Business Line

Date:29/12/2010

Constraint of small farm size

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The absence of institutional mechanisms to facilitate on-farm investments has denied smaller landholdings the kind of productivity gains that larger farms enjoy.

The prospectsfor the millions of small and marginal farmers will continue to depend on innovations that require smaller investments by them.

A panel of Chief Ministers has reportedly made a large number of recommendations to accelerate the growth of farm production. As may be expected, the policy concern over the farm scenario has only increased in the recent months. The recommendations range from land and water to farm implements and the best markets for farm output.

The major reform appears to be about the manner in which private corporate investment has been viewed — whether it is in marketing infrastructure or in farm production.

Has the expectation that the small-holder in the farm sector will likely deliver the next revolution in agricultural production now diminished?

The raging agricultural prices do not seem to abate as new hurdles have arisen in the way of achieving the benefits of a good monsoon. The untimely rains have now affected the harvest of vegetables. Higher prices are seen to benefit only the middlemen, and hurt the consumer, with the farmer having to bear the loss of income as there is less output to sell.

Higher Productivity

Farmers will need economic incentives to invest, use better inputs and improve the productivity of their land. They also need fairly stable, predictable and remunerative prices.

The inexorable trend towards smaller holdings in most regions implies that the ability of small farmers to bear production or price risks is lower now than before.

It is also clear that they will need greater productivity and higher prices to maintain their income from smaller pieces of land as and when the sub-division of holdings takes place.

Where the farm holdings are relatively large, the growth of income for the farmers can be significant when there are the usual gains in productivity and prices. In the other cases, farmers rely on fiscal measures such as better prices for produce and lower prices for inputs.

These changes can only be expected to provide modest gains in income for farmers with small holdings. The sudden catastrophe that damages crops and affects output or a collapse of the market would mean a draw-down of assets or debt. A major problem of the farm sector is undoubtedly the small holdings and modest increments to income that accrue to them. Protecting output and price levels is, therefore, important from a policy perspective.

The recommendations for lower interest rates on farm loans, lower price of diesel and higher mark-up on costs in MSP follow from a realisation that the net income that a small farmer makes is not enough to generate enough surpluses for new investments.

The turn to private investment in marketing infrastructure is understandable for the same reasons that make public-private investments attractive: to gain from faster investment decisions and augmentation of investment funds to aid the sector. Failure to invest in technology for market functions would only mean higher marketing costs. But it is also necessary that regulation of the markets is strengthened to ensure that the benefits of competition accrue to the consumer.

The old APMCs seem to have failed to deliver on regulation; neither were they able to keep up with the requirements of changing markets. The other reforms, such as free flow of commodities, would enable efficient allocation of land and water across crops and enterprises.

A key issue that has often been debated, and one that the present set of recommendations is reported to have addressed, is the role of farm size. There is great deal of efficiency that the large-scale farm can achieve: in making more optimal investments in machinery, purchase of inputs and sale of output. Of course, larger farms can also bear the market risks better.

Scale and efficiency

The traditionally held view is that small farmers use land and other resources more efficiently if these resources are available to them. The government measures, therefore, aim to improve access to these inputs. But it is really the absence of institutional mechanisms to facilitate on-farm investments efficiently that has denied smaller individual farms the kind of productivity gains that the larger farms enjoy.

Will larger land-holding ceilings for the corporate farms really accelerate agricultural growth? Why is technology so readily available for large-scale agriculture, while the small farmers cannot put it to work? The higher ceilings for the corporate farms imply that these technology benefits are large and available. But a lot of these benefits are in the nature of potential efficiency gains.

This potential for gains from the larger farms would have also led to some consolidation and growth in the effective land-holdings, even in the presence of land ceilings. But this has not happened in any significant way.

What has kept the process under check is a combination of the lack of credible land ownership rights and the absence of better off-farm income opportunities.

The prospects for the millions of small and marginal farmers will continue to depend on innovations that require smaller investments by them. And even better gains may emerge where the off-farm alternative income opportunities for the smaller farmers are more credible.

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