DOWN TO EARTH

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Introduction

I became a farmer, towards the end of 1977, by purchasing a piece of land admeasuring about 23 acres in the village Ambethan in taluka Khed of Pune district of Maharashtra. This dry land farm was used essentially for experiments in marshalling of ground water and examining the economics of various crops that could be produced in Maharashtra. The fact remains that farming became my only source of livelihood.

The ban on the export of onions, which was my main crop, brought down the wholesale prices where farmers could not afford even to take them out of the ground. Thus began the farmers' movement reclaiming the freedom of access to markets and to technology. I was probably the only activist with background in Economics, Statistics and various languages including English and French, apart from acquaintance with half a dozen Indian languages.

The agitation forced on me imprisonment over two dozen times and hundreds of criminal prosecutions. It also imposed on me the responsibility to explain the economics of agriculture in India.

I have had occasion to write for various periodicals including the Deccan Herald, Business India, Times of India and various sundry newspapers including The Indian Express, The Economic Times, and The Organizer as also in various e- periodicals.

I owe it to the large community that has an interest in Indian agriculture to make available to them writing in a suitable form.

I am beginning by bringing out a compilation of my selected writings for The Hindu Business Line where I have been writing the column 'Down to Earth' regularly without fail since April 1998. These articles have particular importance as they relate to the relatively more recent issues in agricultural development. To make the selection more contemporary I have included in this selection only articles published since 2002.

I tried to hand over the job of compiling and editing the articles to some professionals. It did not work. Some suggested that each article should be preceded by a brief note explaining its circumstances. That would have been too tedious and repetitive. Finally, I decided to go for the via media by attaching reflectively notes at the beginning of each chapter. I hope some minor points, not covered in these prefatory notes, will be clear from the respective articles themselves.

I hope the scholars and others interested in Indian Agriculture would find this representation of the non-official, if not the anti-official, position on agricultural issues interesting.

- Sharad Joshi

30th May 2009

Indian agricultural policy in a nutshell-Section A

A large number of researchers and scholars who wish to study agriculture in India are intrigued by the extreme penury of the farmers and the low levels of productivity. It surprises them that the peasantry of a country so well endowed in water resources and sunlight should be so miserably placed.

It was only as late as in 1990 that the documentation of the World Trade Organization (WTO) clearly established that the government of India imposed a negative subsidy on Indian farmers. In the WTO parlance, the term 'negative subsidy' has a specific meaning. It refers to cases where the income received by the farmer by the sale of his proceeds is less than the income he would have received in a hypothetically free market where the government does not intervene in any manner.

On the other hand, 'positive subsidy' refers to cases where the farmers receive an income that is higher than what they would have received in a hypothetically free market, thanks to the intervention of the government.

The central and the most essential fact about Indian agriculture is that it suffers from either the caprices of nature or, when the nature is benign, by the tyranny of governmental interventions.

It is astonishing that most learned reports and books on Indian agriculture skillfully avoid referring to this central fact.

For years, all economists and agronomists have held that the poverty of the farmers and the low productivity of agriculture in India are interconnected and are both caused by the illiteracy, wasteful expenditure and large incidence of alcohol and other vices amongst the farmers. It is strange that this calumny persisted for long decades of the British Rule as also the first five decades after independence.

The farmers and the agriculture are the source of all wealth and multiplication thereof, at least in the physiocratic sense. In the peasant idiom, 'if a farmer sows one seed the crop is hundred- or even a thousand-fold.'

How come the one industry where there is an actual physical multiplication suffers from the most serious deprivations?

Practically every regional language in India has a proverb that maintains that agriculture is the best of all vocations; the trade comes only second and the service is the least honorable of all. The proverb persists even though the reality has turned upside down, particularly after the independence. Now a job, particularly the government service is the most prestigious and agriculture almost passage to poverty, indebtedness and suicide.

Even though the learned economists and the erudite scholars refuse to recognize the fact of the negative subsidy in agriculture, there was abundant evidence of the social recognition that agriculture was the most arduous of all vocations.

