AGRICULTURAL INCENTIVES IN INDIA

Past Trends and Prospective Paths towards Sustainable Development

Edited by

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INTRODUCTION
Bruno Dorin, Thomas Jullien

This book gathers twelve papers which sustained the discussions and conclusions of an Indo-French seminar organized by the Centre de Sciences Humaines (CSH, New Delhi) on 3 and 4 April 2000 at the India International Centre (IIC, New Delhi).

The objective of this meeting was rather ambitious and sensitive: to debate the relevance and sustainability of a nearly forty-years old system of public incentives to Indian agriculture, mainly subsidies to water, electricity and fertilizers.

The sensitivity of the subject, as also its pertinence, is rooted in the difficult challenge that India has had to take up since the early 1990s: to liberalize and open to the world its domestic market in order to bypass some inefficiencies or failures of its mixed economy, without selling off in the process its decision-making independence, as well as some social and environmental objectives peculiar to the subcontinent or to the world community.

This economical upheaval pushes agriculture towards the front of the stage for many good reasons. First, it has to feed one-sixth of the world population, among which there are still many families in dire need, but also now a growing middle-class which aspires to diversify its food basket. Second, it is the first employer in India, giving jobs to millions and means of subsistence not only to cultivators and agricultural labourers, but also to the multitudes working at the pre- or post-production stages. Third, it supports inestimable cultural and natural heritages, which of course must not be destroyed, but preserved and transmitted to the future generations. Finally, and since the GATT agreements on agriculture signed in 1994 at Marrakech, Indian agriculture is also involved in a process which challenges our human ability to transcend various frontiers, which is a very disturbing exercise even if it should lead us to better share and enhance in the long run the fabulous richness of the world.

The above problematics were not either easy to scan within a two-day seminar, since agricultural incentives play or can play a crucial role in all of them. However, from nutritional or equity issues to the international scene, without forgetting budgetary or environmental considerations, we had not only a rather large panorama of the past trends and lessons, but also some prospective scenarios and tools to better shape the future. Each of these presentations were followed by a discussion, which were fruitful thanks to the quality of the participants as also to six eminent chairpersons who have skillfully conducted the debates.

An output of this seminar is the following report, beside the papers presented and included in this book which, the authors hope, will serve as a basic reference to policy-makers as well as to academics.

CONSTRAINTS AND BOTTLENECKS OF INPUT SUBSIDIES

Ever since the Green Revolution, and more significantly since the 1980s, Union and states governments have been devoting an increasing share of their budget to subsidize the production and the consumption of fertilizers (S.S. Acharya), water (A. Vaidynathan) and electricity for pumping the latter (A. Sen), which obviously jeopardizes the fixed capital investments in agriculture as well as the good working of governmental administrations.
However, it is difficult to assess the benefits that actually accrue to agricultural producers given the fact that there is a general system of cross-subsidies for electricity, a sharing of subsidies with industrialists for fertilizers, and some capital costs for irrigation which are difficult to evaluate. Nonetheless, it seems that at least US$ 6.6 billion have been transferred to agriculture through such subsidies in 1995 (B. Dorin and T. Jullien). This amount, which is 1 billion higher than the one declared by India to the WTO for the same year, accounts for 8.6 per cent of agricultural GDP whereas it was only 2.7 per cent fifteen years earlier. It represents also an all-India average of $35 per ha of gross cropped area in 1995, or an annual income transfer of $188 per cultivator in a rich state like Punjab, while it is only 14 in a poor state like Orissa. Similarly, only three crops absorb more than 60 per cent of a so-called ‘non-product-specific’ support to agriculture: rice, wheat and sugarcane whose market prices are consequently more attractive and competitive than those of other crops. At the same time, low-priced inputs lead to overuse or waste, causing alarming environmental problems like the dramatic depletion of groundwater tables (A. Vaidyanathan). They also limit the recourse to traditional inputs, such as organic manure which has become rare and expensive whereas it conditions the long-term efficiency of chemical fertilizers (B.C. Barah). All in all, they certainly made India self-sufficient in wheat and rice, but the country is now highly deficient in other food products such as oilseeds and pulses which have been relegated to dry lands or dry seasons (B. Dorin); widespread famines are over but under-nutrition and malnutrition (proteins, lipids, iron, iodine, vitamins, etc.) prevail at a large scale (A. Shariff). The country is thus not yet food secured whereas this industrialization of agriculture has placed Indian farmers under the control of few multinational suppliers of modern inputs (V. Shiva).

