-merit subsidies and move fertilizer subsidy to cash transfers as you can save more and improve soil fertility too.



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M. Govinda Rao is an economist and was a member of the 14th Finance Commission



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SINGLE FILE

Vox populi

While many contest to win elections, some contest only to make their voices heard

SATYA NAAGESH AYYAGARY



When people are let down by their leaders repeatedly, they rise and revolt, and history is replete with examples of such revolts. In a democracy, people often revolt peacefully, using the ballot. In this polarised election, while national security assumed centre stage and accusations and counter-accusations flew thick and fast, a number of ordinary voters contested the election over critical local issues. Of course, these candidates know well that they do not stand a chance of winning against political heavyweights with money and muscle power. But their objective is not to win; it is to simply make their voices heard.

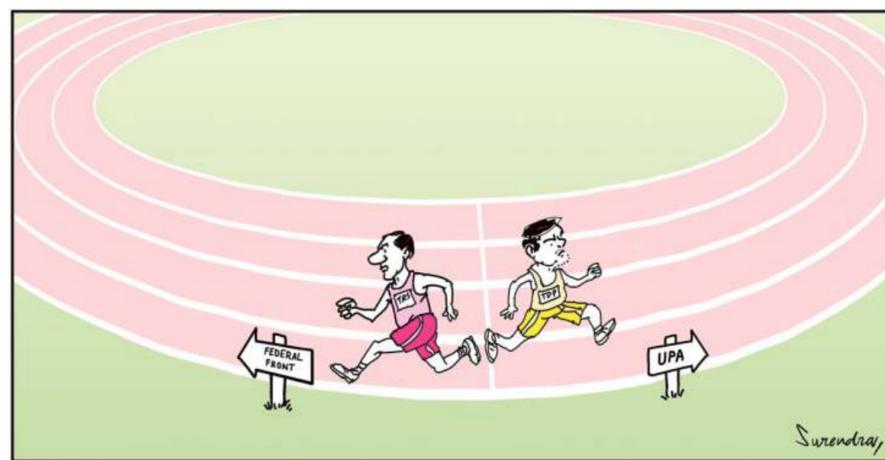
Consider the turmeric and sorghum farmers in Nizamabad district in Telangana. They had been protesting for long, demanding a minimum support price and the setting up of a turmeric board, among other things. Leaders promised to address their grievances but failed. And so the farmers decided to contest the Lok Sabha election. In this case, no fewer than 178 of them jumped into the fray in Nizamabad. In this seat, 185 candidates contested altogether.

The record for the highest number of nominations filed in a Lok Sabha election from a single constituency was set by Nalgonda in 1996 where 480 candidates filed nominations. Most of them were contesting the election to bring attention to the fact that they were victims of fluorosis. Most of them were tribals and Dalits who could not afford to pay the required security deposit of ₹250 (for Scheduled Caste/ Scheduled Tribe candidates). They were reportedly financed by activists and sympathisers at a time when the term 'crowd funding' was not in common parlance.

However, the case of the turmeric and sorghum farmers is different from their Nalgonda brethren. Most of them managed to pay the required ₹25,000 as security deposit on their own, even if it was a considerable burden. Theirs was not a half-hearted decision but a serious one. Such quiet protests have been recorded in Assembly elections too – in 1996 again, in Modakurichi in Tamil Nadu, 1,033 candidates contested the seat as no one had addressed their concerns over farm distress.

An inscription on the arch of the middle gate of North Block in New Delhi quotes British writer Charles Caleb Colton: "Liberty will not descend to a people: a people must raise themselves to liberty. It is a blessing which must be earned before it can be enjoyed." Rise people do, albeit slowly. But contesting elections is unfortunately not always the solution. Such contestants mostly lose their security deposit, do not win, and their issues are not addressed either. It is time our politicians stepped up and listened to the voices of the poor and marginalised.

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NOTEBOOK

Hitching rides in coracles, tractors and bullock carts

The journey to a story is often as exciting as the story itself

RAMYA KANNAN

Often, the journey can be as interesting as the destination itself. The destination is sometimes not what one hopes for, but the journey can still redeem it.

This is especially true for a journalist who is chasing stories wherever they need to be chased. Sometimes, when we have time for relaxed reminiscence and we allow ourselves a little throwback, it turns out some journeys have stayed with us, even when the stories have not been great, or have turned out to be non-stories. A bus ride, a train ride in an unreserved compartment, a ride in a swirling coracle, four-wheel drives that send one hurtling across a harsh landscape, old creaky cars that run to prove miracles exist, a ride on a bullock cart – what joy, what companionship, and what convivial situations they lead to.