Children of farmers, who had the good fortune of getting higher education, systematically preferred jobs and turned their backs on the parental lands. Daughters of non-agrarians have, for decades, clearly expressed their reluctance to be married into agricultural families. The life of a farmer housewife is a continuous misery comparable to life imprisonment. Now, even the farmers' daughters indicate a clear preference for grooms in non-agricultural vocations, be they even menial.

The instruments of intervention that the government of India used were simple but lethal.

Until as late as 1960s, government imposed a compulsory levy on the food grains produced by the farmers. If a farmer had produced less quantity than was required to be given as 'levy' he was required to make up the difference by purchasing the food grains in the open market at higher prices and delivering them to the government at lower levy prices. If he failed to discharge his 'levy' obligations he risked being handcuffed and paraded in public places in great ignominy.

All transport, storage, trade, processing and export of agricultural produce were severely restricted if not totally banned. This was done by raising the boggy of consumers' interest and the obligation on the part of the government to ensure food security.

The government did put up a show of ensuring remunerative prices by introducing a system of Minimum Support Prices (MSPs); but manipulating to make them work not as minimum prices the farmers should ever receive but as the signal of the maximum prices the traders need to pay for the agricultural produce.

The government did not need to depress the prices of each of the hundreds of agricultural commodities. It could depress the agricultural economy in general and keep the farmers permanently 'needy' by depressing artificially prices of just about a dozen commodities.

These anti-farmer policies were sought to be justified by various arguments:

1. The desirability of low-cost economy;

2. The need to promote industry by keeping prices of wage goods and raw material low;

3. Need for comprehensive consumer protection; etc

This is a brief summary of the essentials of the State policy on agriculture. And, all that I have written in last 30 years was essentially a commentary on the various methods used by the government to exploit the 'Bharat' to the benefit of the 'India'.

24.11.2009 **- Sharad Joshi**

Farmer can look to greener pastures - DTE - Section A.1

Waiting for an escape route?

A number of eminent people have talked about a second agricultural revolution that is set to happen in India. Some have called it a second Green Revolution; others the Rainbow Revolution that will include white, blue and yellow too. Very simply, the next revolution would mark a qualitative change in agricultural technology and the marketing of farm commodities.

All agricultural production hitherto was based on the realisation of the traits of nature-given seeds or those selected on the basis of some traits from a variety produced by multiplication, or combining desirable traits of two or more different varieties.

Now, with the advent of genetic engineering, the seeds of tomorrow are more likely to be produced by manipulating the genes. This new technology might reverse the trend set by the Green Revolution that was based on the abundant use of water, pesticides and fertilisers.

As regards the marketing of farm commodities, gone are the days when one dreamt of self-sufficient villages or nations. Transport, communications and information technology have facilitated the globalisation process.

Agricultural production in the days to come must not only be competitive and find markets abroad, but also keep the geographical advantage in one's own country. There are many who feel that the farmer, given the handicaps he faces in respect of the size of holding, the extent of capitalisation and the paucity of infrastructure, would find it difficult to enter the new era of genes and the WTO. Not that the hurdles are insurmountable.

India has abundant sunshine, ample water resources and a hardy peasant class — factors that will prove decisive in the long run. The handicaps posed by social and political institutions will vanish, sooner or later, and the farmer can soon prove himself to be second to none in the world community. While this does not mean that the farm community does not possess the wherewithal to face this futuristic kind of agriculture, those who are diffident about tackling new technologies and pessimistic about the future of farming in such a scenario will not be able to make the best of their natural advantages.

What do we do to change the mindset of the farmer? First, there has to be a massive education drive to convince the farmers that their backwardness is entirely due to a set of artificially contrived anti-farmer policies and that, in spite of the stranglehold of governmental regulation, they are quite capable of handling the global challenges.

The grape farmers of Maharashtra have shown that it can be done. That many of the successful farmers in the OECD countries are of Indian origin is proof enough. But there is more to it than that.

