



Solving the Farmer-Consumer Binary

What is the issue?

\n\n

\n

- Indian Farmers have been subsidising the nation for a long time despite that they themselves are living on the margins of the economy.
- Elimination of input agricultural subsidies and agri-market reforms would benefit farmers, but it would inherently make food prices costly.
- In this context, “direct benefit transfers” can be initiated to secure the food needs of the poorer sections of the society.

\n

\n\n

What are the metrics that have guided India’s agricultural policies?

\n\n

\n

- India’s policymakers have the herculean task of addressing the food security concern of 1.32 billion people in India.
- On the one hand, they need to incentivise farmers to produce more and raise their productivity in a sustainable manner.
- On the other, they need to ensure that consumers (especially the poor) have access to food at affordable prices.
- In order to find a fine balance between these twin objectives, India has followed countless policies that impact both producers and consumers.
- These policy instruments range from:

\n

\n\n

- \n
- Budgetary policies such as input subsidies
- \n
- Food subsidies for consumers through ration shops.
- \n
- Domestic marketing regulations like Agricultural Produce Marketing Cooperation (APMC) Act, and the Essential Commodities Act (ECA)
- \n
- Trade policies such as “Minimum Export Prices (MEP) or outright export bans and tariff duties.
- \n

\n\n

- \n
- These policies work in complex ways and their impact on producers and consumers are sometimes at variance with the initial policy objectives.
- \n
- So, it is only desirable that policy-making is based on more informed and evidence-based research.
- \n

\n\n

How has India’s agricultural policies fared in the past 2 decades?

\n\n

- \n
- In this context, a recent OECD research has mapped the nature of agricultural policies in India and its impact on producers and consumers.
- \n
- The study covered a 17 year period since 2000 and has calibrated about two-third of the total Indian Agricultural Output.
- \n
- The report follows standard metrics and includes key indicators like “Producer Support Estimates” (PSEs) and “Market Support Estimates” (MSEs).
- \n

\n\n

Producer Support Estimates (PSE)

\n\n

- \n
- **What** - PSEs captures the impact of various policies on two components:
- \n

\n\n

\n

- The output prices that producers receive, which is benchmarked against global prices of comparable products.

\n

- The various input subsidies that farmers receive through budgetary allocations by the Centre and states.

\n

\n\n

\n

- The two are combined to see if farmers receive positive support (PSE) or negative as a percentage of gross farm receipts.

\n

- A positive PSE (in percentage) means that policies have helped producers receive higher revenues than would have been the case otherwise.

\n

- A negative PSE (in percentage) implies lower revenues for farmers (an implicit tax of sorts) due to the set of policies adopted.

\n

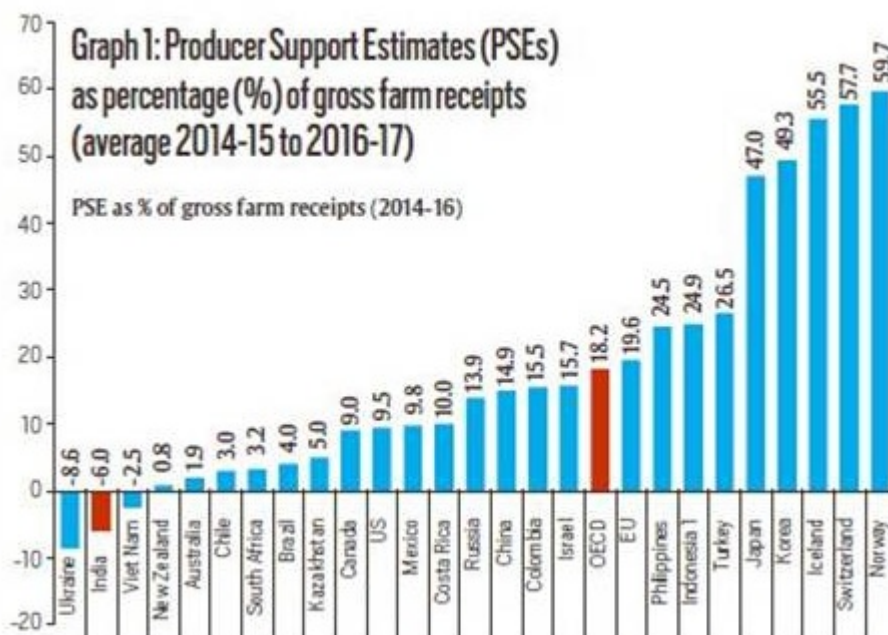
- **Trend** - The results of the PSE exercise reveal that India's PSE, on average, between 2014 and 2017 was "minus 6 per cent" of farm receipts.

