

AGRARIAN CRISIS: THE CHALLENGE OF A SMALL FARMER ECONOMY

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The rising frequency of farmers' agitations in Tamil Nadu, Maharashtra, Madhya Pradesh and elsewhere and the high incidence of farmer's suicides are symptoms of a deep malaise in rural India. But beyond scanning the morning headlines, urban India has barely noticed. So long as growth keeps chugging along at 6% plus and food prices remain stable, urban India doesn't really care.

This complacency about the misfortunes of Bharat is quite dangerous. Agriculture is still the core of our food security. With over 1.3 billion mouths to feed, imports will not solve our problem if there is a severe drought and food shortage. Those old enough will recall the desperate years of 1964-65 and 1965-66. Moreover, though agriculture now accounts for less than 15% of gross domestic product (GDP), it is still the main source of livelihood for nearly half our population. It was, therefore, reassuring to see Nitin Gadkari candidly recognize in a recent TV interview that there is a crisis in Indian agriculture. But what are the roots of this crisis? And what is the way forward? I can only outline the answers to these critical questions in this short column.

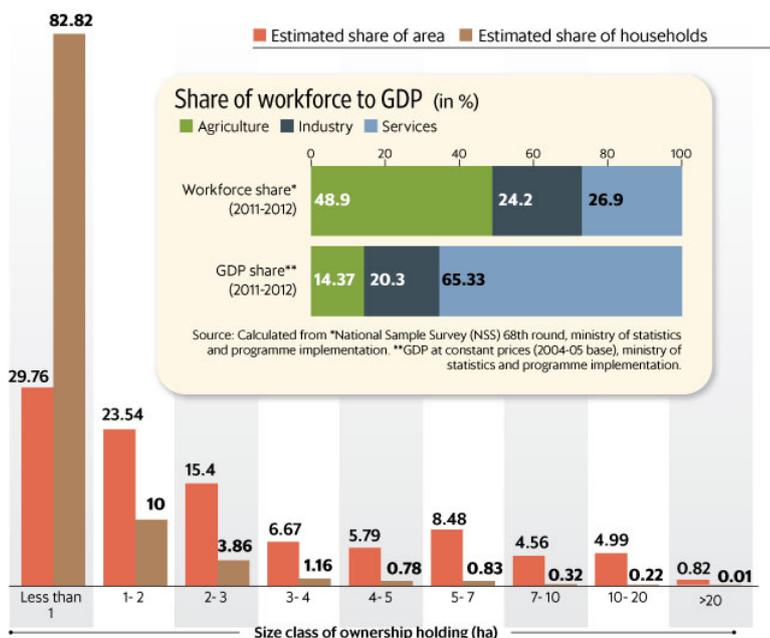
The fundamental root of the agrarian crisis is the intense pressure of population on land. Demographic pressure has pushed down the land: man ratio to less than 0.2 hectares of cultivable land per head of rural population. It has also progressively pushed down the size structure of landholdings. Around 83% of rural households are either entirely landless or own less than 1 hectare of land. Another 14% own less than 3 hectares. At the opposite end, less than 0.25% of rural households own more than 10 hectares of land and a minuscule 0.01% own over 20 hectares.

So the story of the Indian farmer is really the story of this class of landless or marginal farmer households who account for well over 80% of rural households. Their burgeoning growth is the consequence of decades of land fragmentation as family plots are divided and passed on from one generation to the next, especially male children. Their tiny plots of land can no longer sustain whole families, especially in rain-fed agriculture, which accounts for two-thirds of India's total cultivable area.

The second element of the crisis is the shortage of money. Landless or marginal farmers lack the resources to either buy or lease more land or invest in farm infrastructure—irrigation, power, farm machinery, etc.—to compensate for the scarcity of land. As land scarcity intensifies with population growth, farming progressively becomes a less viable source of livelihood.

ECONOMIC IMBALANCE

Share of households with different land size (in %)



GRAPHICS: PRAJAKTA PATIL/MINT

Source: Key indicators of land and livestock holdings in India, NSSO 70th round, 2013, ministry of statistics and programme implementation.

The third element of the crisis is the barrage of risks to which a farmer is constantly exposed. The first risk is the weather. The large majority of small farmers are dependent on the rains. A weak monsoon or even a delayed monsoon—timing matters—means a significant loss of output. The next risk is weak soil fertility, pests and plant diseases. The third risk is price. Even a good harvest can be bad news for the small farmer, placing him at the mercy of the trader. The better the crop the lower would be the price. Net income sometimes collapses if there is a very good crop of perishables. The highly distorted and exploitative product market is the second most important factor responsible for the misery of the small farmer.

