



# POLICY BRIEF 6

## ON THE NEW AGRICULTURAL POLICY

Since the early nineties, successive governments have promised a policy statement on agriculture. Several versions have done the rounds, including the current one under circulation and discussion. It states:

"The objectives of the policy will be to accelerate -all-round development and economic viability of agriculture in its comprehensive term. Farmers will be provided the necessary support, encouragement and incentives, so that rural people look to this noble occupation for a future of all round development, well-being and hope. The policy will aim at management and conservation of natural resources base and the orientation of technological and institutional change in such a manner as to ensure the attainment and continued satisfaction of human needs for the present and future generations."

The document then lists out the "do's" organized under 15 themes ( chapters) viz. Conservation of Natural Resources and Protection of Environment, Food and Nutritional Security, Diversification of Agriculture, Management of Inputs for Greater Efficiency, Development of Rural Infrastructure, Marketing and Value-Addition, Revitalization of Cooperative Institutions, Improving Rural Credit, Research, Education and Extension, Human Resource Development, Trade and Export Promotion, Enabling Environment for Higher Agricultural Growth, Risk Management, Learning from Traditional Wisdom, and Management of Agriculture. The do's in each section include every programme that has been enshrined in various Plan documents since Independence and some more. The document is ambitious and lists an exhaustive portfolio of intentions and proposed programmes. Ironically, it says very little about policies.

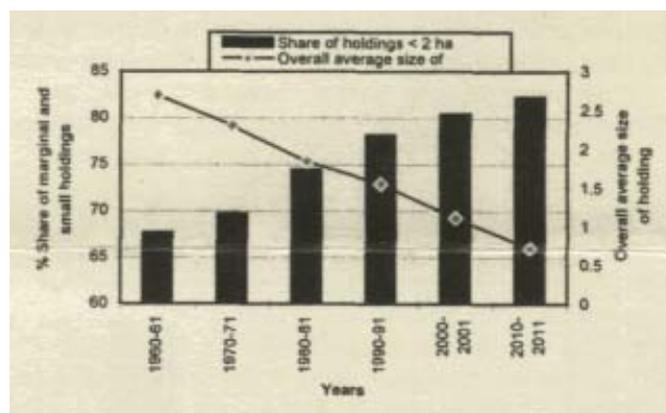
Policy issues are contentious and controversial. The existing document either covers everything for every shade of opinion or skirts around difficult issues. Because of this it

may pass muster in the Parliament, but it will never serve any operational purpose. This Brief identifies a few basic parameters of the agricultural sector around which a policy framework must be developed. These relate to the basic tenets of agricultural -development.

### **Organization of agriculture**

The paper is silent on this issue, though there is repeated mention of small and marginal farmers. It makes the point that ceilings on land holdings will not be raised implying that Indian agricultural will remain a smallholder operation. The issue of a viable farm size is not brought in explicitly, even though the trend clearly shows the emerging stress (Fig 1). One is left to infer that liberalized lease and rental markets will enable entrepreneurs to achieve viability. This aspect needs explicit consideration because it impinges on everything else. There are two related issues on which clear thinking is required. One, there is ambiguity about the size issue relating to enterprises which require large scale. Some states have granted exemption from land ceiling limits for horticultural or plantation crops. In fact, scale economies are inbuilt in capital intensive agriculture-that is why farm sizes have grown over time in Europe and North America.

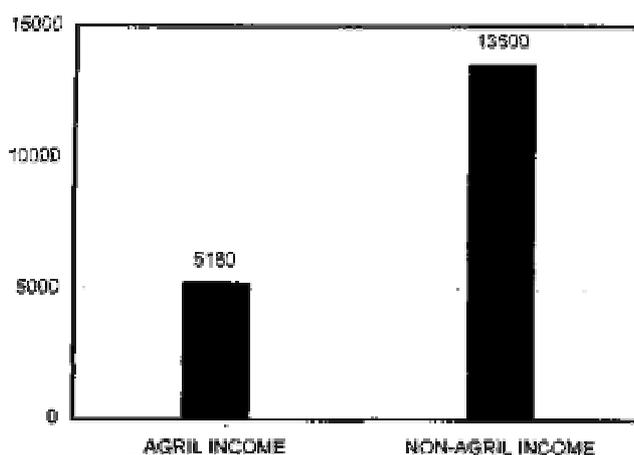
**Fig. 1**  
**Changing Land Holding Pattern in India**