Agriculture in India has been a closed economy for centuries. Those born in farmers' families depend on agriculture for their livelihood. Every member of a farmer family takes the first possible opportunity to leave farming and the countryside and settle down in a non-agricultural environment.

Experience has shown that farmers who have opted out of agriculture have made a better living for themselves while many of those who stayed back have become impoverished and indebted. The closed character of agriculture is largely due to governmental restrictions in many regions on non-farmers entering the sector.

Those who make a living out of agriculture sometimes find no escape. They are also denied access to new investments and capital.

The Green Revolution of the 1960s overcame this problem in a rather fortuitous manner. The switch from a cultivation practice based on home-grown seeds and cattle manure to one based on hybrid seeds, fertilisers and pesticides was not easy. Even at that time, a large number of farmers wanted to quit agriculture. From this community sprang a number of leaders demanding abolition of landlordism and the tenancy system. They succeeded beyond measure and that was how the anti-tenancy and anti-zamindar legislation came into effect.

The Green Revolution of the 1960s was preceded by a programme that acted as an unintended `golden handshake' or voluntary retirement scheme for tired farmers. The qualitative switchover involved in the new WTO-based revolution in farm technologies and genetic modification is even more drastic. The proportion of farmers who are apprehensive of the new world of agriculture is increasing.

Clearly, there must be some way by which those who find themselves trapped in agriculture are offered an escape route, giving way to those who feel confident of tackling the more technical and mechanised cultivation system.

It will not suffice to allow a few large corporations to acquire substantial landholdings; they may not be able to cultivate land even as efficiently as the farmers of today. What is needed is the setting up of an active and efficient land market that can bring about liberalisation in the farm sector and ensure freedom of entry and exit.

It would appear that most of the properties offered for sale are suitable for farmers wanting to establish opulent farmhouses. If some arrangements are evolved to encourage farmers to come forward with offers of sale and for the intending buyers to register their requirements, a very healthy and booming market can develop.

A great new opportunity has come up without any design. A proposal to bring about a convergence of the Forward Markets Commission (FMC) and the Securities and Exchange Board of India (SEBI) is now under contemplation and scrutiny. The major difficulty in bringing together these two regulators is that they have fairly diverse fields of activity and functions.

The objective of the commodity futures markets is price discovery and risk management while the stock exchanges ensure orderly investments. If instead of trying to converge the commodity futures markets and the stock exchanges, one could attempt bringing together the land market and the stock exchanges; the former could flourish at the rates at which the commodity futures market is exploding — 350-400 per cent annually.

The country is on the threshold of a second agricultural revolution. One essential precondition of a smooth revolution is to facilitate the exit of one class and the entry of another, enthused by the challenges of the new era. The development of a land market will not only reinforce agriculture to accept the challenges of the new revolution but will also provide the substantial investments required for bringing it about.

16.11.2005 **- Sharad Joshi**

Unchanged quarter century for farmers - DTE - Section - A.3

Sharad Joshi यांनी मंगळ, 01/09/2009 - 22:02 ह्यावेळी प्रकाशित केले.

Unchanged quarter century for farmers - DTE - Section - A.3

At the end of a quarter century of struggle, the typical farmer is as badly indebted as he was at the beginning but stands vindicated and cleared of all charges of being indolent, ignorant and incompetent.

FARMERS agitations in the present epoch started over a quarter century back in Tamil Nadu, with Narayan Swamy Naidu's bullock-cart blocking roads in protest against farm power tariff hikes and seeking their rollback.

Farm power is free now in Tamil Nadu, Andhra Pradesh and Maharashtra. But the farmers, crushed under the burden of debt, still commit suicides in large numbers. Indian agriculture continues to be a gamble in the monsoon and suffers from poor infrastructure. What has a quarter century of farmers' movement to show by way of gains and what are the losses to the farm community?

The movement concentrated on reduction of input costs for the first half-decade. It was only with the onion agitation in 1980 that it developed a comprehensive economic theory. "Remunerative prices for agricultural produce" came up as a single-point prescription for agriculture's malady and general poverty.

