

CHAPTER IX

SO, WHAT IS TO BE DONE?

THE CONTEXT OF THE DISCUSSIONS CONTAINED IN THIS DOCUMENT SUMMARIZED IN THE LIGHT OF WHAT HAS BEEN STATED

The problems of the Indian agriculture are multi-dimensional. They are beyond the comprehension of many. What compounds the problem is that the Indian agriculture with its inherent structural weakness is unqualified for the global intercourse that is currently attempted by the polity. Indian agriculture is at a tremendous stress even with a minimal interaction with the global trade regime. The enormity of the global subsidy regime, its sweep and its depth renders Indian agriculture uncompetitive at every stage. Moreover the current precarious state of the Indian agriculture caused by a multiple policy failures has ensured that the Indian agriculture is constantly under duress and remains below the threshold level of competitiveness required to face the global competition.

With increasing levels of globalisation of the Indian economy in general and more particularly the Indian agriculture it is natural that the global level policies of agriculture shall indeed impact domestic agriculture, more adversely than otherwise. With every developed country trying to bring in policies suited to “protect” their farm income, it is axiomatic that such policies shall adversely impact the Indian agriculture. This is despite the fact that the AoA within the WTO regime seeks to discipline the colossal subsidy regime in agriculture and aims at a phased reduction over a period of time. Our experience as well the experience of other member developing countries within the WTO has been that the disciplines of the AoA have not served the interests of the developed nations and the expectations of the developing countries from the WTO arrangement has consistently been belied. More importantly, the subsidy reduction commitments of the developed countries to the WTO has more often than not, been held in breach. What the AoA has achieved till date has at best been the legitimization of the subsidy regime and endorsing the shift from the prohibited clauses to the more acceptable clauses without disturbing the aggregate quantum of subsidies. Thus meant that there was hardly any tangible benefit to the poor farmers of the developing country.

But this is merely the manifestation of the external factors and external policies on the domestic economy. And to be fair the threat from the AoA and the WTO at this point in time are as debilitating as compared to the multiple domestic policies. At this point in time it has to be conceded that the threat from the AoA and its impact are beyond the control of our governments. One can neither wish away this reality nor turn away from the truth of the matter, as long as we continue with our policy of integrating with the outside world. At best we can only react to the emerging scenario and cannot

be proactive beyond a particular point especially as multilateralism and negotiations contingent on it are an unbridled horse. But there are certain internal policy issues on agriculture that require pressing attention of the State and the Central Governments and have escaped the attention of successive governments. These adverse policies and their expected corrections have been dealt with adequately if not comprehensively at various places in this document. And these policy corrections seek to address the issues raised by the AoA as well domestic issues totally unconnected with the WTO. Be that as it may, it is also conceded that the complete analysis of the domestic policy formulations and the adverse impact of these policies on our agriculture are beyond the scope of this document. To put matters in the proper perspective it is reiterated that this document has only dealt with the subsidy portion pertaining to agriculture, their policies as it is practiced in India as in other places, its impact as well as consequences, more specifically on the farm sector in India.

In order to draw appropriate conclusions out of this document we are summarizing only appropriate policy issues that were referred to in Chapter I to this document, being the terms of reference to this document. These issues remain at the focal point of this document and which seeks the immediate attention of the government. It is the attempt of this document that any policy suggestion by this document has to be economically feasible, legally tenable and commercially viable. But before we proceed on to do so we need to understand the constraints that govern this document at this point in time in suggesting any policy formulations for the agriculture sector. Before that, we draw the attention of the reader to the secondary issues in so far as it pertains to this document though they too are important aspects that require the immediate attention of the polity. These issues have been considered only in the passing in the entire document and are summarized hereunder for the sake of easy recollection and before we proceed to deal with the core issues subsequently in an elaborate manner:

