Political Economy of Waiving of Loans: Will it help India's Farms Prosperity

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Abstruct:- Agriculture is the main stay in Indian Economy in terms of Employment generation but this strategic economic activity suffers the problems of acute shortage of capital formation . After 1st phase of Bank Nationalisation in 1969 there was an attempt of the Govt. to extend institutional credit at the grass root level. There was considerable extension of formal credit after that but a new game started i.e. the political game of weaving. Because the farmers are considered as vote bank dividend in every election . Loan weaving is really essential from economics or is it a political compulsion ?

Key words:- Agri-GDP; Food inflation ; Cash crops ; CPI ; Structural shift

Today more than before there is a serious agricultural crisis looming before the nation. India is a rich state but its farmers are poor. Being the largest employer in the country, agriculture is currently undergoing an unprecedented crisis, not just because of the vagaries of nature. Agriculture is no longer a remunerative occupation, especially for the small farmer, and 78 per cent farmers want to quit agriculture if given a choice. The wave of unrest among farmers in various parts of India shows that the problems of Indian agriculture are more pervasive and have raised concerns about the health of the agricultural sector. India cannot ignore its farmers as there is a genuine need to help the farming sector which is suffering from various strains. The analysis needs more depth. But looking for immediate and longer-term responses requires a better understanding of the roots of the stress in the farming economy. The government has an immediate political problem on its hands and has no option but to go for short-term palliatives which are counterproductive. There is a mismatch between the way farmers are perceived by policy makers, media, the general public and reality.

Farming cannot be characterized as a business in common sense of the term. One could point to some unique features which operate only in farming:

Agriculture is acutely vulnerable to climate change. Agriculture is the only business where farmer has both production as well as price risks. his plant could get flooded by rains. But such disruptions to production are not very common. But farmer has production risks which are very common. There might be inadequate rains at sowing, germination and vegetation growth stages; pest attacks during pod or boll formation; and hailstorm just when the crop is attaining maturity. On top of these is the risk of price crash at the time of harvest. The co-existence of high probability of both production and price risks render farm insurance commercially unviable. This explains why even in the US, for example, the federal government subsidies, on an average, about 62 per cent of crop insurance premiums.

Agriculture is the only operation where farmer buys everything retail and sells everything wholesale. Farmers are the only lot who pay retail prices for every input, while being forced to sell their entire produce at wholesale rates. Like all other operations, farming also rests entirely on remunerative prices. The farmer`s decision to cultivate rests on the premise that income from the farm will be substantially higher than cultivating cost.

Present Status of Agriculture

Half of India's population (48.4 per cent) is engaged in agriculture, yet its contribution to GDP is only 17.4 per cent. Agriculture is said to be India's largest private-sector enterprise, engaging nearly 119 million farmers ('cultivators') and another 144 million landless laborers, as per the 2011 Census. Farming in India is moving from a subsistence and traditional mode to a modern capitalist mode with farmers investing in land improvement and irrigation, adopting new seed varieties, new crops and new methods of cultivation. Many farmers with marginal holdings are leasing their land to larger farmers so that there is a de facto dilution of ceiling laws. Enterprising farmers are borrowing and investing in these improvements in a business where weather and market volatility risks have not been significantly reduced. If farmers' unrest could happen in MP, which claims to have registered the fastest agri-GDP growth at 9.7 per cent per year during 2005 – 06 to 2014 – 15, then no state is likely to be immune from it.

Farmers' Indebtedness

The peasant in India is born in debt, lives in debt, dies in debt and bequeaths debt. This is what Sir Malcolm Darling, a famous British researcher and writer, wrote in 1925 after studying the condition of undivided Punjab's peasants. Had Darling been alive today he would have rephrased his statement; he would have said the Indian farmer is born in debt, lives in debt, is beaten for debt and dies in debt. Mounting loans have forced farmers to commit suicide.

