

Economic Reforms and Agriculture

Prof. D. Rudrappan

Agriculture can move on to a higher growth trajectory, if supply side bottlenecks are freed, and a protective cover is accorded to the poor, atleast for some time. If this happens, agriculture can propel growth in other sectors too on a sustainable basis, while promoting intersectoral and interpersonal equity and linkages.

"It is in the agricultural sector that the battle for long term economic development will be won or lost"

is the subtle remark of Professor Gunnar Myrdal, a Noble Laureate. He emphasized the imperative need for agricultural progress, as the basis of long term economic development. The vast majority of poor in India are in rural areas and are engaged primarily in subsistence agriculture for their survival, even today. The core problems of widespread poverty, growing inequality, rapid population growth and rising unemployment, find their origin in the stagnation and often retrogression of economic life in rural areas. Millions of people have been bypassed by whatever economic "progress" that has been attained in India before and after independence. If "development" is to take place and become self-sustaining really and substantially encompassing especially the poor, it will have to start in the rural areas

in general, and the agricultural sector in particular.

In India, terms of trade always worked against agriculture as a result of high protection policy to industry, and also due to an over-valued exchange rate. The underlying assumption perhaps was that a rapidly growing manufacturing sector and the urban areas would siphon off excess labour from agriculture in due course. This would allow the agricultural sector to modernize itself with a more favourable land-man ratio, and raise productivity in agriculture. But history has proved it otherwise. The share of agriculture in national GDP slid from 56% to 25%, in the year 2000. It's share in the working population fell only marginally from 71% to 64%. As a consequence, intersectoral inequalities in income and assets have increased, creating a chasm between rural-urban India. Rural India appears to have lagged behind even with occasional injections of technological

breakthroughs like green revolution and subsidies.

Opening up Agriculture

India also became a signatory to the Uruguay Round trade negotiations, including agriculture. Consequently, the Tax Reforms Committee (GOI, 1993) had recommended that agricultural commodities should basically attract three rates of import duties. First, essential agricultural commodities like wheat and rice should be imported at zero percent duty; secondly, commodities like oilseeds and pulses should attract 10 percent duty; and thirdly, non-essential agricultural goods like almond and cashewnuts should be imported at 50 per cent import duty.

Implications of Economic Reforms

Theoretically, the process of economic reforms in the Indian Economy would involve reduction of import duties on the highly protected manufacturing sector, and freeing

Prof. D. Rudrappan is from Presidency College, Chennai.



Gains for the farmer

agricultural exports, which are somewhat unprotected. This should inevitably lead to the terms of trade moving in favour of agriculture, and improvements in the relative environment for agriculture. Other things remaining constant, it should invite higher private investments, spurring growth in agriculture. Enhanced agricultural incomes should then generate enough demand for industrial products through its backward and forward linkages. It would also stimulate and sustain off-farm activities in the rural areas.

The manufacturing sector was protected by about 46 percent while agriculture was being disprotected by about 20 percent leading to a

large implicit discrimination against agriculture.

The results are on expected lines; liberalization triggers growth in agriculture, the impact is more from industrial liberalization than from agricultural liberalization *per se*. However, the poor are in the short run adversely affected by the liberalization of agriculture, necessitating a 'safety net'. The Economic Survey, 2002-03, observes that the robust agricultural performance in the last four years is not just the result of normal monsoons, but also due to improved incentives for the agricultural sector as a whole. Comprehensive reforms of tariff rates, trade policy, and the exchange rate system have greatly

reduced the earlier bias in favour of manufacturing industries arising from high levels of protection and has improved the relative profitability of agriculture.

Problems and Prospects

The first set consists of bottlenecks in the supply side factors: irrigation, credit, research and development, institutional factors governing patterns of landholdings, and so on. The second set of threats consists of issues relating to food-security.

So far as supply-side bottlenecks are concerned, the most critical seems to be irrigation. It is well known that public investment in irrigation fell drastically during 1980s and early 1990s. This trend needs to be reversed, preferably by cutting down on input subsidies, which lately have exceeded even the plan expenditure on agriculture. Allocation of greater resources to irrigation alone may not solve the problem. Research in that area reveals that the irrigation sector is in acute need for institutional and price reforms, enabling the farmers to participate in the management of these irrigation projects. In this, the distribution of water and the maintenance is handed over to farmers, who also collect charges for sharing water amongst themselves.