- At the outset what needs to be examined is whether we need to indulge in the global intercourse of agriculture and treating Indian agriculture as matured enough to withstand the rigors of the market disciplines, especially keeping in mind the impact of the AoA on the agriculture of various developing countries. Viewed objectively and based on the decadal experience on this issue we can safely surmise that if there is any sector that cannot be subjected to the global trade, it is agriculture. Agriculture in India cannot be subjected to the disciplines of international trade as contained in AoA or to any market disciplines as it is in case of other products and understood by conventional economics. It is local in character and the peculiarity of agriculture in India stems from the fact that sixty-seventy per cent of our farmers are small and marginal farmers and they produce only for self consumption. Their produce does not enter even the local market leave alone national and international markets. So to characterise agriculture in the manner that they are characterised in the developed countries is fraught with economic miscalculation and turns conventional economics on its head. But this precisely what the AoA attempts to do. And by doing so the AoA fails in

highlighting the unique features of the Indian agriculture and recognise that the normal laws of economics are inapplicable to agricultural products. **This document calls the polity to re-examine this issue of subjecting agriculture to the market disciplines in greater detail and to find out as to whether Agriculture especially as it is carried on in India is capable of being subjected to the requirements of the AoA.**

- We need to understand that the globalisation as it is understood as an increased global intercourse has come here to stay. This document does not question globalisation. But this unquestioned acceptance does not mean that we can assume without any conclusive evidence that it can provide the solution to all the ills plaguing the economies of various nations. This document questions the wisdom of prescribing a one size fits all for all the ills plaguing the economies of different countries. **This document calls for the polity to examine the fundamental assumptions underlying the globalisation of the Indian economy in general and the Indian agriculture in particular in light of the experiences gathered by it in the past decade.**
- The AoA fails to recognize the multi-functionality of Agriculture especially the Indian context. Since the disciplines of the AoA are suited to the concept of the large farms, corporatized and heavily subsidized agriculture, the contours of the AoA are not even remotely matching the requirement of the Indian farmers. The Green and the Blue Box clauses allowing administration of subsidies in permitted quantities and in prescribed manner. This is suited for the farms in the Western countries and is simply unworkable in a country like India. Similarly, the minimal market access discipline as demonstrated in this document could simply devastate the Indian agriculture even if the access is allowed for the prescribed minimum quantities. **This document calls for the polity to examine as to whether the AoA and the WTO regime recognizes the multifunctional character of agriculture in India, the threats to this from the globalisation of Indian agriculture and the steps taken to address the concerned issues.**
- The Ninth Plan¹ (1997-2002) outlay on agriculture and allied activities was Rs 42,462 crores out of a total Plan outlay of Rs 859,200 crores. This included the Centre, the states and the Union Territories. As a percentage that amounted to 4.9 per cent, which tantamount to the abdication of the state from investing in the rural infrastructure. In fact, in the last two years of the Plan period the percentages were only 4.1 and 3.9. Over the Tenth Plan period (2002-2007) the projected outlay is only 3.9 per cent of the total Plan outlay, and in the first year (2002-03) it was only 2.6 per cent. Need more be said about the concern of political parties and governments for agriculture? **This document calls for the polity to increase the plan outlay for agriculture by first reversing the current downward trend and**

¹ Source: Various documents issued by the Government of India

then over a period of time increase the trend to suit the needs of the Indian agriculture sector.

THE TERMS OF REFERENCE TO THIS DOCUMENT SUMMARISED IN THE LIGHT OF WHAT HAS BEEN STATED

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To put the matters in the proper perspective, it is abundantly clear that the current food subsidy policy of the government is in conflict with its objective of welfare. In India, the price of food is very important in determining the food security, especially where poverty is relatively as well as in real terms, high. The removal of poverty is directly correlated to the nature of intervention of the government in the economy. To summarise the arguments that we had in this document on the issue of the government's intervention through the MSPs and the efficacy of continuing with the PDS mechanism we provide the following Table which gives data about 4 indicators - procurement price, market price, general price level (general price of all commodities in the economy which is how inflation is measured), and the stocks in the economy.

Foodgrain price, inflation and stocks²

Year	Procurement price (index)	Market price (index)	General price level	Stocks (Mn tones)
1980-81	100	100	100	16.7
1990-91	193	179	185	11.3
1991-92	225	216	218	17.9
1992-93	261	242	235	13.9
1993-94	296	261	251	11.8
1994-95	314	293	283	22
1995-96	333	313	304	30.3
1996-97	375	354	328	28.5
1997-98	406	363	340	20
1998-99	455	384	379	18.2

Notes: (1) The procurement price index is based on a weighted average of the price of rice and wheat, the weights being the quantities procured. (2) Stocks of rice and wheat, are as of January 1; the prescribed norm for the buffer stock is 15.4 million tones. Source: Economic Survey, GoI, various issues.