One of the primary features of the agricultural scenario in India is the indebtedness of farming house-holds. The national Sample Survey Organisation (NSSO) survey report of 2014 confirms the worsening of indebtedness. It underlines that more than half of all agricultural house-holds (52%) are reeling under debt and the average amount of debt per household is estimated at Rs. 47,000. There is enough evidence to prove that those who have access to bank loans are the ones with larger land-holdings. Only 15% of landowners with less than, 0.01 hectares have outstanding loans, (from institutional sources) compared to 79% of large landholders (more than 10 hectares). Non- institutional lenders, such as moneylenders, rule the roost and have a 25.8% share of all outstanding loans. Despite formal credit to farmers growing tenfold between 2001 and 2012, commercial banks have 'deepened' credit instead of 'widening' it, making loans more accessible to farmers with large landholdings. The surge in formal credit was insufficient to rule out the predominance of non institutional sources. Shockingly, in spite of the implementation of the massive loan waiver scheme and doubling of agriculture credit, farm indebtedness has not receded.

The coexistence of prosperity and indebtedness among Indian farmers is not a new phenomenon. However, what's puzzling is that cases of indebted farmers committing suicide, which has now become a recurring phenomenon, never surfaced before the 1990s. between the mid-1990s and 2016, over three lakh farmers have committed suicide in India. The Radhakrishna Committee on Agricultural Indebtedness (2007) appointed by the government has clearly underlined in its report that agricultural indebtedness is the prime reason for the re-emergence of such disturbing trends. Ironically, even ten years after the committee submitted its recommendations, farm indebtedness continues to trigger suicides. An important factor that is now emerging is the lack of informal financing. This is the perhaps the single-most important cause of the farm unrest being seen at the moment.

Concept of Loan Waiver

When there is a poor monsoon or natural calamity, or output prices may not be remunerative, farmers may be unable to repay loans. The rural distress in such situations often prompts States or the Centre to offer relief-reduction or complete waiver of loans. Farm loans may be crop loans or investment loans taken to buy equipment. The concept of loan waiver is essentially related to the Centre or States taking over the liability of farmers and repay the banks. Waivers are usually selective – only certain loan types, categories of farmers or loan sources may qualify. The concerns of the farmers are , however, quite justified. Loan waivers provide some relief to farmers in such situations, but there are doubts about the long-term effectiveness of the measure.

Clamour for Waiving of Farmers' Loans

India has a history of loan waivers and farm loans have been waived off by different political parties in different parts of the country. From the first ever nationwide loan waiver announced by the Janata Dal government of V. P. Singh in 1990 to the one announced by the UPA government in 2008, these have been exercises in futility. At best, they give the government temporary respite from farmers' fury. During the next period of farm stress – and these have become perpetual – the cycle of agitation and loan waivers is repeated again. For the government, the money so waived is money down the drain without addressing any of the root causes of agrarian distress. For the farmers, the short-term gain turns into long-term pain. Their credit history gets distorted and they become defaulters in the eyes of the banks, denying them future loan on account of their inability to payback. As a recent World Bank report shows, loan waiver schemes invariably result in significant decline of fresh loans to the farmers. This is tragic. Rural indebtedness is a symptom of rural distress. Curing a symptom without treating the malaise is an open invitation to disaster.

The recent waiving of crop loans in Uttar Pradesh, Maharashtra, Punjab and Karnataka announced amid continuing protests by farmers across the country may signal the beginning of a far more serious contagion. As Ashok Gulati and Siraj Hussain have pointed out that it could only be a matter of time before such waivers become an all – India norm, to be financed through state budgets, distorting even a semblance of fiscal discipline. The situation is likely to worsen with farmers in states such as Haryana, Madhya Pradesh, Gujarat and Rajasthan also demanding a waiver after low crop prices dented their incomes. Three states – Gujarat, Karnataka and Himachal Pradesh – go to the polls in the next one year and political parties could promise more waivers during their campaigns. Other than these three states which go to the polls in the first half of 2018, terms of the Chhattisgarh, Madhya Pradesh and Rajasthan governments expire in January 2019, a year when general elections are likely to be held. States such as Karnataka, Rajasthan, Madhya Pradesh, Kerala and Tamil Nadu are vulnerable to a domino effect of loan waivers in other states due to their low farm income and higher debt profile.

According to a bank of America Merrill Lynch research report released in June 2017, farm loan waivers to small and marginal farmers in the run-up to the 2019 polls can total 2% of India's GDP. India could witness farm loan waivers well in excess of 1 lakh crore. That would add to the states' fiscal deficit and raise the combined public sector borrowing, setting off alarm about the country's fiscal discipline. The higher borrowings to finance loan waivers would shrink room to fund public investment, affecting growth. Many small farmers are not covered by institutional credit and waivers tend to help those who are already benefiting from state procurement under price support. The Centre is not considering any proposal for farm loan waiver because as per Fiscal Responsibility and Budget Management (FRBM) Act and fiscal deficit target, it intends adhering to it.