Driver Murugan owned a ramshackle Ambassador

car in Cuddalore, Tamil Nadu, in 2004, when the tsunami struck. He saw a business opportunity in the droves of people coming to Cuddalore and Nagapattinam – journalists and aid workers who needed to get by. He charged quite a bit, but a scarcity of services had caused the prices to go up. He made up for what his car lacked – a brake shoe, rearview mirrors and the padding on the seats – with his personality. He drove that car like an all-terrain bike – over roads, black strips that were once roads, streams, rocks, the beach, a rubble of homes by the seaside – with a passion that came from knowing the territory and a conscientious work ethic. He knew nearly everyone and insisted on walking along, calling out to people and drawing them into a casual chat. One realised while riding with Murugan that there are things you cannot pay for.

Then, there are rides

you do not pay for. The boatman who took us from Muzhukkuthurai to a small strip of sand called MGR Thittu that the tsunami had ravaged did not care for cash. The boat was basic, wood strung together, but it could float. Thiruvengadam ran an earth-moving equipment firm in Muzhukkuthurai and volunteered to accompany us on the boat, perhaps because we were the only people at land's end. He regaled us with stories of smugglers on MGR Thittu and told the boatman to come back in an hour, nodding in our direction: "They will have to walk a long way to reach the boat, otherwise."

And then there were the four-wheeler drivers of Dhanushkodi who were winding up for the day when we landed there. The only way to travel was by jeep, but it looked like we were too late, and coming back the next day was not really an option. The disappointment must have been

apparent. "What do you do?" one of the drivers came back and asked. "Oh, journalist? Then we need to get you there, somehow." He hustled his brother to tag along with him, one last drive back. On that ride we literally flew across the whitish beach sands as darkness and a chill descended gently together. That is certainly a memory to keep.

There were, of course, as perhaps in most journalists' careers, long treks on foot up treacherous slopes; bullock cart rides with obliging farmers; a short hitch on a tractor; rides on crowded 'town buses' to remote hamlets where passengers shared food and jokes, shouting to be heard above the loud music playing on cheap speakers.

These were rides where comfort might have been lacking but never communion. After all, a journalist's job is with the people, isn't it? And what a ride that can sometimes be.

FROM The Hindu ARCHIVES

FIFTY YEARS AGO MAY 10, 1969

Central Bill to deal with extremists

The Government of India proposes to introduce comprehensive legislation during the next session of Parliament for arming itself with extensive powers to deal with individuals or organisations advocating violence for bringing about political, economic or social changes in the country, or preaching aggressive communalism or regionalism. The Internal Affairs Committee of the Union Cabinet has authorised the Home Minister, Mr. Y. B. Chavan, to take suitable steps for amending the Unlawful Activities (Prevention) Act, 1967, in consultation with the leaders of the Opposition parties in Parliament, to curb the activities of not only the extremist political elements but also the private armies that are cropping up all over the country in the name of safeguarding communal, linguistic or regional interests.

A HUNDRED YEARS AGO MAY 10, 1919.

Mr. Tilak and the Indian Situation.

Addressing meetings in London during the last week, one at the National Liberal Club under the chairmanship of Mr. Harold Spender and the other at the Church of Humanity under that of Mr. S.H. Swinny, President of the Positivist Society, Mr. [Bal Gangadhar] Tilak spoke almost in identical terms on the subject of Indian Constitutional Reform. Confining himself mainly to the Congress demand, he pointed out that, while outside India, Indians demanded equal treatment with Europeans in all parts of the British Empire, in India itself they claimed the right to manage their own affairs; in other words, they asked for the application of the principle of self-determination, so far as the internal administration of the country was concerned, except of course, such matters as the making of war and peace, foreign relations, and relations with native States, law and justice, etc., which according to the Congress demand, were proposed to be left under Government control, as at present, as a guarantee of India's good faith towards the British connexion. Taking his firm stand on the announcement of policy of August 20, 1917, Mr. Tilak declared it would do if the goal obtained therein were reached in a generation, a difference of five or ten years not being of great consequence.

POLL CALL

Replacement rate

This refers to the percentage of EVM units and/or VVPATs that are replaced across States due to malfunctions or glitches during an election. In this Lok Sabha election, the replacement rates have been close to 2% for VVPATs (except for Karnataka where it was close to 6% in one of the phases) and negligibly low (less than 0.5%) for ballot units and control units.

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