² Source: www.indiatogether.org - "Economic reforms and food security" - Prof Balakrishna Pulapre

Procurement prices of the agricultural commodities are rising at a very fast rate and have accelerated in the 90's because of competitive populism of the central governments. Consequently the market price of food too has risen in tandem. However it has to be noted that the general price level has not risen as fast as the agricultural prices. And this is worrying the welfare economists as the relative price of food is rising when compared to other products. What is of further worry to our economists and polity is that this is happening precisely at a time when reforms are being carried out with an objective of benefiting the large sections of the population who are below the poverty line.

In direct contrast the international prices of agricultural products since the World War II has seen a relative decline. This is because of the heavy subsidy to the agricultural sector by the respective governments. There is no doubt the result of the nature of government intervention in their respective markets abroad. To compare further, the Indian government is raising the food prices from year to year at a rate higher than the inflation rate for which there can be no justification except for placating certain lobbies. This looks all the more bizarre when the stocks of food with the government are quite high and the government continues to buy further foodgrains at high prices.

That explains the whole subsidy conundrum. Stocks are piling up because the government is raising the price above what the market will bear. And because there is an open-ended procurement policy where the government will take up whatever is available in the market. This is purchased at the MSP, which is already higher than the prevailing market prices and cannot be sold except at a significant loss. It is a catch 22 situation. Huge sections of our population are tightening their belt because they are unable to afford to buy the food at the current prevailing prices. And government merrily raises the procurement prices leaving very little for the open markets to absorb.

So this establishes a conflict between the current food subsidy policy of the government and consumer welfare objective of the government. It is a fact that the food subsidy of the government is ballooning. It is happening not because more is being distributed but more is being held. It does not reflect the welfare for the people but reflects the rot within the system. The ballooning subsidy does not prove that the government is doing good work and giving more to our fellow citizens.

The stocks are also rising relative to total production and not just in absolute terms. The reason of mentioning food subsidy is that the argument from any economist cannot be from the level of subsidy but the use of the subsidy - in the Indian case it is just the operational loss of the FCI - it is not being used to feed people. This is not a case against subsidy or government intervention. But this kind of government intervention cannot but have the effect of weakening food security. The government has made the situation worse by raising prices of food at such dramatic rates. And we need to have a decline in the relative price of food to have any activity in the economy

because only when food is cheaper can people spend on other things. And this alone will ensure the proper growth of the Indian economy.

We now proceed to deal with these issues discussed above, which were also referred to in Chapter I of this document, in greater detail:

First, the fundamental issue that has come out in this document is that the Indian food production and consumption is one of the lowest in the entire world. This should be and remains the center of all discussions on agriculture in India. We cannot consume on a per capita basis 50% less than what the developed countries consume and claim self-sufficiency in foodgrains production. Consequently our food security is a matter of great concern. Our consumption today corresponds to the famine level consumption fixed by the British in the nineteenth century. This consumption pattern is simply unacceptable. Our appalling production and consumption level is only matched by our complete ignorance of propagating the myth that we are self sufficient in our foodgrains production. This needs to be stopped forthwith and we need to accept the fact that we are self sufficient on food production if and only if our per capita consumption is pegged at such despicable level. Many of our neighbors have much higher food grains consumption and should we begin to consume more, we necessarily will have a shortage of food grains. Consequently, to address such a situation we need to produce more food. **This document calls of the polity to ensure that the average consumption of food grains in India to be increased to at-least 270 KGs per year in the next five years and to also to draw an appropriate road map to ensure that the food grains production to be simultaneously increased. It should be noted that the alternative route of importing food grains in such huge quantities for a country like India with a population in excess of 100 crores is not feasible as no country in the world has such huge exportable surplus.** Till such time India reaches such consumption levels India must declare itself to be food insecure. This would also give us adequate elbowroom to deal with the various provisions of the AoA in a more practical manner.

Secondly, the government of India has time and again taken the politically popular decision of consistently raising the prices of the foodgrains in India through the MSP system. Axiomatically this means that this decision is economically imprudent. The decision of the government to raise the MSP prices far in excess of the price computed by the CACP has ensured that the cost of food grains in India remain outside the affordable reach of the poor, especially those below the poverty line. This meant that many Indians who are below the poverty line and marginally above buy food grains at prices far in excess of what the CACP recommends and at prices that is economically incorrect. This price places a heavy burden on our poor and leaves them with very little disposable surplus after purchasing their food. The problem gets accentuated further when a majority of the poor do not have access to the PDS mechanism. **So this document calls on the polity to aim at reducing the MSP and not increase it. This alone would place food within the reach of the poor. The government is resource**

starved and more importantly administratively weak to reach out to the poor and supply food to them at affordable prices.

Third, the working of FCI is an economist's nightmare. Being a politically sensitive issue, successive governments have ducked the issue of setting right the working of the FCI. At 50% of the total costs, the economic costs of FCI have already reached the unviable point. It is estimated that the FCI absorbs nearly 70% of the foodgrains that enter the market. And this remains within the FCI as the high MSP coupled with the higher economic costs of the FCI, despite the current subsidy regime has ensured that even the foodgrains supplied through the PDS system are outside the reach of the poor of our country. Simultaneously by increasing the MSP and continuing to buy nearly 70% of the stock that enter the Indian grain markets, FCI has become the hoarder of the first order. And by continuing to purchase grains at such high prices the remaining 30% of the grains that enter the market too are impacted by the higher MSP. It is estimated that more than 60% of the people below the poverty line are outside the PDS mechanism. Hence they are forced to purchase food at market prices, which remain highly distorted thanks due to the high MSP and poor functioning of the FCI. **This document calls the polity to look at alternatives to the FCI including its closure. By disbanding the MSP mechanism and the PDS the government may actually save a substantial amount of the Rs 25- 28,000 crores spent on the food subsidy. Contrary to the popular belief that such a step would harm the interests of our poor, the fact of the matter remains that the forces of the market would act and would bring about the reduction in the prices of the foodgrains thus benefiting the poor of this country. Further, this would release the foodgrains purchased by the FCI and stocked in its godowns, which could be made available to the starving millions.**

Fourth, in the above paradigm, which suggests alternatives to the MSP and the FCI including their closure, the issue that needs to be addressed simultaneously is that the Indian farmer may face reduction their earning capacity. One has to concede at this point in time is that in such a situation and in the withdrawal of the MSP mechanism we need to consider the fall in the income of the farmers. As already mentioned the fundamental issue that needs to be understood is that our per capita food consumption is less than the world average. Rough estimate indicates that we need to double the food production forthwith. This would at once address the issue of increased income to the farmers despite lower realization per unit in the absence of the MSP mechanism. **This document calls on the polity to immediately take steps to increase the food production in India to shore up the farm income of the farmers. This would make food available at cheaper prices in the markets especially if the government does not use the MSP mechanism to increased prices and the FCI from hoarding the foodgrains so produced.**

Fifth, this doubling of food production calls for increased usage of inputs especially fertilizers as other inputs and factors of production are outside the scope of this document. But as far as fertilizer consumption is concerned it has to be pointed out that the current Indian rate of consumption is way below the world standards. The argument that the food production needs to be doubled needs to be tempered with the fact that as on date there seems to be hardly any scope for the increase in the land availability in any substantial quantities. This means that we need to double the food production with the available land for agriculture. This calls for intensifying our agriculture methods with more use of fertilizers. It has to be noted that Chinese rate of fertilizer consumption is almost double the Indian consumption and hence the food grain production as well as productivity of the lands in China is almost double that of India. **This document calls the polity to undertake efforts to intensify the food production in India. In view of the limited land available this document suggests intensifying agriculture in India. This calls for increased usage of all inputs especially fertilizers. The current fertilizer consumption in India at 17 MT of nutrients producing approximately 200 MT of food grains is far below the world average given that this production is achieved on 140 million hectares of land. The doubling of food production would call for doubling fertilizer consumption in India. This would mean that the fertilizer industry should be in a position to produce nearly 35 MT of fertilizers in nutrient terms to achieve this objective of doubling the food production in India.**

Sixth, food security in India has to be viewed in a holistic manner – it cannot be viewed in isolation, as it is currently viewed. This calls for an integrated manner in which the concept of food security has to be viewed in this country by the polity along with the issue of self-sufficiency. The fact of the matter remains that the food security is integrally related to the farm input security in India. This fact is constantly missed in all debates in our discussions and assumptions about food security as well as self-sufficiency in India. Current estimates, for instance, indicate that the fertilizer consumption in India is far too low as compared to the other comparable countries of this size especially China. At approximately 17 MT of fertilizer consumption (in nutrient terms), India consumes far less nutrients than that is required for a foodgrains production of 200 MT. This is estimated to place an enormous pressure on its farmlands in India and in fact leads to the nutrient draw down from our lands and making them infertile over a period of time. Thus this document calls on the polity to understand that correlation between the food and fertilizer consumption. **This would at once increase the strategic importance of the fertilizer industry. Implicit in the argument for doubling the food production we need to understand that the fertilizer production and consumption in this country has to be doubled from the existing levels of 17 MT to approximately 35 MT. But with perhaps no country in the world having such excess production capacity on fertilizer the fact of the matter remains that we need to ensure that we put appropriate policies in place to develop our domestic fertilizer industry. It is to be understood that the reference**

to the fertilizer subsidy is a mere contextual reference to the discussion on hand, rather it means that we need to have more direct subsidies and not indirect ones.

Seventh, given the imperative need of doubling food consumption and the requirement of doubling fertilizer and other direct input consumption it is natural that we need to focus extensively on the nature, size and more importantly the method of administering the subsidy regime to meet the above objectives. It is at this point it has to be reiterated that the increase in the MSPs over a period of time has not helped the farmers not has it helped the poor in this country. As already observed in this document, it has to be understood by us that a majority of the farmers are small and marginal farmers who produce some crop in their land with an objective of self consumption. This means that any increase in the MSP does not increase the income of the farmers. Such increases are purely notional and do not materially alter the financial state of the farmers. Further, the open ended purchase of the food grains at increased MSPs seem to have burdened the operations of the FCIs over a period of time and the efficacy of this method of subsidizing our farmers becoming totally uneconomical. Thus this document calls the polity to reassess the current mode of administering the farm subsidies in India through the MSP mechanism and using the FCI as a delivery mechanism. Further the document points out to the uneconomical usage of the scarce financial resources of the government used in administering the subsidies, which invariably benefit the larger farmers and not the smaller farmers. Further, the poor of this country remain the victims of this policy of raising the food prices consistently year after year. **Consequently it is high time that the government pays attention to its farm subsidy policy, especially on the manner of administering the same and shifts to a more acceptable economical policy of subsidizing agriculture inputs rather than raising the MSPs. It has to be noted that this shift in policy would at once be addressing the issue of equity as the current policy fails to subsidize the small and marginal farmers who are in the maximum need of the subsidy but are denied the same as the MSP mechanism excludes farmers who produce for self consumption. This is patently iniquitous and needs to be rectified.** By shifting making the farm subsidy become input based rather than the current policy of being output based it is estimated that the benefit of the same would percolate to the small and marginal farmers.

Eight, for the period till the beginning of 1990 when the government implemented the NEP, the procurement and distribution of foodgrains moved in fairly close tandem with each other. This was because the PDS mechanism till such time was functioning quite well and was effective. However, it is in the past decade or so that the multiple policy stress, arising out of competitive populism, has resulted in the complete collapse in the economics of the food procurement and working system of the government and the FCI. The cost arising due to the lower price at which the Government sells through the PDS mechanism results in only a small portion of the food subsidy. It is not very well known that substantial amount of the Government's food subsidy

comprises the "carrying cost" of foodgrains, their storage and distribution costs. The other requirement of reforming the PDS mechanism is to extend the geographical coverage of the PDS. Today, most PDS off take is mainly restricted to six major States that are already relatively better off. The poorest States have the lowest off take. This is, of course, not only because of poor PDS coverage. It is also a reflection of the incapacity of the poor in these States to buy grain at even the PDS prices. **So, this document calls on the polity to ensure that the increase in the working efficiency of the PDS mechanism and ensure that the costs of administration does not increase more than 25% of its total costs. Further, in line of the current economic thinking of the government of India migrate from current policy of the state intervention in food procurement and distribution to a futuristic policy that allows the market forces to determine the prices of the food. This would at once mean that valuable resources are available at the hands of the government for better and alternative uses.**