Loan waivers are both 'bad politics' and 'bad economics'. Bad economics is not good politics. Political parties promise freebies. The fate of poll promises is no secret in this country. The problem is embedded in this spurious 'benevolence'. Parties dole out national resources under the garb of democracy. Winning elections is important for politicians at any cost. Only an informed public discourse that sees through the tradeoffs politicians make can act as a restraint.

Distress in Agriculture

From 1947 till now, every government has treated farmers as a vote bank. it is possible that some people made attempts to exploit their agony, but then farmers have always been at the receiving end. no single politician or party but the entire political establishment should be held accountable for this. The hither to unassertive, unorganized mass of farmers across the rural expanse transformed into a veritable political force overnight. The striking farmers have reaffirmed the need to implement the structural reforms proposed by the Swaminathan Commission. The present government has to bear the consequences of a desperate and desolate mass demanding justice as never before. Scholars like Chatterjee and Kapur in their study have indentified the distress and characterizing them as six 'puzzles in Indian agriculture', namely:

1. prices,
2. procurement,
3. political economy,
4. trade,
5. productivity, and
6. exit.

Their work represents a major attempt to provide an integrated macro overview of the failings of Indian agriculture, which continues to directly support – albeit poorly – a large fraction of the nation's population. The specific issues, briefly, are as follows:

1. There is high and persistent variation in agricultural prices across the country.
2. There is widely varying implementation of national price support policies across different states and even districts within states.
3. Despite numbers of periodic protests (such as we are seeing now) farmers' incomes have languished.

4 India seems to produce an excess and export agricultural crops that are intensive in scarce resources such as water and land.
5. Agricultural productivity varies dramatically across India, often being well below the technology frontier.
6. Farmers seem to be trapped in their low-income occupation, unable to exit.

According to Nirvikar Singh, ``the political economy puzzle" is a crucial and complicated one. Farmers do get input subsidies, loan waivers and price supports. But the political influence of farmers seems to have waned in recent decades, and institutional reforms that could lead to higher productivity over time have been neglected or have stalled. Those providing inputs and often also controlling the purchase of outputs- remain the politically decisive determinant of policy choices and implementation. In this view, intermediaries have no interest in farmers breaking out of a system which enriches mostly the middlemen".

Productivity gaps are also related to input price distortions, particularly fertilizers. There is an effective collapse of traditional agricultural extension with low institutional capacity, although the shifting of funding away from extension to subsidies has a political economy explanation as well. Low exit is clearly related to India's failure to generate enough jobs outside agriculture. Investment in agriculture is declining. At the same time, the terms of trade have move against agriculture in the last three years. The collapse of agricultural commodity prices after August 2014 only aggravated the distress in the rural economy. While this was largely led by a drop in prices of most cash crops, including horticultural products, even for food grains the price inflation was minimal.

Food inflation came in at a negative 1.05% in May 2017. Negative food inflation along with declining wages in rural areas confirms severe demand deflation. It has contributed largely to the collapse of agricultural prices. The final nail in the coffin was the demonetization of high – value currency notes, which affected the purchasing capacity of market traders, forcing farmers to undertake distress sales. In the same period, input costs have increased or remained stagnant. The big increase has come in fertilizer and seed prices, denting the profitability of farmers – forcing farmers to fall back on moneylenders and institutional sources to fund daily expenses in agriculture.

Simultaneously there has been a structural shift in cropping patterns with horticulture and cash crops dominating farm output. Today, the overall horticulture production is higher than food grain production. Most of these crops are outside the ambit of MSP operations and hence vulnerable to fluctuations in market prices – especially given the cartelization in mandis or markets for agricultural produce.

At the same time, agricultural production is being increasingly monetized as farmers embrace mechanization. Consequently, credit and risk exposures are now an essential part of the new agrarian economy. Public policy is guilty of not recognizing this fundamental transformation in Indian agriculture wherein market risks have become an integral feature. This is largely because good times masked the reality.

Not only did the growth engine slow down it was also accompanied by a decline in employment. This has manifested in demands for government jobs and reservation among the most industrious and prosperous farmer communities of Jats, Patels and Marathas – symptomatic of the larger crisis in the countryside.