Remunerative prices were to be obtained through elimination of all governmental interventions in the commodity market.

Till such time as the State adopts the necessary level of liberalisation and economic reforms, it must ensure a minimum support price to make up for the price-depressing effects of its interventions: Restrictions on exports, domestic movement, processing, storage, etc., and non-commercial imports of farm commodities.

General poverty arose out of the fact that the economy's main activity, agriculture, was a losing proposition. This, in turn, was directly attributable to the government's policies that depressed agricultural prices.

The formulation of the `remunerative price' theory was straightforward and simple, and captivated the hearts of peasant masses that participated in large numbers in the farm agitations from Karnataka to Punjab and from Gujarat to Uttar Pradesh.

However, the economic pundits and the politicians protested vehemently. They cried:

- "Remunerative prices for agriculture are tantamount to subsidising the rural rich at the expense of the urban poor."

- "Remunerative prices will benefit only the rural rich and not the landless poor."

- "Agricultural losses are due to the long chain of intermediaries that needs to be eliminated so that, side-by-side with remunerative prices for farmers, the consumers will get the produce at reasonable prices."

- "Free markets for agricultural commodities can produce shortages and food insecurity and, eventually, even starvation."

The opposition of all the establishment economists notwithstanding, the farmers rallied in ever-larger numbers to the call of remunerative prices. The agitations produced immediate gains in the form of increase in support prices.

• The Chakan agitation (1980) got the onion farmers a support price of 60 paise a kg in the place of the mere 7 paise they were getting at that time. The constant reaction of onion producers to all attempts at restricting export of the commodity ensured aprice of Rs 3-5 a kg now.

• The tobacco Rasta Roko at Nipani (1981) was a terrible setback. The tobacco growers got little to show for the 13 dead in the SRP firing.

• The Maharashtra-wide blockade of milk (1982) was also a failure. The farmers could not stop the supply of milk beyond three days and the government remained stubborn.

• The sugarcane agitation centred in Nashik district (1980) succeeded in hiking the Statutory Minimum Price (SMP) of sugarcane from Rs 180 to Rs 300 per tonne.

• The agitation against the Maharashtra State Cotton Monopoly Procurement Scheme, which required the growers to sell their produce exclusively to the State dragged on for 18 years and ended by vanquishing the monopoly procurement scheme. The guaranteed price of cotton was Rs 700 per quintal in 1986. Now growers get around Rs 3,000 per quintal.

Apart from the concessions wrested by the thrust of farmers' agitations, the demonstrated clout of farmers' opinions and unity had its political consequences and the Minimum Support Prices (MSPs) continued to increase year after year. In the decade since 1990-91, the procurement price of wheat went up by 258 per cent, that of coarse cereals by 215 per cent, of arhar by 275 per cent, of cotton by 270 per cent; and the Statutory Minimum Price of sugarcane by more than 300 per cent.

The sheer strength of agitations and the political clout of the farm lobby were supplemented by yet another major development. The historic fall of the Soviet Union and the shift to the market paradigm ensured a successful culmination of the Uruguay Round GATT negotiations.

The Agreement on Agriculture (AoA) of the World Trade Organisation (WTO) endowed a large number of benefits to farmers in India.

First, there was a clear vindication of the fact that the farmers here suffered under heavy negative Aggregate Measurement of Support (AMS). Second, the abolition of Quantitative Restriction (QRs) took away all incentives for the political decision-makers and the bureaucracy to order imports in the nature of dumping.

In 1996-97, the quantum of negative AMS for 14 major crops in India was Rs 113,000 crore. Since 1998, the indications are that the AMS has actually turned positive. That does not mean the Indian agriculture is no more a losing proposition. The AMS is probably positive; that is, the prices in India are not lower than those prevailing in the international referral market.

But it also does not mean that the prices are higher than the costs. Since 1995, the domestic costs have increased while the international prices have remained low.

