Need to replace subsidies with investment, free markets

Not surprisingly, the agriculture ministry's committee on doubling farmers' income has come out with recommendations that include a dramatic hike in public investment in agriculture—four-fold over the next five years—as well as increased marketing freedom. Indeed, the largest share of public investment after irrigation—Rs 48,600 crore of a total of Rs 284,300 crore at 2004-05 prices by FY23—is for rural roads which is also critical in terms of marketing freedom since these are essential for farmers' access to markets. Though the committee has not linked increased investments and marketing freedom, they are, in fact, intrinsically linked. The government has, historically, tried to compensate farmers for lack of marketing freedom by giving them more subsidies but the latter, in turn, is what is preventing the government from hiking public investments meaningfully. Though government subsidies to agriculture, as a proportion of agriculture output, has fallen from the high of 12% in FY09, it is still a high 6% even today, with the lion's share comprising fertiliser subsidies. Indeed, as this newspaper has argued before, if the government was to replace the current FCI-led procurement-cum-ration-shop-system by direct benefits transfer (DBT)—while leaving untouched the gargantuan food subsidy to two-thirds of the population—this alone will save Rs 40,000 crore per year which can be used for investment in agriculture. The other advantage of this, of course, is that it will end the bias towards foodgrains—while India produces more horticulture than foodgrain, the lack of price-support is what leads to the boom-bust cycles recently witnessed in both onions and tomatoes.

While farmers lack the freedom to freely move their produce across states, a study by Shweta Saini and Ashok Gulati at ICRIER has tried to calculate the cost of export restrictions and finds them quite large. In most years, they found, Indian produce was export-competitive, but in order to keep domestic prices down, all manner of export restrictions have been put. Between February 2007 and September 2011, for instance, wheat exports were banned—to put perspective on the damage to the farmers, after the ban was lifted, wheat exports rose to over $5 billion in FY13. In the case of onions, the duo found they were export-competitive in all the 10 years studied, but apart from the government dramatically hiking the minimum export prices on various occasions, exports were even banned on two occasions. If the government is really serious about doubling farmer incomes, it needs to change its policies quickly, to free farm exports and stop the practice of putting stocking limits to curtail local inflation and also to step up investments by reducing subsidies.