This applies to all agricultural enterprises including food grains, livestock and value-added products. Expansion of farm size has invariably accompanied growth in farm incomes over the long run. Short term growth is possible through technology or market expansion, but in the long run scale becomes critical. If we are clear, for example that smallholder agriculture will be the rule, we must also recognize that all options (technology, programmes, institutions, policies) will have to be tailor-made.

Alternatively, in countries which have remained wedded to intensive smallholder agriculture (Japan, Taiwan, South Korea), integration with non-agriculture and non-farm sector and innovative institutional arrangements to harness scale economies has sustained income growth. A growth strategy along this pathway requires very clear policy thrust on industries in rural areas. The document focuses on the medium-term opportunities tied to the agricultural sector (technology, diversification, value-addition and processing) and infrastructural improvements. Ten years from now these opportunities would have played out. In the long-run, an exclusive focus on agriculture will not permit bridging the gap between rural and urban incomes regardless of the level of production achieved (Fig 2). While the sequencing may be right, the policy document must have a clear long term vision where inter-sectoral linkages are explicit.

**Fig. 2**  
**Per Capita Agricultural and Non-Agricultural incomes (1995-96)**



Since growth is investment-driven, very clear signals on the envisaged structure is necessary, not only for those (state and entrepreneurs) who are investing in agriculture but also for policy analysts and policy makers in related sectors.

### **Sustainability and natural resource management**

The Policy document emphasizes a prescriptive framework based largely on technological opportunities for conservation and exploitation of natural resources. There are a large number of policy issues which have either been ignored or avoided. For example, rational land use has been

cursorily treated. Natural resources experts have been pleading for increase in forest cover, alternate land use patterns in catchment areas, and rational urban land use. Similarly, inefficient and unsustainable use of water resources has been pointed out by several expert committees. Common property resources are also threatened.

The point is that the policy document does not address the really critical issues. It is obvious that in the absence of clear regulatory policies, the proposed technological fixes or investments will be infructuous. We can go on allocating funds for watershed development, agroforestry, soil conservation, and so on, but these will not produce desired results. Professional bodies like the National Academy of Agricultural Sciences etc have indicated clearly what the policy imperatives are. These have been ignored. The problem is that these prescriptions are not politically expedient. Nevertheless, it is essential that a political consensus is developed on critical issues. The bottom line is that unless we have regulatory policies in place, strategies to conserve natural resources and ensure sustainability will not work. Specifically, the policy document must explicitly indicate the official position with respect to these aspects. In this context, the debate over the preceding years needs to be qualitatively upgraded. Sustainability issues inevitably involve trade-offs. There will be losers. The society will have to make the choice to forego some current consumption if posterity is to be provided for. Left purely to unguided market forces, this will not happen. Answers to these questions lie in the domain of political economy. Nevertheless, these are crucial and a policy document devoid of these dimensions serves little purpose.

### **Institutional change**

The existing institutional support mechanism for Indian agriculture is grossly inadequate to meet future challenges. These have evolved in a context which has ceased to be relevant. These relate to the entire range of institutional arrangements whether they are concerned with use of natural resources, inputs, marketing and trade, or R&D and transfer of technology. While there is a need to think anew about these aspects, the policy document takes an incrementalist approach. This may be justified if a short term view is taken but a long term policy document must spell out new approaches and new institutions.

The basic paradigm shift required relates the role of the state. It has been a historical presumption that the government knows what is to be done in areas like credit, marketing, R&D, and everything else needed for agricultural development. Over the last decade or so non-government organizations have demonstrated that this premise does not hold. Even otherwise, inadequacies arising from interventionist approach have been laid bare. Yet the policy document has not been able to break this barrier. It does mention reforms in existing institutional structure but is vague about new arrangements.

