Invest Big in Agriculture

OPINION | STHANU R NAIR

Sthanu R Nair is Assistant Professor at the Indian Institute of Management, Kozhikode. Email: srn@iimk.ac.in

Even as the food price inflation has been ruling high in India for a record 57 months since January 2008, the government remains clueless in finding a concrete solution to the problem. As on September 2012, the wholesale price index (WPI) inflation rate for food articles and food products stood respectively at 7.86 per cent and 9.76 per cent. The prices of several important food items and edible oils remain high. The measures initiated so far to rein in food inflation involve various supply-enhancing steps and demand-moderation via tight monetary policy. The fact that these anti-inflationary measures have failed to deliver the desired results necessitates the search for further policy actions to control food prices. This has become all the more important as the Reserve Bank of India continues to remain firm in its stand that taming inflation must precede a growth-friendly monetary policy.

One policy option that has been overlooked is the control and/or reduction of the cost of production (CoP) of food commodities. In a way, by attributing food price spiral enormously to supply-demand mismatch, we have failed to address CoP of food commodities. The CoP of various food crops has increased sharply over the years. Between 2003-'04 and 2008-'09, the latest year for which official data is available, the increase in the cost of food crops production was 106 per cent in the case of masur followed by groundnut (103 per cent), onion (86 per cent), potato, etc.

The key reasons for the escalation in the cost of producing food in India are the rapid increase in farm input prices and long-term structural deficiencies such as low productivity, fragmented landholdings, and declining public investments in agricultural infrastructure. The prices of various farm inputs, measured by WPI inflation rate, were subject to significant increase over the years. On an average basis, the WPI inflation rate (Base: 1993-'94) of light diesel oil has recorded an increase of 18.28 per cent between 2003-'04 and 2008-'09. During the last two years also, together with fertilizers and electricity, the prices of most of these farm inputs have increased substantially. As regards labour cost, according to the estimates provided by the Commission for Agricultural Costs and Prices (CACP), between the second half of 2008 and second half of 2011 the agricultural wage rate at the all India level has increased sharply by 74 per cent. The rise in the wage cost ranged from 43 per cent in Himachal Pradesh to 102 per cent in Odisha.

Given this, one can hardly ignore the contribution of rising cost of food production in firming up food prices. To bring down food inflation to the desired level in the medium to long run, concrete measures need to be undertaken to control and/or cut down the CoP of food commodities. It is widely believed that expansion of organised retail sector, including foreign direct investment, would result in lower food prices due to supply chain efficiency improvements. However, this may not fully materialise if the cost of food production up to the farm gate remains unchecked.

A multi-pronged approach is needed to tackle the increasing cost of food production. Estimates show that more than 40 per cent of the total variable CoP in Indian agriculture consists of labour. Due to reasons such as high non-farm wages, aspirational migration, educational attainment, and the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) farm labour has become scarce and costly in rural India. Some of the sensible ways to overcome the labour shortage are increased mechanisation of the farm operations, including that of small land holdings through group farming method; extending the provision for taking up asset creation works on private agricultural land under MGNREGS to more beneficiaries; and making agricultural operations a part of MGNREGS on an equal cost sharing basis between the farmer and the government.

Corruption, non-accountability and inefficiency associated with schemes must be tackled for sustainable results

The other key suggestions are productivity improvement and higher public investment in agriculture. The growth of yield of all major crops has declined significantly in the post-economic reforms period. Some important policy actions available to improve the yield are: use of modern farm technologies/inputs, group farming, and enhanced public investment in agricultural infrastructure. Group farming can take two forms. One way is to form clusters of small farmers. Another way is to form farm cooperatives *a la* the Amul model. Apart from raising the scale of operations, group farming enables the farmers to source inputs at competitive prices and with relative ease as in the case of farm labour.

It is a known fact that the high input subsidies such as on fertilizer, power, irrigation and credit is the main cause for inadequate public investment in agricultural infrastructure, in particular surface irrigation and agricultural extension. As a result, most part of the investment in agricultural infrastructure is financed by the farmers themselves. This, in turn, inflates the CoP because private provision of public assets is not cost effective as it benefits a small area and fewer farmers per unit of investment. One standard solution offered to augment public investment in agriculture is rationalisation and proper targeting of input subsidies and invest the surplus public funds thus generated on building agricultural infrastructure.

Another solution worth attempting is the effective convergence of public investment made under existing government rural schemes with the infrastructure needs of agriculture. The case in point is the amount spent on MGNREGS. As detailed in 'MGNREGA Sameeksha – An Anthology of Research Studies on the Mahatma Gandhi National Rural Employment Guarantee Act, 2005, 2006-2012', published by Ministry of Rural Development, around 70 per cent of the works carried out under MGNREGS so far were related to improving rural irrigation and connectivity. Assets created under MGNREGS including the ones on private land have contributed to resource base of agriculture by improving water availability, soil quality and rural connectivity. This has resulted in an increase in irrigated area, area under cultivation, crop diversification, and land productivity. All these are welcome developments and hence need to be scaled-up. However, to realise the full potential of schemes such as MGNREGS in creating sustainable agricultural assets the instances of corruption, inefficiency and non-accountability associated with their implementation must be tackled.