Criticism: The following are the remarks voiced by the anti-reform blocs in India.

- 1) Developed countries had muscled through their agenda irrespective of National Parliaments and that global capital would have a free run.
- 2) Opening up of agriculture would lead to diversification of cropping patterns away from cereals and thereby pose a threat to food security at the

national level. Food prices will increase with the opening up of exports of agriculture, and the poor would suffer, atleast in the short run.

- 3) The commitment on the removal of input subsidy may lead to declaration of crop output leading to untold miseries among the resource poor farmers specifically in developing countries.
- 4) Environmental and health risks: Fears have been articulated that new risk dimensions for the environment and for human health could occur due to the direct manipulation of transgenic crops. This may result in loss of bio-diversity through vertical and horizontal transfer. Another risk of insect-resistant crops is that pest population could develop resistance to the toxins produced by the terminator seeds and further that these crops could have detrimental effects on beneficial insects and other non-target organisms. Possible health risks of transgenic crops for human consumption include the occurrence of unersirable toxic by-products and unknown allergic reactions due to new proteins entering the food chain.
- 5) Trans National Corporations may dominate the seed market and this will have its baneful effects on the peasants of poor countries.
- 6) Protection of plant breeders rights under globalisation will have its adverse effect on farmers traditional rights to develop and sell seeds.

Critics answered

- 1) The linking of domestic reform agenda to trade negotiations by WTO regime should be welcomed since this will ensure

commitment, transparency and responsibility among our politicians and bureaucrats. Among some groups, it is said that is not in our interest to combine social issues with trade. Being a democratic country with an active judiciary, social welfare and reform, India is far more progressive than other Asian countries including China. Infact by virtue of our legislation, we end up with higher effective labour costing organised manufacturing. Thus agreeing to a social cost may not necessarily hurt us as much as our potential competitors.

- 2) Indian Government complain about the unfairness of allowing subsidies given by developed countries to their farmers while prohibiting ours. The fact is our subsidies are poorly designed and distort the operation of the market forces. Minimum support price distort the economics of surplus and deficit states in the case of food and non-food production and thus has created huge stocks of foodgrains along with deprivation. Poor management of Targeted Public Distribution System could be cited as a reason for the prevailing persistent deprivation in some parts of the country. Subsidy scheme could be redesigned as income support programmes and they would be less distortionary and more equitable. By this way, India can escape subsidy removal restriction also, besides improving conditions for balanced production and increased availability of food.

- 3) Developments in the international trade arena are unlikely to offer any succour to Indian agriculture unless it devises a strategy to reduce the present high cost structure with

the assistance of cost-reducing technologies for increasing farm efficiency.

- 4) Participatory Management practices such as Water Users' Associations and Self-Help Groups should be promoted to increase and manage farm infrastructure and other farm services for enhancing farm productivity.
- 5) Field testing and application of transgenic crops did not reveal any undesired impacts. Further, insecticidal genes have been identified for being used to broaden the spectrum of protection. To avoid health risks, comprehensive laboratory and feeding tests are necessary before a new modified crop is approved for commercialisation. Transgenic field trials are being conducted at Indian Agricultural Research Institute, New Delhi for brinjal, tomato and mustard. Transgenic crops are tolerant crops into which a gene from the soil bacterium *Bacillus thuringiensis* (Bt) has been inserted to make them resistant to certain tracts. In the early 2002, Genetic Engineering Approval Committee (GEAC) as well as Government of India have permitted cultivation of genetically engineered bollworm resistant Bt. cotton hybrid varieties of U.S.A's Mahyco-Monsanto Corporation in India. Already 44 million hectares were commercially grown with transgenic crops at the global level in year, 2000.

Conclusion

Unless supply side bottlenecks are removed and Public Distribution System is restructured, Economic Reforms can prove to be a threat and stall the process of reforms in other sectors as well. □



RAMKALI, IT SEEMS BY MISTAKE YOU HAVE CONSUMED THE
MEDICINE MEANT FOR MORE PRODUCTION AND PUT IN THE
FARMS WHICH WAS MEANT TO STOP PRODUCTION!