The gains of the farmers' movement on the price front were too modest compared with the swelling costs and farmers continue to fall into debt, and death, traps.

However, the gains of this movement on the doctrinal front are spectacular:

- There is a universal acceptance that India has had a long regime of price-depressing policies that need to be reversed.

- There is a clear understanding there is little conflict between the interests of the landless labourers and those of the landholding farmers. The wage rates increase much faster than farm produce prices.

- There is also a realisation that the local chain of intermediaries is not the cause of the gap between the consumer and the producer prices. The India-Bharat syndrome is the more significant cause of the chasm and can be corrected by overall liberalisation and market reforms.

At the end of a quarter century of struggle, the typical farmer is as badly indebted as he was at the beginning but stands vindicated and cleared of all charges of being indolent, ignorant and incompetent.

01.09.2004 - Sharad Joshi

Maharashtra farmers, a crossed lot - DTE - Section - A.2

Sharad Joshi यांनी बुध, 10/11/2004 - 21:12 ह्यावेळी प्रकाशित केले.

Maharashtra farmers, a crossed lot - DTE - Section - A.2

THE paddy farmers of the Gadchiroli district of Maharashtra are in a quandary. They are receiving as assistance from the government crossed cheques for sums as small as Rs 50. They are in the totally in the dark about how to process these paper elephants.

Suicides by and malnutrition deaths of farmers in the Vidarbha region of Maharashtra have been in the news for quite some time. The developmental backlog of that region has been patent for a much longer time. The modus operandi of the neo-colonial exploitation of Vidarbha are the depressing prices of the prime produce cotton and paddy, paltry compensation for the resources such as coal and electricity, and the grossly inadequate budgetary allocations for the development of water resources and infrastructure. The loss to the farmers of Vidarbha on account of inadequate prices over the last 30 years is put at around Rs 33,300 crore. The budgetary backlog over the last 40 years is about the same. The million-dollar question is: How will the Maharashtra Government compensate for all this?

In the pre-election flush of populism, the Congress-NCP Government, under Mr Sushil Kumar Shinde, had announced a special assistance package for Vidarbha. It included a grant of Rs 20 crore to paddy growers with holdings of less than two hectares at the rate of Rs 295 per hectare. The sum was apportioned between the various paddy-producing districts of the region. The share of Gadchiroli district came to a mere Rs 2 crore. The district administrations had specific instructions to make payments to individual peasants only through crossed cheques, to ensure that the amount reached the intended beneficiary alone. If Rs 2 crore were to be divided among 1,00,000 paddy farmers of Gadchiroli district, the average endowment per head works out to less than Rs 200. The minimum for an individual peasant is Rs 50 and the maximum Rs 590.

"Remember this is a crossed cheque in your own name," the poor payee was told.

"You cannot get cash for it over the counter of the bank on which it is drawn. You will have to deposit it in your account; if you do not have an account, you will have to open one. You will, henceforth, be a proud holder of a bank account."

When a poor, often uneducated, farmer takes the cheque to the nearest post-office or the bank, he is told that it can be cashed only at one of the branches of the bank, on which the cheque it is drawn.

The peasant drags himself to the appropriate counter in the bank, where he learns that for opening an account he has to fill an application form with the recommendation from an existing account holder in the same branch and has to make an initial deposit, in cash, of Rs 200 at least.

"Is not a cheque from the government as good as cash?' he wonders.

"By no means," he is told bluntly. "First, the cheque amount is less than the minimum required to open an account (in most cases). Further, there have been instances in the recent past of government cheques issued to cotton farmers being dishonoured for lack of funds."

Further, he is told that he has to attach two passport size photographs to the application for opening an account, as proof of identity.

"Where can I get them?" he asks.

"Go to any nearby studio. These days, you get instant photos in any digital studio for as little as Rs 30 (three-four copies). Attach two to the application and you will have a couple spare for future use," is the kind advice.

So, to realise a cheque for Rs 50, the poor farmer realises that he has to spend at least Rs 250. And, at the end of the day, there is no guarantee that the government cheque will be honoured.