MERITS AND CHALLENGES OF AGRICULTURAL INCENTIVES

One the other hand, the growing consumption of subsidized inputs led to an important increase in agricultural production which would have been nearly impossible otherwise since the growing number of Indian cultivators (+ 29 per cent between 1980 and 1995) hampers technical progress which usually takes place when labour can be replaced by capital (B. Dorin, N. Pingault and J.M. Boussard). By reducing the cost of production of some essential food items, input subsidies are also a way of controlling the price of staples in a low-income economy (S.S. Acharya). Moreover, this policy of ‘low inputs low outputs prices’, coupled with the Public Distribution System (PDS) providing cheap rice, wheat and sugar from surplus production areas, should free deprived farmers from producing such commodities so that they can diversify and earn more from other ones (A. Sen). In any case, Indian agriculture appears to be globally highly taxed according to GATT’s criteria: in 1997, the Aggregate Measurement of specific and non-specific Support (AMS) represented minus 62 per cent of the value of agricultural production (A. Gulati). This is why India has been released from any international commitment to reduce its domestic support to agriculture, and also why it considers that its farmers cannot fairly compete with those from Europe or the USA who enjoy much larger subsidies now hidden in the Blue and Green Boxes (G. S. Bhalla). Besides, supporting one's agriculture for ensuring one’s food self-sufficiency is a fundamental right, just as it is for the farmer to receive water on time and in sufficient quantities (A. Vaidyanathan). In this respect, India must be able to meet its future domestic demand. By the year 2020, it should not exceed 240 million tons in foodgrains (cereals and pulses), i.e. + 69 million tons in comparison to 1993, including 24 million tons for cattle (P.C. Bansil). But the increase in other foods should be much more, especially that of meat, eggs, fish, milk, vegetables and fruits since their demand by 2030 could go up threefold as compared to 1995 with a per capita GDP growth rate of 5.5 per cent (P. Kumar and R.S. Paroda). As far as the future domestic production is concerned, two sophisticated models developed for the state of
Haryana demonstrate how water will be the major limiting factor (P.K. Aggarwal, N. Kalra, S. Kumar and A.K. Vasisht), and how a change in inputs prices (higher charges) would primarily affect rice and cotton to the benefit of other products like milk (V. Alary and D. Deybe).

SCOPE FOR REFORMS TOWARDS A SECOND GREEN REVOLUTION

India must therefore initiate a second Green Revolution, with a markedly different recipe than for the first one since the limits or constraints of the present input subsidies are well acknowledged, from the financial, social, nutritional and environmental point of view. They first and foremost led to a distortion in resources use, and it is time to phase them out to better encourage, for instance, modern water saving devices (P.C. Bansil). However, despite many criticisms, the present system appears to be hard to replace by any other mechanism of incentives and redistribution since input subsidies are still considered to be the best for numerous small and socially heterogeneous farm-holdings. The shift towards de-coupled support (direct payments de-linked from production, as is being increasingly implemented in the European Union for example) would lead to unbearable transaction costs as also to uncontrollable escalation of claims. On the other hand, a higher direct support of production prices would attract strong condemnation from the WTO (procurement prices for wheat and rice are already above world prices). For want of better solutions, or for fear of the agitation radical reforms could provoke, the general feeling is therefore to move towards a more rational management of the existing system. There seems to be a consensus that agricultural inputs must not only be billed (unlike groundwater and electricity in some states), but billed at a higher level (electricity, surface water, fertilizers, etc.), just as it is agreed that these bills should be on the basis of quantities consumed (installation of water and electricity meters). But since attempts in these directions have failed so far, many are now convinced of the following three points: (1) any fiscal approach to this problem will fail as one cannot politically or reasonably ask a sector that is poorer than others to make big sacrifices; (2) the aim of any reforms should not be to reduce subsidies, but to better manage them for a greater benefit of farming communities; and (3) this calls for an active involvement of the concerned communities. In the case of water and electricity, the decentralization at the village level of both distribution and collection of resources is thus strongly recommended, along with a reward system for those who play the game by its rules. This suggestion calls in itself for a revolutionary change in behaviour, in rural areas as well as in the Union or state administrations. But it is undoubtedly changes of this kind that will bring about the second Green Revolution in India, along with revolutionary changes in terms of statistics and studies.

1 More than forty, among which seventeen were invited to present a paper. However, six of the latter could not deliver their talk in a written form, or attend the meeting at the last moment: B. Debroy (Rajiv Gandhi Institute for Contemporary Studies, New Delhi), A. Gulati (Delhi University, Institute of Economic Growth, New Delhi), R. Radhakrishna (Andhra University, Visakhapatnam), A. Sen (Ministry of Agriculture, Commission of Agricultural Cost and Prices, New Delhi), R.P. Singh (National Institute of Rural Development, Hyderabad), M.H. Suryanarayana (Indira Gandhi Institute of Development Research, Mumbai).