For foodgrains like rice and wheat, government procurement at the minimum support price is supposed to protect the farmer. But it mainly benefits the large traders who sell grain to the government. Small farmers typically do not have enough marketable surplus to justify the cost of transporting the crop to government corporations in the towns. Their crop is usually sold to traders at rock bottom post-harvest prices in the village itself or the nearest *mandi*. In the case of other crops, Agricultural Produce Market Committees (APMCs), which were supposed to protect the farmer, have had the opposite effect. Farmers have to sell their produce through auctions in regulated markets controlled by cartels of licensed traders, whose licences give them oligopolistic market power. These cartels fix low purchase prices, extract large commissions, delay payments, etc. Based on his research, Ashok Gulati, a former chairman of the Agricultural Prices Commission, claims that the farmers may typically get as little as 25% of the price that consumers finally pay. A consolidated mark-up of 300%.

Despite subsidies on power, fertilizers, etc., input costs have been rising faster than sale prices, further squeezing the meagre income of the small farmers and driving them into debt. About 52% of agricultural households are estimated to be in debt, and the average size of household debt is Rs47,000. If small farmers are subjected to any of the production or marketing shocks described above, it knocks the bottom out of their precarious existence. The household slides into a downward spiral of extreme distress, debt default and more distress. Ajay Dandekar and Sreedeeep Bhattacharya have pointed out in a recent paper that there is a strong correlation between crop failure and the incidence of farmer suicides (*Economic & Political Weekly*, 27 May).

Not surprisingly the rural youth, especially young males, are migrating to the towns and cities for a better future. But their dreams are quickly shattered. There is not much employment growth anyway and they lack the skills required for a decent job. What remains is a burgeoning army of unemployed, miserable and frustrated young men. The frightening brutalization of our society, from the insanely cruel rape-murder of a young physiotherapy student in Delhi in 2012 to the inhuman lynching of minority or Dalit victims, feeds on this mass of misery and anger. The agrarian crisis is morphing into a social nightmare.

What is to be done? Increasing land scarcity and the marginalization of farmers cannot be easily reversed. But is there a different way of organizing agriculture to contain the adverse consequences of such marginalization? An idea that has gained much traction in recent days is cooperative farming. In a recent article, citing the Amul Dairy Cooperative in Gujarat, which was later replicated throughout the country, former chief economic adviser Ashok Lahiri discussed whether the same model could be applied for other agricultural products ('Lessons from milk for agriculture', *Business Standard*, 5 July. The same day, in her acceptance speech for being appointed Officer in the Order of Agricultural Merit, a prestigious French award, economist Bina Agarwal spoke at length about the spread of voluntary cooperative farming systems not just in India but in several other countries. These include parts of France and Germany, Romania, Kyrgyzstan, Nicaragua, Kenya, and Bangladesh among others.

There are several variants of cooperation ranging from collective action in accessing credit, acquiring inputs and marketing to production cooperatives that also include land pooling; labour pooling; joint investment, joint water management and joint production. The advantages of aggregating small farms into larger, voluntary, cooperatives include greater capacity to undertake lumpy investment in irrigation and farm machinery, more efficient farming practices, greater bargaining power and better terms in the purchase or leasing of land, access to credit, purchase of inputs and the sale of produce. The cooperative approach also has its problems, such as internal conflict, free riding, etc., but farming communities have also found institutional solutions to these problems.

The conditions for success of such cooperative approaches that Agarwal has identified include voluntariness, cooperative units of small groups, relative socioeconomic homogeneity of cooperating households, transparent and participatory decision-making, checks and penalties against free riding, and group control over the fair distribution of returns.

In India, successful cooperative farming usually refers to sugar cooperatives in Maharashtra and, especially, the Amul milk cooperative in Gujarat. However, there are several more recent examples of successful cooperation in other states as well, especially Kerala and Andhra Pradesh. The Radhakrishna Committee Report on Credit Related Issues under the Swarnjayanti Gram Swarozgar Yojana, among others, has analysed in great detail the working of the highly successful Kudumbashree programme in Kerala and the Society for Elimination of Rural Poverty programme in Andhra Pradesh.

The key feature of both programmes is that they are women-led initiatives founded on a base of voluntary women's self-help groups (SHGs). Both now have many hundreds of thousands of such SHGs at the sub-village level. These are aggregated through structures of democratic representation into higher-level associations. While both are closely linked to accessing credit, they have extended into many activities, including land pooling, organic agriculture, dairy, fishery, marketing and even non-farm activities such as insurance, auditing, entrepreneur incubation and training. While the state governments have played a key role in nurturing these programmes from the beginning, with assistance from multilateral agencies, an essential aspect of both institutions is that it is the SHGs, not the governments, which are in control.

The Radhakrishna Committee has noted the existence of similar embryonic initiatives in other states such as Tamil Nadu, Orissa, Uttar Pradesh and several states in the North-East, among others. It has emphasized the need for state governments to maintain a flexible approach, adjusted to ground conditions in each state, and the need for them to reach out to local voluntary institutions without seeking to control them if the SHG-based approach is to be successfully replicated in other states.

These are among the many lessons of successful cooperative farming in India and abroad that will have to be learned for the institutional transformation of our small farmer economy into cooperative farming systems on a national scale to address the agrarian crisis.

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