

Agriculture as necessary condition of Inclusive Growth

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Students of Economics are familiar with a statement, “corn is not high because a rent is paid, but a rent is paid because corn is high”. This famous sentence written by the classical economist David Ricardo and his quarrel with his friend T.R Malthus on the possibility of Glut and Corn Laws remind us the debate over the economics of agriculture in the classical period. Though the present generation of students are not inclined to read about the debates, Pranab Babu as Finance Minister perhaps kept in his mind the debates when he announced that without agriculture and its’ development inclusive growth is empty. It seems the government is now paying special attention to agriculture sector. We may read a host of things in it in the context of the present socio-economic situation.

The notion of economic rent we have referred above as the compensation for the use of original and indestructible powers of the soil is transformed by and large as the payment made for the use of any property today. The more significant aspect of it is the concept of quasi-rent developed by Marshall and extrapolated by modern scholars as surplus earned by manmade factors in the short period over and above opportunity cost. Quasi rents have become a subject of great debate when liberalization was advocated to shun this unnecessary payment made to an artificial scarcity created through misusing or abusing state power. It has also been argued that the agriculture sector that was protected under the state support need to be freed so that it can grow in the world of great opportunities and not to confine it for the chosen few who can earn quasi rents. This is also necessary as India a signatory of WTO is obliged to open up its agriculture sector sooner or later to international competition. It seems some intelligent people both in the policy making and in the business thought that agriculture means production of wheat, rice, fish, dairy products etc, that have international market. They were also of the opinion that India being an ancient civilization with a long history of agriculture can compete in the international market and reap the benefits of comparative advantage. The underlying assumption that the advanced countries do not protect their agriculture and facilitate free competition possible is shattered now. The story of two decades of liberalization and the

neglect of the agriculture sector with the assumption that it would transcend the international market has ultimately made the government to realize its folly when the growth rates have come down. Now we are thinking of introducing the second green revolution with the support of market and little participation of the stake holders. It is too early to predict anything now. But by the time an evaluation is taken, to quote J. M Keynes, we are all dead in the long run.

We can be sympathetic to successive governments who have sincerely implemented the policies prescribed by the Advisers and Policy makers. We must also be fair that no government has ever penalized an adviser, policy maker or even a statistician for their wrong or miscalculations. It is the zealous politician or the executive who is supposed to take the final call. In this context, we can see that the policies pursued by the government since 1965 in the area of MSP (minimum support price) for about 25 agricultural products, particularly wheat and rice have a mixed result. In fact, we can see this strategy as part of the Green Revolution emanated almost on the same time. The assumption that the poor and illiterate farmers should be protected from the dubious business interests and to support the illiterate farmer, the Commission on Agricultural Costs and Prices (CACP) was created. In fact there are half a dozen such commissions in one of the largest departments of the central government, Agriculture to provide assistance, help, and technical advice in using modern methods of cultivation, calculating the cost of production, recommend the MSP etc. It seems the CACP is supported by the data generated by the Directorate of Economics and Statistics of the ministry in arriving at a reasonable figure. The government after receiving the recommendation from the CACP will fix the final figure based on which the whole machinery of procurement, subsidy, PDS etc move. The assumption that the scientific method of calculating the MSP would protect the farmer from market forces in getting remunerative price seem to be either knave or pedantic. It is the experience of every farmer in the country that the prices recommended by the government are always borne out of political considerations or alleged to be influenced by lobbies. The political economy of agriculture or grain trade analysed by some scholars indicates that how the whole issue is influenced by the class interests. It is a serious, deep and complicated issue that cannot be explained here. However, one can say that the assumptions of the commissions' seldom came true and the farmers particularly the paddy growing farmers of the South and in

particular Andhra Pradesh have always been complaining short of proper attention. It has been observed that the prices realized by the farmers particularly the paddy growers are higher than the MSP. The MSP, it is alleged has become a stumbling block for the ordinary farmer to bargain in the open market to get reasonable price. The response that the MSP takes care of the margin of around 20 percent between the cost of production and the recommended price has failed to convince the marginal farmer. As the experience of the marginal farmer is different because he is close to reality unlike the average farmer of CACP who doesn't exist.

It was anticipated that the operation of free market forces would help the farmer as the policies of the government would influence the terms of trade between industry and agriculture to favour the latter. It looks as if it has never happened. Further, the contribution of agriculture sector where majority of the rural population of about 65 per cent eke out their living has come down to only 14 percent of GDP. It is interesting to notice that the growth of labour force in the non-farm sector has also declined from 4.66 percent to 3.35 percent during 1993-94- 2004-5. It means that the rural labour force is increasingly relying on a sector that is fast missing its sheen. Therefore, it is inevitable for the government to maintain the agriculture sector with subsidies that is a universal phenomenon in all market economies including USA, Japan etc. It is here Agriculture emerges as important to be part of inclusive growth strategy. The recent debate over the issue of subsidies to agriculture, oil, food etc amounts to a little lower than the amount of tax concessions given to the corporate sector as indirect subsidies is a contentious issue. Nevertheless, some of the Advisers trained in the West are becoming impatient for the economic illiteracy of the people who are not able to see the reason that it is the corporate sector that sustains growth both economic and political of the preferred few!