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Bajaj Finance share price 7,199.8 0.9%	
Asian Paints share price 3,246 0.61%	
Kotak Mahindra Bank share price 1,787 0.4%	
Tata Motors share price 613 0.53%	

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Zee Entertainment EnterprL... 268.7 -1.32%

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3 min read • 01 Mar 2008, 01:29 AM IST

Bharat Ramaswami

The loan waiver is an admission that we can't fix the farm's problems



Bharat Ramaswami, Professor, Indian Statistical Institute, New Delhi

Budgets used to be momentous. The sense of mystery and drama has diminished over the years. Policies are reviewed throughout the year and, some might say, due to previous reforms, the "stock" of big-ticket announcements has depleted. For those who agree with the direction of economic policies, this is a good thing.

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Alas, however, another age-old issue—the food constraint—is? back again.?Supply is struggling to keep pace with demand. Unlike the pre-reform circumstances, though, we have the strength to import. With global food markets tight as well, imports may not be able to fully douse food-price inflation in the near future.

In his Budget speech, the finance minister noted that the management of food supplies "will be the most crucial task in the ensuing year". Yet, beyond this acknowledgement, the speech did not dwell on how this challenge will be met. Praying hard might be one strategy. Clamping down on food markets, one hopes, will only be a last resort. It will damage market reforms in agriculture that got going with great difficulty.

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In the medium term, from the point of view of food prices, the food constraint can be overcome by our ability to purchase in world markets. However, the food constraint is extremely worrying for what it means for farmers.

In the past, declines in poverty have owed more to advances in agricultural productivity than any other factor. A slowdown in productivity in this sector is disastrous for agricultural labour and small farmers. That's the reason agricultural wages remained virtually stagnant in the first half of this decade, while incomes in the rest of the economy zoomed at 6% and beyond. While some men (especially younger cohorts) have the means to shift to other sectors, mobility is very limited for women and older men working in agriculture.

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Among the miscellany of schemes in agriculture, on the one hand, the projects relating to irrigation, watershed development and water bodies will directly help in restoring productivity growth. On the other hand, there were no new initiatives announced relating to research and development (R&D) and extension.?One can only hope this is because of a recognition that the problems here are not primarily due to a lack of resources. Institutional reforms are necessary and a mechanism that will bring?them about?(in Central and state?machinery)?is not apparent. Evidently, it is not high on the agenda either.

The crisis in rural incomes is not just because of lagging productivity in agriculture. It is also because other sectors are not creating enough job opportunities. In Bihar, more than 500 days of labour is applied on a hectare of crop agriculture, while in Punjab, the figure is less than 100. Labour productivity and wages are naturally lower in Bihar. The skill development mission announced in the Budget has as much potential in resolving rural distress as any of the agricultural spending programmes.

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The loan waiver for farmers is the most dramatic announcement of this Budget. In an election year, most people are resigned to expect such "sops". For most economists, what will be troubling is not necessarily the "sop"—for, most beneficiaries are presumably at the lower end of the income distribution—but the manner of it. The collateral damage is considerable—to the banking system, and future expectations and behaviour of both lenders and borrowers. A particularly troubling issue is that of equity. What about the borrowers who repaid their loans on time? Presumably, some of them made the payments despite difficult personal circumstances. What also of small farmers who could not access official credit but are burdened by private loans?

The loan waiver is an admission that we cannot fix the problems in agricultural R&D, agricultural extension, agricultural credit and insurance. What looms before us are not constraints of foreign exchange, savings or even food, but the constraint of dysfunctional institutions.

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