

All eyes on kharif prospects



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A record rice output will stretch grain storage capacity. But in order to achieve a change in crop mix, it is necessary to improve the market infrastructure for perishable products.

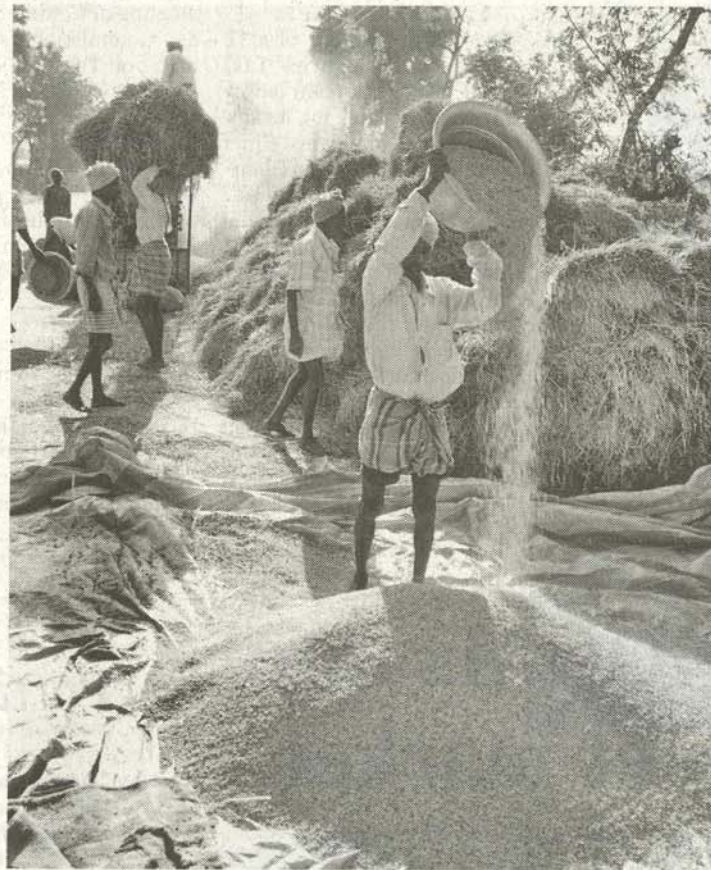
With the announcement of a fairly attractive MSP for kharif crops, alongside plans for enhanced supplies of inputs ranging from good quality seeds, fertilisers, electricity and credit, it is once again left to the farmers and the monsoon to determine what the harvest would be. The good crop last year would act as a positive backdrop for the production plans for this season.

For the consumer, this year's harvest will be crucial. A full year of high food inflation is now turning into a cause of slowdown in growth. Agricultural prices are becoming an important determinant of consumer welfare, if not of income. The record harvest of last year has not been enough to bring down the overall inflation rate. Another good harvest now can at least prevent further price pressures.

COUNTERING INFLATION

Rural consumer markets proved to be a source of demand for the non-farm sector when inflationary pressures were depressing consumer sentiments elsewhere. But even rural demand will be resilient only if overall inflation rate remains moderate. The economy in general will look to a good kharif harvest not only to allay price pressures but also to keep rural consumption demand steady.

To keep inflation pressures down, what is important now is not only the overall output of the sector



Farmers are likely to rely on staple crops such as rice and oilseeds, their choices being determined by prices and market access.

but its composition as well. Much of the focus of government effort would be geared towards the major crops. The price rise in 2010-11 was led by pulses, fruits and vegetables, milk, eggs and so on. Would the farmer deliver higher output in

these commodities to keep prices in check? Have the price conditions of last year been enough to bring more investments from the retailers that enhance incentives to the producers?

The supply response may not be

instantaneous. Increased supply will also require fresh investments. An important enabling investment over the years is the government spending on roads and power in rural areas.

POLICY INCENTIVES

There are no indicators to measure investment in marketing infrastructure, but incentives for reforms in agricultural markets are likely to have had some impact on market infrastructure.

It is not clear to what extent additional cold storage facilities or cold chains have come up to bring perishable products from the farm to the processors or consumers. What the slow and uneven pace of institutional reforms in the agricultural markets has shown is that much can be gained by those who act sooner and faster. However, the initiatives on reforms still appear to be driven by the Centre, and their adoption is slow and uneven.

However, the supply of credit has had a positive impact on production conditions. The reduction in interest rate on farm loans and the push towards financial inclusion have increased access to institutional credit and also reduced its cost.

Lower interest rates should help meet credit needs across crops, not just rice and wheat. The strengthening of extension services— unless they are limited to spreading knowledge with respect to a few major crops — is also a positive change that may help in making desirable crop choices.

Now, to the adverse factors that

may derail the desired crop output response. The high rate of overall inflation in the economy cannot be good news for farmers.

THE NEGATIVES

The spillover effects of high farm commodity prices on the prices of inputs and wages are not insignificant. The increase in the price of diesel and kerosene that was announced last week, even if moderated by tax reduction, will have an impact on transport costs and running farm machinery.

As MSP protection may not be available for items such as fruits and vegetables or milk and eggs, higher input costs would discourage switching resources to their production, as staple crops such as rice or oilseeds may turn out to be more reliable bets for the farmers.

For the farmer, the choice of enterprise would depend on access to markets and fair prices. Where these conditions have been achieved, there has been a shift from one crop to another. But these changes have taken time, as has government spending on building market infrastructure.

For the government, keen on curtailing subsidies without affecting farm output growth, changes in crop mix would be desirable. The record levels of rice and wheat in storage — at the moment in excess of 60 million tonnes — show that the subsidies are not only a fiscal burden but also a waste of resources. A record kharif rice output yet again will stretch grain storage capacity. The need to invest in market infrastructure for perishable farm products is becoming more compelling.

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