The Way Ahead Lies in Positive Policy Response

There are various ways to distress the rural sector. They are as under:
1. Ensure crop insurance penetration across the country.
2. Extend reach of minimum support price, which has, far too long, been dedicated to few crops and in a narrow geographical area.
3.Difficult though, have a robust food processing industry. The agro-processing industry and warehousing need to expand so that agricultural produce can be stored when prices plunge in the market.
4.Credit products for agriculture need to be tailor-made based on cropping and rain cycle, specific to a particular region. The regional offices of commercial banks should contribute in this exercise.
5.The period of crop loan should be extendable to four years, given that, on average, every second or third year the spatial distribution of rain pattern is erratic in India.
6.As in the case of other subsidies, the government needs to start linking farm credit and interest rate subvention with Aadhaar numbers. All farm loans should be linked with insurance so that the bank gets covered for loan loss while the government pays its share on insurance premium (which the present crop insurance scheme is supposed to entail).

7.Institutionalise a mechanism, with a regulatory authority supervising the scheme of distressing farm loans, based on a scientific basis for calculating stressed assets and restructuring them – a decision that should be strictly based on commercial considerations.

8.The time has come for large-scale adoption of drip technology and sprinklers to lower the use of water. This requires investment for which a robust system of agricultural credit has to be in place. Lowering of interest rates for farm loans and offering a subsidy for investment in water management can be taken forward.

9.If consumers and producers can benefit from a single national market in GST era, farmers should also have the freedom to sell their produce where and when they want – with a predictable policy framework (no flip flops in export-import stances, for instance) that enables farm – to – fork supply chains independent of local mandis and traders.

10.Farmers need to be organized into large producers' companies or co operatives, to give them economies of scale and bargaining clout vis-à-vis their organized buyers, industry and retail.

11.The focus of the agricultural strategy has to move towards developing new technologies, agricultural practices and crop varieties which are not only less resource-intensive but also environment-friendly.

12.There is a need for effective crop planning, at least in case of sensitive commodities such as onion, pulses and sugar. This requires specific production policies for these crops. Also there is need to have a policy on surplus management.

13. It is imperative for the Centr4e and States to work jointly to revive the farm sector. Farm policy needs to recognize farmer requirements for State support.

While the government cannot be blamed for all the problems in agriculture, however, its' response to the shocks has been inadequate in most cases. While the government recognized the severity of the situation, the efforts of the government in revamping the crop insurance and land titling schemes are long-term solutions which will take time to bear results. There is a need for the government to think in terms of stabilizing farm incomes. One must be sure that Rs. 2-3 lakh crore spent in rural roads, godowns, power supply, irrigation, agricultural research and crop insurance would generate farm incomes, which is the only sustainable antidote to indebtedness. The convenient emphasis on pushing agriculture credit instead of addressing structural problems should end. The problem is that they have to do something right now. A sustainable agricultural policy requires efforts to not only support and protect farmers from the vagaries of the monsoon and market forces but also to create an enabling institutional framework. The neglect of agricultural universities, extension services and cooperative institutions has led to a collapse of the enabling institutional structure critical to development of sustainable agriculture which supports small and marginal farmers. the bottom line is that the government needs to pay attention to rural India and the agrarian economy.

Conclusion

The search for a solution needs to be comprehensive by taking into consideration all the factors that contribute to the crisis. A visionary plan is needed. Raising farmers' income is an issue that successive governments and policymakers have grappled with rather unsuccessfully. There is need to do much about income and pricing. Agriculture experts like Dr. M.S. Swaminathan have prescribed various solutions yet they have not been implemented. Modern technologies integrated with agriculture and agro-food industry will revolutionize this sector and produce large –scale employment and thereby wealth.

The fatal flaw of existing public policy is that it continues to mostly view Indian agriculture through the conventional prism- refusing to recognize how the risks have spiked. Indian agriculture is fundamentally transformed. There is need to have a multi-pronged strategy to help both resource-poor farmers and the educated better-off ones. The Indian farmer is not risk averse but it also dramatically increases the downside risks. The entire approach to farming has to be revisited. Short-term, emotive approaches should be eschewed. The Centre and states need to work together to evolve a farm loan model which protects both farmers and banks without bringing politics into it. Better coordination between various ministries such as Agriculture, Food, Commerce and finance is required to assess the demand-supply scenario on regular basis.

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