A poor paddy peasant from the economically most-backward tribal district, on whom is dependent his family, gets a relief assistance of less than Rs 100, and to lay his hands on it, he has to spend Rs 300.

10.11.2004 - Sharad Joshi

From fragmented fields to food factory - DTE - Section - A.4

Sharad Joshi यांनी बुध, 28/04/2004 - 20:21 ह्यावेळी प्रकाशित केले.

I. 04 **From fragmented fields to food factory**

The NDA Agenda visualises India as the `Food Factory' of the world. But this is easier said than done, as there are a lot of barriers at the production and processing levels. High standards are expected of processed food and India has no network of laboratories to certify quality. The transition from small fields to a food supplier to the world is no easy task, says Sharad Joshi.

THE National Democratic Alliance (NDA) released its Agenda for Development, Good Governance, Peace and Harmony on April 8. That was rather late in the day to permit any fruitful debate, during the electoral campaign, on the vast range of subjects and issues it covers. The newspapers headlined the item "Ram Mandir included in the NDA agenda". In fact, there is no mention of the temple in the over 50 pages of the Agenda document. The only reference figuring in paragraph 57(2) reiterates the well-known twin approach of consensus-cum-judiciary on the Ayodhya issue.

Agriculture, on the contrary, covers over 15 pages (Chapters 5, 6 and 7). The media, both print and electronic, paid scant attention to the agricultural agenda of the alliance that, according to many a poll and forecast, is most likely to form the next government at the Centre.

The Agenda formulates a new seven-pronged strategy with a view to making India an "Economic Super Power". As for agriculture, it visualises India as the `Food Factory' of the world.

Agriculture is the provider of food, fuel and fibre. Making India a food factory of the world, that is, supplier of foodgrains, pulses, oilseeds, their derivatives, fruit, and dairy and poultry products would obviously be a pipedream.

The Agenda spells out numerous schemes for raising the production in agriculture, horticulture, dairy, poultry and fisheries; it would still obviously fall short of becoming the food factory of the world.

Since consumers the world over demand mainly processed food, any country with ambitions of becoming a global supplier of foods would have to plan to become a major processor.

The NDA believes that "the food-processing industry can make our rural economy vibrant in the same manner that IT has made our national economy prosper." It proposes to raise the percentage of the value of agricultural produce processed from 2 to 10 in coming five years. The handicaps are exhaustively enumerated: Fragmentation of land, inefficiency, low quality standards and inadequate logistic support.

As regards the fragmentation of holdings, the NDA proposes legislation to enable leasing of land (Para 5.11). However, Para 12.2 explicitly excludes private investments in the nature of corporate farming.

While some reservations about corporate sector's entry into agriculture are understandable, farming through corporations of farmers formed through conversion of land and labour into equity could play a major role in providing fillip to food processing.

The food-processing industry requires large quantities of water. In these times of water shortages, it would be difficult to launch any ambitious programme of enhancing food-processing capacity. Even in the long run, a food-processing industry that is vulnerable to vicissitudes of monsoons and water availability can scarcely hope to be a global player.

On the demand side, the consumers are increasingly becoming conscious of quality, sanitary and phyto-sanitary standards. Most food, as harvested in tropical countries including India, is substandard. Scanning for such unhygienic ingredients as *E coli* and aflatoxins involves a major effort.

The fact is that the farm community, at large, is ignorant of the exacting standards of the global market. Worse, it has no access to laboratories that can test and certify its products in the light of specifications in different countries.

Before one can seriously contemplate becoming even a minor food factory of the world, one will have to plan for an extensive network of well-equipped food laboratories within easy access of all villages.

The NDA Agenda recognises this deficiency and provides for a Unified Food Law to be enacted within the first six months as also an independent Food Regulatory Authority, also within six months, that will be responsible for setting and enforcing standards for all food products.

The NDA Agenda also proposes a dairy industry development plan within the first six months and promises to set up an expert committee to suggest ways to minimise wastage and damage along the food chain.