3 This tentative report of two-day discussions mentions some names within brackets just as an indication which may unreasonably shorten, extend or distort some talks.
4 Establishment, updating and large spreading of consistent databases at multiple levels, like on livestock feeding in peculiar Indian conditions.
5 Integrated studies of economical, technical, cultural, biological (...) systems inter-linked on different scales, and taking into account risk and related aspects.
Sustainability of subsidies

D. Narasimha Reddy

Twelve papers debating the relevance and sustainability of public incentives to Indian agriculture, mainly subsidies to water, electricity and fertilizers.
This book, based on the papers presented at an Indo-French Seminar provides a large panorama of the past trends and lessons ranging from nutritional and equity aspects of food security to issues arising out of recent developments in trade in agriculture.

The volume begins with a contribution on the unfinished agenda of food and nutrition security, especially at the micro-level, an issue that continues to contextualise any meaningful discussion on the state of the Indian agriculture. It exposes the neo-liberal complacency and neglect flowing from the euphoria of macro-food adequacy.

Attention is drawn to the gross inequities revealed by micro-level food insecurity, which is invariably among agricultural labourers and artisans, subsistence farmers, and women and children within the household (Abusalah Shariff). Considering the fact that early childhood nutritional deficiencies set limits to the quality of health in adulthood, it is disquieting to imagine the bleak future from the fact that though India accounts for only about 20 per cent of the world's child population, it ends up with 40 per cent of malnourished children of the world.

Incentives

The thrust of the volume, however, is on the role of agricultural incentives, meaning subsidies, and four papers specifically address fertilizer, water and electricity subsidies. Fertilizer subsidies, which reached an unsustainable point of 3.2 per cent of agricultural GDP by 1990-91, came down to about 2.5 per cent by the end of 1990s. Almost half of the subsidy in the last two decades was due to the retention price system (RPS) and a substantial part of the reach of the subsidy apparently favours the rich peasantry and rich regions.

Vaidyanathan addresses the issue of water charges and suggests a two-pronged strategy: involving of the media to highlight the current mismanagement of irrigation, and utilising farmers' awareness of the improved water management to mobilise their support for better maintenance by O & M cost recovery.

Dorin and Jullien undertake the unenviable task of estimating not only the explicit central fertilizer subsidy, but also the implicit state subsidies to irrigation and electricity and come out with admirably impressive results. Their painstaking efforts result not only in the estimates of these subsidies for each state and for each crop, but also estimates each of these subsidies per cultivator and per hectare.

Findings

The findings show that these subsidies have been growing at an unsustainable pace especially since the middle of 1980s and have been often cited as the cause of fiscal problems. Yet, they point out, the level of Indian farming subsidies is much below those
in the U.S. or the EU. Further, it is because of these subsidies that the Indian households are now well secured in rice, wheat and sugar since these foodstuffs are provided to them in sufficient quantity at a rather low price.

However, "the worrying aspect of these input subsidies does not really lie in their absolute amount, but in their unfair distribution: in 1995-96, the per cultivator subsidies ranged from Rs. 6272 in Punjab, and Rs. 5009 in Haryana to Rs. 470 in Orissa and Rs. 585 in Bihar." (Dorin & Jullien). Bansil provides a global overview of agricultural subsidies and builds a case for discontinuing them once their initial purpose is over. But, he too concludes that in India, the time for ending critical subsidies is yet to come. In the light of these contributions, there is little wonder that the deliberations of the seminar concluded that a mere fiscal approach to agricultural subsidies that go to a sector that is poorer than others would be a failure, and that the aim of any reform should not be to reduce subsidies but to better manage them for the greater benefit of farming communities with an active involvement of the concerned communities.

WTO issues

There are two papers which bring in the French methodological flavour: one, in analysing productivity gains by the Surplus Accounting Method (SAM) (Dorin, Pingault and Boussard) and the other on supply response using Multilevel Analysis Tool for Agriculture (MATA). The other papers include a comprehensive paper on WTO issues relating to India's trade in agricultural commodities. And, Paroda's and Praduman Kumar's paper which goes beyond incentives and India, and provides a comprehensive account of food demand and production in the South Asian region as a whole.

The book is an invaluable addition to the understanding of not only the role of incentives (subsidies) in the past and the future of the Indian agriculture, but also, as the authors rightly hope, it "will serve as a basic reference to policy-makers as well as academics" on the issues relating to the problems and prospects of Indian agriculture in general and subsidies in particular.

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