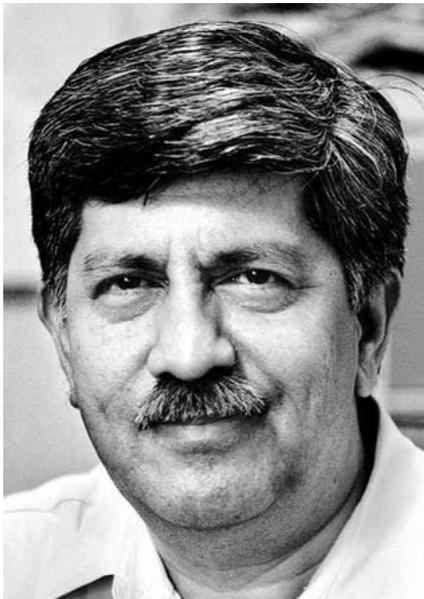


THE HINDU Business Line

Weak links in farm policy

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Last year's agriculture output has been a source of satisfaction to the government. This is an outcome of both farmers and policies. The output could have been greater or much less if either had acted differently.

After all, there were both floods and deficiencies in rainfall, but at the overall level, the rainfall was 'normal'.

The initial estimate of agriculture GDP growth for 2010 -11 at 5.4 per cent over the previous year could well be conservative. In any case, what is striking in the output estimates for 2010 -11 is that in the case of pulses, current estimates match the target for the year and in the case of sugarcane and cotton the estimates exceed targets considerably.

Oilseeds and rice output are less than targets. Estimates for the sectors which drove inflation last year are not yet available.

Farmers probably do not have specific targets for production but the government does, especially in the case of major crops. If output growth is seen to decelerate, new plans are made to resurrect growth. Farmers are incentivised to do more.

The rise in pulses output is a case in point. Sometimes, a technology breakthrough helps, as in the case of cotton. The government probably now needs to do a lot more in the case of inflation-sensitive sectors. But the government can only facilitate. It can influence incentives.

OVERRIDING OUTPUT FOCUS

Much of the attention when it comes to agriculture is on production and prices. There is much attention on self-sufficiency in foodgrains or food security. Public attention on state of the soil or water is sporadic.

The Economic Surveys, for example, do not report often on ground water table, top soil depth or traces of harmful substances in soil or water as a result of farming practices. Instead, the report is on level of water in reservoirs.

Last year, aggregate management performance fell short on planning for storage of output. It also fell short on planning for the output of sectors where growth in demand was expected to rise as a consequence of rising income levels.

But where incentives were strong enough, the farmers did not fail government plans. The government obviously puts more efforts in sectors where there are more farmers and particularly consumers involved.

The incentives are in place to ensure supply of mass consumption items. Output growth is clearly a greater priority than storage performance.

That cotton and sugarcane have exceeded targets indicates the strong incentives to farmers growing these crops.

Incentives pay off

There seem to be enough incentives for the industry which supplies either the inputs or processes output. The market is strong enough here to provide incentives even if the farms are small, credit inadequate and other usual constraints remain.

Although there have been years when the market could not provide a satisfactory resolution of supply and demand, the recovery in production has been quick.

The surprise in output response now has been the case of pulses. The sharp increase in MSP for pulses in 2010-11 by 15-30 per cent was a significant incentive to produce more. Market prices were high as well.

The MSP and market prices influence choice of crops or enterprises by the farmers at the margin. Clearly, the only way output of all crops or livestock can increase is through technological progress. Otherwise, the output of some crops will rise and others some crops may decline, as there is only so much land and water available. Price incentives will produce results by re-allocating resources and to an extent increasing investment. But these effects also increase prices to the consumer.

Other indicators

Purely as a commercial operation, farmers would be looking for ways to reduce costs and increase revenues.

For most of them, the business they are in does not give them enough income to grow further, to buy equipment, to build storage, to buy more land and so on which can get them more income.

Continuing to farm, seeking incremental improvements in productivity either through using new seeds, new crops or more fertilisers is the best way forward for the millions of them. Per capita farm income is another performance indicator which is generally not tracked.

Finally, there is the global price scenario which should also be a concern of public policies. Rising food prices have been a recurring factor in recent years.

Stability in prices and access to food security at the global level should also be a performance indicator for public policy in agriculture.

Besides incentives, more attention needs to be given to storage, top-soil quality, water management and technological progress.

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