Some of the more serious problems relating to the food-processing industry have received scant attention in the NDA Agenda. The food-processing industry is dependent on availability of food surpluses. "Eat what you can and can what you cannot," describes the present stage of food processing in India. So, first, the food-processing industry must command a supply of raw materials as also the varieties and quality thereof.

The cooperative sector in the sugar industry has failed to produce satisfactory results in spite of abundant government funding. Contract farming is not seen as a solution as the entry of corporate sector is frowned upon. Further, contract farming would presuppose a judiciary that decides cases on farm contracts in less than 30 days. `Farmers' corporations' would appear to be the only feasible solution. But that does not even find a mention in the NDA's Agenda.

The most important question on the demand side is which market would the food-processing industry cater to? At present, the food-processing industry produces Western-type foods that are consumed by a small consumer class.

In this area, they face difficult competition from foreign manufacturers which have long experience of manufacturing these items. The food-processing industry in India would need to make a quantum switch to indigenous food products that would be consumed even by the upper- and middle classes and consumers at large abroad.

The menu-card of the NDA is certainly appealing but will the alliance get the mandate to be the chef in Delhi?

28.04.2004 - Sharad Joshi

Is Rajnath Singh tilting at windmills? - DTE - Section - A.6

Sharad Joshi यांनी गुरू, 24/07/2003 - 03:19 ह्यावेळी प्रकाशित केले.

Is Rajnath Singh tilting at windmills? - DTE - Section - A.6

In cutting the farm credit rate and the Rs 600-crore package for sugarcane farmers, the Government has a larger intention than merely a concern for the agriculture sector, says Sharad Joshi, looking at two packages and their implications.

"Rs 250-crore seed scheme to be launched soon": Agriculture Minister, Mr Rajnath Singh, July 16.

"Farm credit rate cut to 9 per cent": Finance Minister, Mr Jaswant Singh, July 16.

"The cut will apply to cooperative loans as well": Mr Rajnath Singh, July 16.

"Rs 600-crore package for sugarcane growers": Prime Minister in consultation with Agricultural and Finance Ministers, July 17.

THE Lok Sabha elections must be approaching fast. Otherwise, the farmers would not receive this much attention in less than 48 hours. But, then, the farmers have witnessed such drama in the past and look askance at this kind of attention. They have more reason to be suspicious this time because if the top leadership of the ruling NDA is talking "Ayodhya Temple", the second rank seems charged with distributing `handouts' to the farmers.

Unfortunately, for the ruling alliance, the farm package has so many holes. The authors are perhaps not tuned to the ground realities. Let us leave the seeds to the birds and examine the credit rate ceiling and sugarcane price.

• The farm credit rate ceiling of 9 per cent. It is not everyday that theFinance Minister addresses a press conference with theMinister of Agriculture. Mr Rajnath Singh must have substantial clout in the Cabinet to have managed that. Pity that the announcement, though well packaged, had so little substance.

• If fixing a ceiling on the interest rate of farm credit and sticking to the quota of 18 per cent for priority loans are not a return to the pre-1994 era of administered interest rates, one wonders what it is? In the reforms era, Mr Jaswant Singh has brought in contrived rates of interest for senior citizens and housing sector. His July 17 declaration is only a confirmation that in the banking sector, the government backtracking to the old days of controlled interest rate regime. This will certainly lend itself to creating a black-market in credit. The loans may get diverted to non-farm purposes.

• At present just about 2 per cent of the farm credit is extended at a single digitrate of interest. All that the Finance minister proposes is to eliminate one link in the chain of intermediaries. It is unlikely that mere elimination of the apex banks will bring down the cost of credit to below 10 per cent.

• The network to which the scheme is applied meets only 45 per cent of the over Rs 40,000 crore extended as crop loans. The crop loans generally cover only 80 per cent of the cultivation cost. Thus, even on paper the advantage can conceivably reach the farmers to the extent of only about 35 per cent. In spite of Mr Rajnath Singh's hopes, it is unlikely that the cooperative network will accept to implement the scheme. It is not specified if the RBI is being directed to extend its line of credit to Nabard. Unless Nabard gets a finance of at least Rs 2,500 crore over and above the present Rs 6,500 crore, the scheme will not even take off.