\n

- Significantly, this is in contrast with most other countries studied which had large positive PSEs - OECD (18.2%), EU (19.6%), China (14.9%), U.S. (9.5%).

\n

\n\n



\n\n

\n

- Also, the temporal movement of PSE (in percentage) for India component parts, over the past 17 years has largely been on the negative side.

\n

- Overall, PSE was negative to the tune of 14% on average over the entire period from 2000-01 to 2016-17, due to large Market Support Prices (MPS).

\n

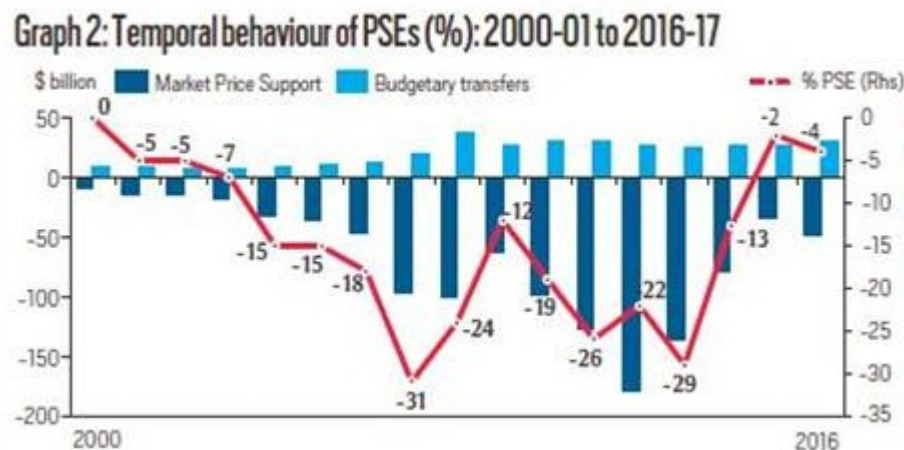
- This indicates that despite positive input subsidies, farmers in India received 14% less revenue due to restrictive trade and marketing policies.

\n

- The negative PSEs were particularly large during 2007-14 when benchmark global prices were high but domestic prices were relatively suppressed.

\n

\n\n



\n\n

What needs to be done?

\n\n

\n

- **Liberalising Markets** - There has been a pro-consumer bias in India's trade and marketing policies, which actually hurts the farmer revenues.

\n

- This needs to change, if farmers are to be incentivised to raise productivity, and build an efficient and sustainable agriculture.

\n

- Firstly, policy change is needed is to "get the markets right" by reforming domestic marketing regulations like "ECA and APMC" acts.

\n

- Promoting a competitive national market, upgrading marketing infrastructure and undoing restrictive export policies are also vital aspects.

\n

- These changes will reduce and eventually eliminate the negative “market price support” that is affecting farmer incomes.

\n

- **Subsidising the Poor** - Protecting consumers from potential price hikes is a critical aspect that policy makers have to deal with.

\n

- Enhancing the income of farmers would inherently mean that consumers will have to shell out more from their pockets.

\n

- In this context, the OECD report argues for switching to an income policy approach through the Direct Benefit Transfer (DBT) targeted the poor alone.

\n

- Further, the report states that this can be implemented gradually and would generate better outcomes all round, including for nutrition quality.

\n

- **Farm Subsidies** - OECD report argues for undoing input subsidies to farmers in India, which is costing the exchequer a massive sum.

\n

- It asserts that farmers would be better off if equivalent amounts are channelled simultaneously towards higher investments in agricultural areas.

\n

- Agri-R&D, extension, building rural infrastructure & agri-value chains, and bettering water management practices are some areas to be considered.

\n

- **Structural** - As agriculture is a state subject, a greater degree of coordination is required between the Centre and states to usher in big ticket reforms.

\n

- Also, better coordination across various ministries (like agriculture, food, water resources, fertilisers, rural development and food processing) is needed.

\n

- Some policy reforms are already underway, and unwavering commitment is needed to comprehensively overhaul the scenario for the betterment of all.

\n

\n\n

\n\n

Source: Indian Express

\n



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative