

## CHAPTER VII

This Chapter is a critical analysis of the assumptions of the New Economic Policies of the government of India and its consequential impact on the agricultural sector over the past decade. It seeks to analyse the obsession of the polity to control and eliminate subsidies in the context of controlling the Indian government's fiscal deficit, without appreciating the strategic importance of the subsidies in India, especially in the context of food security for the nation. This Chapter disparagingly examines the impact of the decade long reforms on the farm sector and brings about the fact that more than 50,000 farmers in India have committed suicides in the past few years. This points out to a multiple policy failure within the Indian economy and failure of the reforms in addressing the issues concerning the Indian farm sector.

### THE NEW ECONOMIC POLICY WITH ITS THRUST ON IMF DRIVEN POLICIES TAKES ITS TOLL ON THE AGRICULTURE SECTOR

The context of these discussions arises due to the current thinking within the polity of providing inputs at market prices for agriculture where the current thinking within the polity and the comments in the Media has been occasioned by the opening of the Indian economy in the early 1990s through the implementation of the New Economic Policies (NEP). This is crucial to understand our approach as a nation to agriculture and our policy formulations to agriculture. The globalisation and liberalisation programme of the government of India have been undertaken largely on the persuasion of the IMF and the World Bank, based on the principle of Washington consensus<sup>1</sup>, which remains at the core of all prescriptions<sup>2</sup> for the ills of any national economy. Any deviations or contrary opinions or alternatives emanating from any quarters are considered to be a blasphemy by a significant section within the Media.

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<sup>1</sup> A term coined by Economist John Williamson to explain the broad economic prescriptions for nations recommended by the IMF, World Bank and the US treasury.

<sup>2</sup> In his original paper John Williamson coined the term and argued that the set of policy reforms which most of official Washington, including IMF and the World Bank, thought as sound economics. The term "Washington Consensus" has come to be used to describe an extreme and dogmatic commitment to the belief that markets can handle every thing and the beliefs of the Washington consensus could be summarized in the following ten propositions:

1. Fiscal discipline.
2. A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure.
3. Tax reform (to lower marginal rates and broaden the tax base).
4. Interest rate liberalization.
5. A competitive exchange rate.
6. Trade liberalization.
7. Liberalization of FDI inflows.
8. Privatisation.
9. Deregulation (in the sense of abolishing barriers to entry and exit).
10. Secure property rights.

India is one of the large nations, which launched an ill-defined and ill-directed liberalisation and globalisation programme in early 1990s without adequate homework. Globalisation, in itself, is an ill-defined idea. Even though it apparently intends to institutionalise a rule based world economy, trade and investment without barriers, it has so far been only the rule made by the mighty. This is how many leading commentators on globalisation, who are themselves great votaries of the idea, have critiqued the concept. Yet, to day, this ill-defined idea of globalisation deeply influences our micro and macro economic thinking of the collective Indian psyche.

In fact the tilt in Indian thinking and in the Indian economic policies towards globalisation in early 1990s was not a deliberated, debated and calibrated national decision. It was compelled and largely driven by the foreign exchange crisis that almost turned the country bankrupt in early 1991. Panic reaction to this crisis resulted in a de-focussed liberalisation and thoughtless globalisation, both undertaken without proper home work and debate and understanding. Just as the nation was blindly led into the socialist mess in mid 1950s, it was led into another mess in the name of un-calibrated globalisation and thoughtless liberalisation. Elites and intellectuals of India, who were socialists, defected overnight to the IMF-World Bank prescribed model as the inevitable roadmap to develop India. Thus un-calibrated and ill-defined globalisation and liberalisation process set in motion in India from around 1991. And votaries of Socialism became neo converts of the market economy.

This was a u-turn for a country which was for over three decades from 1955 following the socialist model of state-dominated economy with the commanding heights of the economy left to be handled by the State, which also decided what and how much the private operators should handle, subject, of course to licensing. In fact, when the country accepted this socialist model in 1950s itself, it was without any debate as to the suitability of the socialist model to the Indian ways of thinking and living.

Simultaneously with the onset of globalisation policies of the government, assumptions of the Indian state about the national economy have changed almost completely. Today contrary to any one dissenting against socialism previously being labelled as anti-poor, pro-rich and pro-US, any one who dissents against either the principles of globalisation or against the pace of it, is instantly designated as protectionist, anti-modern and anti-development. The net consequence of this debate-less migration of the Indian economy was that the sequence of liberalisation and globalisation began at the wrong end, with the later preceding the former in most areas. **Since the establishment, thinkers and bureaucrats determined the strategy and sequence of the economic transition without any participation of the stakeholders, there was very little awareness about the content and consequences of the liberalisation and globalisation programmes even among the informed minds of India, leave alone the farmers who are the primary stakeholders as far as the agriculture is concerned.**

In fact the Washington Consensus, which became the foundation for what later became globalisation, was a formula designed by the players in global finance essentially led by the US Treasury, the WTO, the IMF and World Bank. It is widely acknowledged that there is a symbiotic relationship among all these forces. For example, as prescribed by the IMF if the Fertiliser subsidy is removed in India, it could naturally have an adverse effect on the foodgrains availability at reasonable prices for the in India. This fact incidentally is never factored into any debate. Simultaneously by pushing for the removal of trade barriers and increased market access as demanded by the WTO regime it is feared that India would open the floodgates for cheaper and subsidized food imports from these developed countries. It is to be noted that the US Government through the WTO regime has been putting pressure on India to keep the import tariffs on fertilisers to a bare minimum of 5%. So it is widely apprehended that the diverse forces, which drive the process of globalisation, almost work in tandem and cohesion. **And who would be the beneficiary of these completely disjoint yet correlated functions and simultaneously who would be the victims if these policies were truly implemented? What would be the compounding effect on the Indian Agriculture in particular and the economy in general if these policies were fully made operational and implemented? These are questions that beg for answers, and the triumvirate of media, polity and the intelligentsia routinely choose to ignore answering these questions.**

It must be understood in the context of the current debate that Socialist India had built-in a large amount of institutions and put in place set of mechanism that were not in line with the new economic policy. Dismantling these institutions, frameworks and ideas and replacing them with those in tune with the new economic policies were the challenges that the polity faced in the post reforms period. It was never going to be an easy task, especially in a country as complex as India. Reconciling the imperatives of the economy with new macro economic posturing of the government became the ultimate challenge for the policy framer in India. For instance, the subsidy regime, the subject matter of this document, a product of the socialist era was to be dismantled and replaced with an effective one in tune with the NEP, was one such challenge. But with the efflux of time it was clear that India could not dismantle its subsidy regime for its agriculture, as the entire global Agriculture is dependent on a global subsidy regime. **The Indian polity never understood the size, sweep and scope of the global subsidy regime and we began to dismantle unilaterally the domestic subsidy regime since 1991. This autonomous reforms process in bringing down agriculture subsidy was not only ahead of the WTO regime, but in fact ahead of the WTO itself for the WTO itself-both as a regime and as an institution came into existence only in 1995. It must be noted that we began lowering our subsidy on agriculture from 1991. While India launched its NEP in 1991 and attempted in brining down its subsidy regime other countries; especially the developed and the more affluent countries were engaged in a fierce debate in the Uruguay Rounds on maintaining subsidies in Agriculture. In fact, between 1986 and 1994, coinciding with the Uruguay Round negotiations developed countries actually**

increased their subsidies to have a better negotiating position. The cuts bought in by the developed countries post WTO regime have in fact been a mere lowering of the already high levels of subsidies which were increased during the Uruguay Round negotiations. And this is the crucial issue that has been ignored in our debates on Agriculture subsidy

Let us now look into the impact of the decade long policy that has left the Indian agriculture uncompetitive in the light of the global challenges.

## **THE OBSESSION WITH ELIMINATING FARM SUBSIDIES EXPLAINED IN THE CONTEXT OF THE EVOLVING GLOBAL TRADE IN AGRICULTURE**

Being obsessed with the NEP and its ideological mooring, we as a nation missed the crucial debate on the global subsidy regime on agricultural. In fact we were oblivious to the economics of global agriculture and thus we did not understand the implications of the Dunkel Draft, which laid out the AoA. Without the complete comprehension of the issues involved in the global subsidy regime and its implications on the global agricultural trade, we accepted the AoA.

This has placed us in a policy bind. Developed countries are insisting on greater market access to their agricultural products in India by lowering our tariffs while maintaining their high export subsidy regime. If we seek lowering of their tariffs they could well do so, as our exports can never match their farm product prices in their countries, which are already subject to extraordinary domestic subsidies. And we are unable to lower our tariffs and have not been able to dismantle it in line with the requirements of the WTO regime nor compete with the global subsidy regime because of our own fiscal compulsions. And unilateral withdrawal of the same by India would collapse Agriculture in India, and with it the Indian Economy. These facts are never factored in any debate on the subsidy regime within India.

Another issue that is overlooked is that of the Western concept of small sizes of land holdings or any production facility is considered low and unviable. West requires huge sizes of operation to consider any proposition as workable. Global level of operation requires huge sizes, which can only be the foundation of mass production and mass marketing. For example, in USA smallest land holding is in the order of thousands of acres at a stretch. Even the holdings of the size of one-lakh acres or two lakh acres are common in USA. While in India we have a large number of subsistence farmers who own one acre and two acres. This will also raise a question as to how far the land ceiling laws in India would be relevant and their utility would have to be examined from various points of view including their role as non-tariff barrier under WTO. This positioning has pitted the small Indian levels of operation against the large level of operation in the west. But one cannot ignore the intentions behind the government legislating the land ceiling laws in India.

Thus in effect, in the western countries, agriculture is mainly corporate-driven and in effect is a backward integration of the industry. It plays a very marginal role in the economy and it occupies a very little percentage of population in employment. For example in USA agriculture contributes less than 3% to the GDP and employs only 2% of the population. Similar is the position of various western countries. The only western country that is more dependent on agriculture is France, where about 11% of its population is involved in agriculture. While in our country about two-thirds of the population is occupied in agriculture and 25% of the national GDP is contributed by agriculture. The contrast is simply overwhelming.

Agriculture in the West is without concept of community approach and does not contain the issues connected with rural economics. While in India agriculture is inextricably linked to community system involved in agriculture and forms the core of our rural economy. Agriculture in the west is fully commercialised and is integrated to the industry. It is commercialised for all inputs like seeds, fertilizers, water, labour while much of these inputs have not been commercialised in India like in the West. Large parts of these inputs are outside the commercial system in India. It is more of a culture of the land and its people and less of an economic activity in India. Consequently even attempting to compare agriculture within India with the agriculture of developed countries is simply fallacious. But this is what the AoA attempts to do and we, as a nation seem to have conceded the fact upfront.

Further, agriculture in India cannot just be viewed as provider of food security but is the largest employment provider. Any attempt to alter the basic characteristics of our agriculture in name of integrating it globally will have to seriously consider the role of Indian agriculture in the economy – contribution to GDP and employment, and other related issues.

And for the hardened critique who would not understand any of this global chicanery, reforms mean containment of the fiscal deficit of the Central Government. To this extent that the mind of the nation has been so prepared by this repeated tutoring that the success and failure of the annual Budgets are benchmarked against the Finance Minister meeting their stated targets of fiscal deficits. The pressure on the polity to contain the fiscal deficit is so enormous that even Multi National Rating Agencies, International Banks, and Funding agencies join the chorus and clamour for the containment of the fiscal deficit. This national obsession with the control of the fiscal deficit begins to take its toll on the decision making within the polity. Nothing else matters in the run up to the Budget. In its anxiety that the fiscal deficit be controlled, the Government of India begins to lay its hand on all subsidies and the first victim to this cut has always been the Fertiliser subsidy.

It is a different matter that the government have turned to the pruning fertilizer subsidy instantly while it has simultaneously allowed the largesse to other vocal and

vociferous sections of the economy. For instance, while there is enormous amount of clamouring and endless debates for the reduction of the fertiliser subsidy aggregating to Rs. 17,000 crores but benefiting approximately 600 million India, the government a couple of years back merged the DA along with the basic for its employees. The expected revenues impact is expected to be Rs 3500 crores and benefit approximately 4 million central government employees. On the sheer number of beneficiaries and the overall impact on the Indian economy we need to have a detailed analysis of the subsidy impact and its share in the increase of the fiscal deficit and conduct a similar exercise on other components of the government expenditure. The unfortunate part of this analysis is that the views of the farmers remain unarticulated and hence is subjected to perverse policy, while other sections of the populations because of their sheer position within the polity are able to get away with favourable policies.

For instance let us quote from a leading policy analyst<sup>3</sup> to demonstrate the obsession of the nation on this issue of Fertiliser Subsidy and Fiscal deficit: **“Because of the imprudent policies followed over the years, the fertiliser subsidy has gone up from a modest Rs 505 crores in 1980-81 and Rs 4,389 crores in 1990-91 to Rs 13,800 crores in 2000-01. It is budgeted at Rs 13,400 crores for 2003-04 but the actual figure may turn out to be much higher. Despite this, the resource poor farmers and those in un-irrigated dry land areas have not benefited at all from this burgeoning subsidy on the national exchequer just as the poorest of the poor in the country have not benefited from the ever-rising food subsidy”.**

Similarly another article<sup>4</sup> states **“it is extremely essential to reduce the fiscal deficit, mainly by lowering the revenue deficit. It turns out that the three main heads of revenue expenditure will all be higher. These are interest payments, Defence spending, and food and fertiliser subsidies”.** While the interest payments of the central government is approximately Rs.125,000 crores, the subsidy bill is a mere 10% of the interest cost to the government. To hold and compare interest cost of the government with that of the fertiliser subsidy is unacceptable to say the least. But this is how we continue to debate and discuss matters relating to agriculture.

#### **THE STATE OF THE INDIAN FARMERS EXPLAINED - BEING THE OVERWHELMING CONTEXT TO THIS DOCUMENT**

Dr Manmohan Singh, the chief architect of the new economic policy in his famous 1992-93 Budget speech, said, **"Agriculture is the foundation of national prosperity and no strategy of economic development can succeed in our country if it does not ensure rapid growth of production and employment in agriculture. Nor can we hope to provide sufficient jobs for our growing rural labour force unless we**

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<sup>3</sup> Food and Fertiliser subsidies — Major drag on farm sector growth by S. D. Naik - The Hindu Business Line: April 03, 2003

<sup>4</sup> Budget 2002-03 -- Fiscal consolidation measures missing Nirupam Bajpai The Hindu Business Line: March 29, 2002

**transform the economy of our rural areas."** Successive Finance Minister's have spared no effort to rave about agriculture. Presenting the Budget of 2003, the then Finance Minister, Mr Jaswant Singh, remarked that agriculture is the lifeblood of the economy. In fact, such eulogises about agriculture is not the beginning, nor will it be the end. In fact it has been the trend over the past decade. Successive Budgets have used clichés, slogans and catch phrases such as strengthening the marketing infrastructure, scientific management of scarce water resources, empowering farmers to take informed decisions etc., to demonstrate its concerns for the farmers.

This unflinching lip service glorifying farmers continues as a national pastime when farmers are remembered during budgets and forgotten immediately. And in the bargain, Indian agriculture has been pushed into a sorry state of affairs with increasing suicides among farmers, mounting rural indebtedness, unmanageable price glut during harvest time, and swelling rural to urban migration. In fact, ever since liberalisation became the economic *mantra*, and the impetus of the policy formulation shifted to business and industry with a simultaneous and persistent neglect of agriculture. This has been worrying economists and sociologists. Since the dawn of economic liberalisation successive Budget of the Central Government has become a political exercise to provide one incentive or the other to the non-agriculture sector of the economy and pay lip service to agriculture sector. It is no wonder that the agriculture production remains even today at the levels that was attained during the early 90's.

With the World Trade Organisation (WTO) and structural adjustment programme are beginning to have its debilitating effects especially on agriculture. Agriculture is increasingly becoming uneconomical and the survival of the farming community, impossible. **This is so because the Indian agricultural is faced with a sustainability crisis due to declining productivity and falling prices of farm produce. There is wide spread soil sickness brought about by its indiscriminate use. Lack of organised credit, especially institutional credit has lead to interest rates charged by the unorganised lenders at usury rates resulting in a debt trap for the farmers. In fact growing indebtedness in agriculture is forcing more and more farmers to suicide. This is due to declining farm incomes and lack of appropriate farm credit mechanism. Banks are no longer treating agriculture as a priority sector for lending in the manner they did in the 70's and the 80's. Rural banks and cooperatives are deep in the red, with a majority of them eating into their reserves. It is mockingly remarked that Bank loans for cars are available at a much cheaper rate than tractors. But this tells the sorry and pathetic state of affairs in the country as far as it pertains to agriculture.**

The resulting political cost of continuing with the benign neglect of agriculture and the farming sector will surface sooner rather than later. Resurrecting agriculture should, therefore, be the obvious challenge for the nation.

## THE FALLACY OF MAKING REFORMS CENTERED AROUND THE IMF DRIVEN PRESCRIPTIONS LIKE CONTROLLING THE FISCAL DEFICIT- QUESTIONED BY EXPERTS LIKE JOSEPH STIGLITZ

The modern economic thinking, especially that which stems out of the implementation of the structural adjustment program of the IMF that is in turn based on the Washington Consensus is grounded on the outworn assumptions that markets, all by themselves and without any intervention by the government, lead to efficient outcomes. There is a fundamental fallacy in this presumption, as it did not allow for desirable government intervention in the market workings and that markets were omnipotent in solving all the issues that were confronting the economy. Slowly but surely the realisation that has drawn on economic experts is that the IMF-World Bank prescriptions are not working at all places and at all times. Hence there is a growing view amongst economists that a sound economic policy must encompass the working relation between government and markets as complimentary, both working in partnership, and recognising that while market is in the centre of the modern economies, there is an important and a precise role for the government.

Thus, when crisis hard as it hit India during the early 90's, the IMF stepped in to prescribe outmoded, inappropriate albeit standard prescriptions to deal with our problems which in the opinion of the economists in the know of the Indian economy, a rather incomprehensive solution. Further, the countries, which have approached the IMF, as was the case of India, are supposed to accept its policy formulations without any debate. It is not that nobody questions the prescriptions of the IMF or do have any alternatives on approaching to solve the economic crisis that had hit their country. But the fear of that the country might lose the IMF assistance those within the establishment voiced their concerns only cautiously. And those who did so vehemently were "taken care of" by the establishment of the respective country in one way or the other.

While carrying out any structural reforms process, especially that which was carried in a country like India during the 1990's it was well understood and expected that there would be some pains associated with the reforms process. This note of concern, articulated by well intending economists, had a continuous and consensual expectation that government would step in to ensure that the impact of the reforms process does not in any significant manner affect the poor in the country, especially in a country like India. But the failure of the IMF driven prescriptions to have an in-built agenda for the welfare of the poor and the simultaneous abdication of the responsibility of the state in discharging its duties towards the poor has been the core of the criticism of economists like Joseph Stiglitz. This unfortunate situation has created a backlash for the process for reforms, which contains the process of globalisation as its integral part. Stiglitz<sup>5</sup> has termed the assumption of modern economics based on the Washington consensus to rely too heavily on markets as "Market Fundamentalism".

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<sup>5</sup> Source: Globalisation and its discontents: Joseph Stiglitz.

But this is not the end. To be more precise and contextually relevant let us understand the fixation of the IMF in demanding reduction of the fiscal deficits from governments. One needs to understand that economics is the science of making the best choice. But in a country as complex as India, straight jacket policy formulation and one size fits all idea of the IMF does not always work, in fact it may seldom work. IMF usually intervenes in any crisis if and only if the government engages in policies like bringing down its fiscal deficits and reduces its subsidies. This reduction of subsidies is based on the premise that subsidies are always distorts and interferes in the free functioning of the markets. This created more structural imbalances within the economy and gave way to fresh and deeper crisis. Thus the original Keynesian orientation of the IMF, which emphasised market failures and role for the government in job creation was replaced by free markets mantra of the 80's, which were part of the "Washington Consensus" and driven by missionary zeal by the triumvirate of the WTO, IMF and the WTO. This is what signalled a radically different approach to macro economic issues.

But this IMF prescription of the control of fiscal deficit at the cost of reduction of subsidies and depressing job opportunities have been at the centre of all ridicule amongst economists world-wide. For instance, Argentina got an "A" grade to its economic performance as it balanced its budget and inflation under control. IMF considered these two parameters as vital and perhaps the only parameters in evaluating Argentina. No wonder when Argentina collapsed in 2000, IMF had egg all over its face.

Thus in the entire reforms process in India, matters of substance have become subsidiary to the mater of process. Matters that affect the living conditions of the poor have become secondary to the fiscal health of the government. And the IMF arrogates itself to the monopoly supplier of all macro economic thinking. This is where the polity within India have failed to generate alternative thinking and implement the process of reforms while simultaneously taking care of the poor.

### **THUS REFORMS START AT THE WRONG END BY PENALYSING THE POOR AND THE MARGINAL FERMERS INSTEAD OF PINCHING THE RICH**

The arguments that have been held out till now is not against the reforms process. On the contrary we as a nation needed the reforms process. The assumptions of the socialist regime that became an integral part of the policy formulations had its own limitations and began in manifesting in a limited growth regime with an economy rooted to shortages. This gave way to the reforms process. This was in 1991. But the reforms process started on the wrong end with its emphasis on the rationalisation and controlling the fiscal deficit. The intense tutoring of the IMF-World Bank-WTO combine seemed to have taken the toll on the polity of India to take reasoned decisions.

While it is reiterated that the reforms process and the control of the spiralling fiscal deficit needed to be controlled on a priority basis, that the argument that it should begin at the outset by curbing the fertiliser subsidy bill is simply unacceptable.

In this connection we remind the reader of the statement of the then Finance Minister Dr. Manmohan Singh in his budget of 1992 regarding the curtailing of the fiscal budget and his immediate attention was drawn towards controlling the farm-fertiliser subsidy bill.

This national obsession with the fertiliser subsidy and controlling the same needs to be contrasted with the manner in which the central government has approached the issue of tackling one of the most significant expense of the Central Government impacting the finances of the central government and the fiscal deficit –the interest cost of the borrowings of the central government

To understand the issue in totality let us at the outset capture the average interest cost of the central government during the past decade. The following table<sup>6</sup> lays out the average rate of interest cost to the central government over the past decade.

YEAR	AVERAGE RATE OF INTEREST
1990-91	8.2
1991-92	8.4
1992-93	8.7
1993-94	9.2
1994-95	9.3
1995-96	9.4
1996-97	10
1997-98	9.9
1998-99	10.2
1999-00	10.3
2000-01	9.9
2001-02	9.3

<sup>6</sup> Source: Economic Survey 2003 of the Government of India.

2002-03	8.9
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But the average implicit rate of interest is more than the explicit rate of interest that has been detailed above. The rate given in the table above is the actual rate made out by the government without factoring the tax concessions available on investment with the government. Once the tax concessions are factored the average rate of borrowing by the central government works out to 25.78% for the PPF deposits in March 2001. In fact it was actually as high as 28.35% in September 1993. But the government did not find this as high enough a rate to be tackled on a priority basis and on the contrary ignored the interest bill of the government and resorted to the curtailment of the fertiliser subsidy. One has to understand that because of the fact that the sovereign rate of borrowing being so high the general rate of interest within the economy happens to be so high even after a decade of reforms. In the opinion of some economists the differential rate of interest prevailing in India and that in developed countries is the single largest factor that is inhibiting the competitiveness of the Indian economy.

We are laying out the table<sup>7</sup> giving the actual rate of interest after factoring various tax benefits granted under the Income Tax Act. While admittedly the rate of PPF and the general interest rate within the economy has indeed dropped since 2001, it is estimated that the average rate of the PPF deposits after factoring the necessary tax breaks would well work out to between 16-20% per annum.

**Table A.3: Total effective returns adjusted for all tax concessions**

Tax Brackets	Excess Return Arising u/s 10/80L			Excess Return Arising u/s 88			Total Tax Benefit Adjusted Effective Return to Investor			Cost to Issuer of Taxable Bonds to Accommodate Total Effective Return		
	10%	20%	30%	10%	20%	30%	10%	20%	30%	10%	20%	30%
<b>NSC VIII</b>												
Sep, 1993	1.18	2.37	3.55	6.55	6.55	6.55	18.38	18.38	18.38	18.84	19.36	19.97
Jan, 2000	1.13	2.26	3.39	6.43	6.43	6.43	17.73	17.73	17.73	18.17	18.66	19.24
Mar, 2001	0.97	3.39	2.92	6.06	6.06	6.06	15.78	15.78	15.78	16.16	16.59	17.09
<b>PPF</b>												
Sep, 1993	1.18	2.37	3.55	2.48	2.48	2.48	14.74	14.74	14.74	13.45	14.64	15.82
Jan, 2000	1.08	2.17	3.25	2.49	2.49	2.49	13.78	13.78	13.78	12.38	13.46	14.55
Mar, 2001	0.94	1.87	2.80	2.51	2.51	2.51	16.89	16.89	16.89	10.77	11.71	12.64
<b>PPF with All Permissible Withdrawals</b>												
Sep, 1993	2.17	4.24	6.22	6.45	6.45	6.45	19.02	19.02	19.02	21.80	24.88	28.35
Jan, 2000	2.16	4.22	6.22	6.49	6.49	6.49	18.16	18.16	18.16	20.90	23.93	27.32
Mar, 2001	2.15	4.21		6.54	6.54		16.89	16.89	16.89	19.57	22.51	25.78

Source: Annexure 1, Report of Expert Committee to Review the System of Administered Interest Rates and Other Related Issues, 2001.

It must be clearly understood that who invest in the PPF and other government securities are primarily those who are in the higher income bracket. Obviously their investment in these securities or scheme is predominantly out of an income surplus and is so made to cut their direct tax bill. In direct contrast, majority of the farmers do not have sufficient income to meet both ends, leave alone investing in the government securities or bonds. Instead of targeting those affluent sections of the society who

<sup>7</sup> Source: Task force on Direct Taxes by Dr. Khelkar.

could afford such a rate cut, the government has targeted for over a decade now, the fertiliser subsidy without targeting the interest rate cuts for the sums borrowed by it. The logic of pruning the fertiliser subsidy, which is primarily intended for the benefit of the poor farmers in India with the avowed objective of containing the fiscal deficit, looks outlandish in the context of the failure on part of the government to cut the benefits to the affluent sections of the society.

To understand why a solution so obvious and simple is still not being attempted, we need to learn perhaps from the insights available during the great depression era. We have here a classic instance of a "dominant discourse" that completely clouds the thinking of our policy-makers. They are so single-mindedly preoccupied with reducing the fiscal deficit that any expenditure-raising policy prescription is anathema to them. But if some of our market fundamentalist liberalisers have their way, many of these policy prescriptions could hurt not only the poor farmers but also the consumers. So the practitioners of fiscal orthodoxy are targeting food subsidy, already pegged at a mere one per cent of our national income. It is indeed a parody of sorts that subsidies meant for the poorest are to be cut even as taxes for the richest are being lowered. It is, indeed, a commentary on the morality of the polity of contemporary India that teaching the lesson of fiscal prudence to our most vulnerable citizens appears a greater national priority than a sense of shame at persistent starvation deaths, growing millions of anaemic women and malnourished children.

### **SUICIDE OF A KOREAN FARMER CASTS ITS LONG SHADOW ON THE RECENT WTO SUMMIT AT CANCUN-AN EVENT THAT IS ROUTINE IN INDIA- BUT IS CONSTANTLY IGNORED**

The result of curtailing the farm subsidy was disastrous. Further what the reader has to appreciate is that the interest cost as explained in the previous paragraph is only an example of the fiscal profligacy of the central government. In the interregnum of the past decade the Central as well the State government has done precious little in controlling the revenue expenditure of the central government by bringing down the government expenditure. The net effect was that during the past decade the suicide of the Indian farmer has become a regular feature. What is worrying is that there is no policy response by the government and if at all there was one, it has been mute. In fact the suicide of Indian farmers has been hitting the headlines of late at regular intervals and it is feared that a substantial number of them do not make it to the press and even when they do make it to the headline on occasions, they are ignored. In the last few years it is estimated that more than 50,000 farmers have reportedly committed suicides unable to bear the failing economics of agriculture.

Independent investigations carried out have largely confirmed these deaths. Indian parliament and respective state legislative assemblies have discussed the issue and have expressed serious concern about the policy failures leading to such desperate measures by the farmers. The farmers have committed suicides because they required investments on various inputs. Unable to borrow from formal credit agencies, most of

them have been forced to borrow at high interest rates from private moneylenders. Further, it has to be noted that we as a nation have still not drought proofed our agriculture. With crops failing due to successive droughts, the moneylender's debts hangs like Damocles' sword and with no other recourse to take many of these farmers have resorted to suicides.

The phenomenon, which is repeating some what regularly of late, has raised several questions, especially on the economic policy formulations of the central government:

- The suicide of Indian farmers who were known for their resilience, some aver that it is an indication of a latent distress situation caused by multiple policy level failures.
- At the policy level the major blame has been on the formal rural credit institutions, insurance agencies and the extension system. Most of the farmers committing suicides have been forced to borrow from private money lenders as formal agencies have failed to come to their help in meeting their credit needs adequately; tenant farmers being at a highly disadvantageous position remaining totally out of the formal financial network due to requirement of collateral for borrowing.
- Even those who were able to borrow from formal sources, inadequacy of loans due to rigid scale of finance followed by these agencies have been compelled to supplement their resources from private sources of borrowing. Coupled with the failure of formal credit agencies, the problem of the farmers has been compounded by absence of any credible crop insurance policy. Though for more than a decade an experimental crop insurance scheme is being implemented, it has however proved to be highly inadequate in helping the farmers to really overcome such distress and risky situations. Moreover bulk of the farmers are also out of the insurance scheme as the crops covered are limited and exclude all non-formal borrowers for the purpose.
- Another factor being held, as the major cause for the deaths is the raising input costs for the farmer. With successive drought in many parts of the country the economics of farming in India does not allow the farmers to get the necessary income to maintain sustainable farming in India.