• The talk of using the postal network was only at conceptual level. No detailed scheme was presented. The reasons are obvious. Bringing in the post-office will mean additional cost to the exchequer or at least an additional line of credit. The Finance Minister is out to show generosity to farmers only if it does not pinch the exchequer.

There is a much bigger substantial fault, which goes to the core of the scheme. An administered rate of interest of 9 per cent in the housing sector makes sense because the returns there are in double digit. That is not the case in agriculture. The Finance Minister thinks that he has done a magnanimous act by cutting the farm credit interest rate to 9 per cent. The Minister of Agriculture should have told him that the Commission for Agricultural Costs and Prices (CACP) computes into its calculations a rate of interest that ranges between2 per cent and 3 per cent only (See Table). If the farmers get a price that covers an interest cost only 2-3 per cent, reduction of the rate to 9 per cent is an exercise in futility.

The cane package

More controversial will be the declaration of the Rs 600-crore package for sugarcane growers. It reeks of parochial politics. The idea is that the Centre should divert money from the Sugar Development Fund to the benefit of cane producers in Uttar Pradesh, Uttaranchal, Haryana and Punjab where the State government declare State Advised Prices (SAPs) substantially higher than the Statutory Minimum Prices (SMP) for sugarcane.

The cooperative and the government sugar mills in these States have agreed to pay the higher SAP; they have no choice in the matter. The private mills have made it clear that they can, at most, manage to pay the SMP. The Prime Minister, in consultation with the Finance and Agriculture Ministers, now proposes to use Rs 600 crore from the Sugar Development Fund to meet the difference between the SMP and the SAP. The Sugar Development Fund draws its resources from a cess on sugar collected from all the States. To use it for the benefit of only four States will certainly provoke sharp reactions from Gujarat, Maharashtra, Karnataka and Andhra Pradesh. These are the States, which are normally penalised for higher productivity through fixation of lower prices for levy sugar!

The Prime Minister's decision is tantamount to the replacement of the SMP fixed by the Centre by the SAP fixed by individual States. The four Southern cane-producing States would now have a lower assured price for the cane in addition to a lower levy price for the sugar. Gujarat, Karnataka and Andhra Pradesh do not have the system of State Advised Prices. The cane producers there would be penalised because the governments in their States have scrupulously followed the spirit behind the fixation of the SMP and desisted from announcing a parallel SAP.

The case of Maharashtra is even more bizarre. The State Government is dominated by cooperative sugar barons. The Government thought that it was doing good to the cooperative sugar factories by permitting them to pay the farmers a price lower than the SMP. Maharashtra, in fact, has a negative SAP in the sense that it is lesser than the SMP. In the just-ended season, the SMP for good factories in southern Maharashtra works out to around Rs 1,000 per tonne, while the SAP is as low as Rs 560 per tonne.

But for the fact that the Maharashtra Government, blackmailed by the sugar cooperative barons, fixed a SAP lower than the SMP, the cane growers in Maharashtra would have got at least the SMP under the Prime Minister's Rs 600-crore package.

The cooperative movement in Maharashtra stands completely exposed. The government of Maharashtra will have to fork out much more than Rs 170 crore that it is offering the financial institutions to stave of seizure of government property.

How is the Rs 600 crore going to be used? According to the explanation given by the officials, the amount will not be paid in cash to the farmers but will be used for improving the productivity and the quality of sugarcane and sugar. This would be the first case where a cash subsidy is being converted into a `Green Box' subsidy. This is something the rich countries have been doing since Marrakech. If India does it nobody can object because the amount comes not from the budgetary source but from the Sugar Development Fund, which is contributed by the cane producers themselves.

Mr Rajnath Singh certainly thought he was strengthening BJP's electoral muscle. But was he?

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