It is obvious that strong farmer organizations will be the nodal institutions for change covering production, marketing and trade. A new cooperative (self-help) framework, free from the shackles of bureaucratic control and restrictive procedures will have to be developed. Unless producers are empowered effectively, the potential cannot be exploited and the projected growth scenario will not materialize. There is need to develop national policy to ensure that such institutions are fostered. Such grassroot level organizations will make decentralization meaningful and relevant.

In addition to the organizational aspect, it will be necessary to inject greater professionalism across the board to ensure that technology, management, and other skills are imbedded in the new scheme. These cannot be left to the line departments of the government. In order to respond to this challenge, trained manpower will be necessary and new initiatives in agricultural education will be required.

### **Investment priorities**

There are two serious problems with regard to investment in agriculture. The document does talk about infrastructure and market development (Chapters 6 and 7) but there is no articulation of priorities and sequencing. As such, the document reads like a wish-list including everything. This is perhaps necessary in a very long term perspective, but it would be necessary to define a pathway to reach the long term goal. Economic development literature provides guidelines on the relationships between hard and soft infrastructure and the roles of public and private investments. These could provide indicative investment priorities, their sequencing and the role of public and private capital. There is a need to develop a consensus on investment themes, priorities, and policies.

Secondly, one needs to ask why this obvious task has not been undertaken despite a long debate. The policy document is driven by the Ministry of Agriculture. On the other hand, most investment decisions, particularly in the infrastructure area, are taken in other ministries (Water Resources, Transport, Power, Industries, Rural Development, Communication, etc ). The Planning Commission has the task of synthesizing an investment profile consistent with overall development goals. Agriculture- related investments have to be based on these parameters; otherwise an open-ended wish-list is all that will emerge. The initiative proposed in the recent budget to dovetail all infrastructural investments in a holistic framework is a welcome step.

Investment priorities and decisions are greatly influenced by political considerations. Choice affects different interest-groups differently: there are always gainers and losers. It is expedient to make a comprehensive list and avoid conflict and controversy. But this undermines the very purpose of articulating a policy framework. The Policy document must lend strength to the claim for greater investment in rural areas, and also re<sup>^</sup> examine its programmes in the light of complementarities.

## Incentives

The document has not articulated a clear vision on the incentive framework. It implies that liberalized trade in domestic and international market, improved infrastructure, access to inputs including credit, and similar structural reforms will lead to a conducive incentive environment. It cautiously avoids any reference to direct state intervention, except in context of poverty alleviation.

The normative tenor of the framework avoids difficult questions. For example, there is the issue of possible trade-off between food security and income growth and the need to chart a clear position on this in the policy document. This will mean some intervention to retain incentives for food production within the ambit of WTO stipulations. Again, and in the same vein, it is doubtful if potential for agri-exports can be realized without explicit support. The document evades the question how farms of one or two hectares will respond to withdrawal of subsidies on irrigation, fertilizers, or power.

The issue of incentives is of critical significance in the long-run as it affects inter-sectoral transfer of resources. Terms of trade is a short-term segment of this equation. As we develop a future policy framework, we must not ignore the basic axiom of structural transformation of the economy and reduce its dependence agriculture. It is an implicit process of economic development. It will be desirable and legitimate through alleviate, the misery associated with this adjustment through a set of policies and instruments. The document does not take explicit cognizance of this question of relative incentive structure is a major shortcoming of the document.

To sum up the statement must answer questions like : will the agricultural structure be small farm oriented? How the government intends to regulate use of land, water and other natural resources? What new institutional framework is contemplated? How will the basic rural-urban divide be addressed?

The bottom line is that it is infructuous to ignore contentious but basic issues. The document would have served a better purpose if these issues were laid out upfront. A meaningful debate would then have ensued enabling the society to make an informed choice. Promising everything to everyone is no statement at all.

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**Dayanatha Jha**  
Director  
National Centre for Agricultural Economics  
and Policy Research, New Delhi

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