While these suicides of the Indian farmers seemed to have been ignored by the Indian media, Indian polity and Indian academicians, we need to contrast the outrage caused by the South Korean farmer at Cancun, immediately preceding the WTO ministerial. The recent failure of the WTO ministerial at Cancun to come to some sort of declaration was a direct outcome of the suicide of the Korean farmer Lee Kyoung-Hae. Lee Kyoung-Hae had written about his plight, as well as that of his fellow farmers in South Korea, but few had read his words, his predicament and his misery. He had

protested about the way he and other small and marginal farmers were being bullied out of business by the global trade in agriculture sustained by the corporates and multinationals in agriculture.

Lee finally got the World Trade Organisation to focus on the policies that have left farmers in his native South Korea on the brink of disaster, but it took his death - by his own hand - to turn global attention his way.

His suicide shocked everyone gathered in Cancun for the WTO conference. Lee had been at the head of a delegation of more than 300 Korean farmers and trade unionists marching towards the conference centre. An insight into what drove Lee to take his own life may be found in an article he wrote a month prior to his suicide for the Korean AgroFood magazine. This article of Lee reflects the plight of the Indian farmer who might not be so articulate to express their fears in a manner that was done by Lee, but surely the situation that is prevailing in India would be similar.

I am 56, a farmer from South Korea who has strived to solve our problems... but who has mostly failed like many other farm leaders elsewhere," he said. "Soon after the Uruguay round of the GATT (now the WTO) was signed in 1994 opening Korean markets to rich countries and allowing the dumping of rice and other foods] we farmers realised that our destinies were out of our hands. We could do nothing but watch our lovely rural communities being destroyed. To make myself be brave, I searched for the real reasons for his."

Lee, a former MP, concluded that WTO policies had led directly to the impoverishment of hundreds of millions of small farmers worldwide and in February this year he set up a one-man protest, living in a tent outside the WTO offices in Geneva with banners reading "WTO Kills".

"I am crying out my words to you that have boiled so long in my body," he said. "It is a fact that since the WTO agreement, we have never been paid our production costs. Sometimes prices dropped to a quarter of what they used to be. How would your emotional reaction be if your salary dropped suddenly to a half without knowing clearly the reason?"

Many Korean farmers, said Lee, had left for the urban slums. Others had accumulated huge debts. "Once I ran to a house where a farmer abandoned his life by drinking a toxic chemical because of his uncontrollable debts. I could do nothing but listen to the howling of his wife. If you were me, how would you feel?"

Like many others in poorer countries newly opened to free trade, Lee rejected the WTO mantra that the world's peasant farmers could trade their way out of trouble.

They were not able to compete with rich-country subsidies, and needed protection, he said.

“Earning money by trade is not the way [small farmers want] to secure food. My warning goes to all citizens that uncontrolled multinational corporations and a small number of big WTO members' officials are leading to an undesirable globalisation of inhumane, environment-distorting, farmer-killing and undemocratic [policies]. It should be stopped immediately, otherwise the false logic of neo-liberalism will perish the diversity of global agriculture and [bring] disaster to all.”

The Korean farmer's suicide is not an isolated incident. In fact it is the rule for small and marginal farmers in the current global order. But that incident cast its shadow on the functioning of the WTO and ensured that the Cancun summit was destined to end in a stalemate.

The suicide of the Korean farmer was never a matter of great shame for the government of India. The pathetic side of the story is that there has been no debate within the Indian polity. In fact the suicides of the Indian farmers within India too has never been the matter of debate within Indian polity. With the farmers in such precarious state, the fact of the matter is that recent reforms measures initiated by the State and the Central Government in charging appropriate market costs for their inputs makes their position that much vulnerable, given the absence of a formal credit mechanism, drought proofing of our agriculture, and raising input costs. It is in this context one has to view the policy formulations of the government of India with respect to the fertiliser industry. The epidemic of the suicides by the Indian farmers is the real barometer of the state of the Indian agriculture and with it the state of the Indian economy and its ability to stand the rigours of global trade in agriculture.