

THE HINDU Business Line

Budget and farm sector issues

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K_Murali Kumar A woman working at the multi crop farming at Gandhi Krishi Vignana Kendra (GKVK) campus. - Photo: K Murali Kumar.

A Budget that works for agriculture would be one that enhances investment in farms, spurs market intermediaries to improve their services, and brings about price stability. It should nudge policies towards more integrated markets.

For the first time in many years, the setting for the forthcoming Union Budget is one of good agricultural growth. For this year and in the coming years, more will have to be done to supplement the benevolence of rains. Given that we already have several long-term policies and

plans in place, and many more problems to address, what farm perspectives are likely to influence the upcoming Budget?

The estimates of GDP for agriculture and the allied sector were raised to barely above stagnant level for 2009-10 on the back of fisheries, as crop agriculture saw very little growth in GDP. For 2010-11, the growth rate is now placed in excess of 5 per cent. Meanwhile, food prices and commodity prices remain a global concern, even in the coming year. The Budget will have to provide for better supply management, and not just increased production.

Despite efforts on many fronts, sustained agricultural growth and prosperity for millions has remained elusive. There has not been enough investment and productivity growth to match the achievements in the other sectors of the economy. So far, it was believed that there was not enough market demand as well. Perhaps this assumption needs to change.

BEYOND GROWTH

It is increasingly clear that emphasis on growth alone is inadequate to meet broader policy goals, even at the sectoral level. Seeking better utilisation of available production and more efficient distribution capacities is equally important. Stability in supplies and prices is also an important policy goal. There do not seem to be incentives for either producers or distributors in the supply chain to minimise the spikes in prices. The Budget should signal an environment that facilitates investments in the sector, including the government's own investments.

There is a lot of dynamism in all markets, including the link between food and fuel. Mere opening up to global markets does not necessarily mean lower prices and increased supply of food at lower prices. Reduction in volatility of supplies is likely to be an important objective for agricultural policies in the coming years.

It is also important to have good supply performance across regions and States, and not only in some areas. In this sense, policies will have to consciously seek to achieve both protective strategies as much as growth strategies. The Budget must reflect this balance.

The protective strategies should be in the nature of support for distribution of supplies, marketing infrastructure and insurance. It will also include support for rural infrastructure. None of this is, in fact, new. But there needs to be some increased urgency for achieving results. A number of steps have been taken in the past to put together a framework. While the initiatives reflect a balanced strategy, the speed of implementation is weakened by availability of resources. We are still in the phase of creating infrastructure and the challenges of maintaining it are yet to surface.

INFRASTRUCTURE CONCERNS

The development of basic infrastructure such as roads and electricity has been the goal of programmes and schemes for a long time now. There has been progress, but we now await a reflection of this development on farm output or better distribution of what is produced.

Successive Budgets have also increased the supply of cheaper institutional credit, funds for irrigation and subsidies for inputs. What is increasingly obvious is that speed in policymaking is also important. So is an integrated policy for agriculture. The annual Budgets of the Centre and the States do bring together a variety of policy perspectives. It is interesting that an agricultural budget is in the offing for Karnataka this year.

FOOD SECURITY

The Budget this year will have other anchors for agriculture, besides food inflation. There is the food security issue and the expanding MNREGS. One implicit goal in the articulation of food security is the need for more productive agriculture. Food security goals cannot be met without an adequate supply of food at affordable prices.

It is unlikely that food security will be sustainable at highly subsidised consumer prices forever. As in the past, agricultural subsidies in the Budget will also draw attention. When the budgetary allocation is to be contained, it is also marked by some changes, or reforms, in the process of subsidy. Will the Budget mark reforms in the way food is procured and distributed to meet food security goals?

The test of policies for agriculture will be based on the following: investments that farmers make in their farms; the investment that market intermediaries will make to improve their services; and sustained and widespread price stability. The Budget will have to nudge policies in the direction of more integrated agricultural markets.

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