Ninth, declining foodgrains production and access to food indicate a comprehensive policy failure at multiple levels. These issues remain the two biggest problems confronting the economy. With more than 70 per cent of the population still engaged in agriculture and allied activities and an equal percentage of farmers tilling an average of 0.39 hectares of land and somehow surviving against all odds, the time has come to set the balance right. **Few will still question what Jawaharlal Nehru had once said: "Everything else can wait, but not agriculture." In effect this call for a complete overhaul of the policy pertaining to agriculture, production, procurement, storage, distribution and exports followed by the government over the past decade.**

SO, THE QUESTION IS NOT WHETHER TO SUBSIDISE INDIAN AGRICULTURE BUT HOW MUCH TO SUBSIDISE AND THE MANNER OF EFFECTUATING THE SUBSIDY REEGIME

A decade of the WTO regime and the implementation of the AoA has shown us that the disciplines of the AoA are held more in the breach, especially by the developed countries. It is precisely because of this experience, various developing countries, at the Cancun Ministerial of the WTO held last year, were vehement in their opposition to even discussing any further liberalization of global trade in agriculture at their end while simultaneously opposing the prevalent subsidy regime maintained by the developed countries. Our experience of the past decade shows that even a minimal intercourse with the global subsidy regime, the gargantuan internal subsidy program of certain developed countries coupled with high tariffs and other safeguard measures continue to cause immense stress to our agricultural sector. Increased intercourse of the domestic agriculture with the global trading system would actually accentuate this stress in the days to come.

This paradigm calls for a complete rethink on our subsidy policy. The reform process in our country have resulted in fiscal orthodoxy and strangely the polity, media, academicians and the intellectuals in the country seem to have identified the food and the farm subsidy as the villains of the burgeoning fiscal deficits of the government. What is missed in this debate is that with increased globalization of the Indian economy and the Indian agriculture, it is natural that the agricultural and subsidy policies of other countries too would impact our domestic situation. As already discussed in the earlier chapters of this document, we have seen the size and sweep of the global subsidy regime. It is absolutely logical that India would be impacted more adversely than otherwise, by this subsidy regime. This places India in an unenviable situation: It cannot either shy away from entering into a globalization of its agriculture nor its fiscal strength permit it to have the luxury of matching the subsidy regime of the developed countries. Since India is committed to the disciplines prescribed by the WTO in general and the AoA in particular, withdrawing from the former is ruled out. This leaves India to adopt the next best alternative – that of subsidizing its agriculture, albeit marginally. While it is conceded that the fiscal health of the government does not permit it the luxury of matching the elaborate subsidy regime of the developed countries, it needs to do its best given its limited financial resources.

It is at this point it is interesting to note that India since 1991 actually under the structural adjustment program of the IMF has proceeded to reduce its farm subsidy. And this was done precisely when various governments of the developed countries were increasing their domestic farm subsidy bill till the WTO as a regime was institutionalized in 1995. This positioning of these governments was done with a strategic view of gaining a bargaining chip during the WTO negotiations held during the period 1986-94. These developed countries used these higher subsidies as a starting point for negotiating within the WTO to reduce their subsidies in the post WTO set-up i.e. during the post 1995 period. This is how various developed countries strategically positioned themselves for the post WTO regime. In direct contrast India began to lower her farm subsidies since 1991. This was the period when India began implementing the NEP under the overall guidance of the IMF's structural adjustment program. This was not only ahead of the WTO requirement of reducing agricultural subsidies but also ahead of the WTO itself. This meant that the government of India ignored the global realities and autonomously arranged its internal policies. This reduction in subsidies of the government of India, completely out of sync with the global realities caused immense stress to our agriculture. The fiscal orthodoxy of the country polity coupled with the consistent tutoring of by the media has compelled the polity to ignore this fundamental lesson in global economics.

So the question does not seem to be whether or not to subsidize. The fact of the matter remains that our agriculture is under stress both by faulty domestic policies as well as that which is caused by the global integration and we can address this stress only by through appropriate and adequate subsidies. But this document has already demonstrated in adequate measure the fallacy in the approach of increasing the farm

output prices. We have dealt in adequately on the pernicious impact of the MSP mechanism and have discussed its fallout. We have also brought out the impracticality in maintaining the PDS mechanism. This leaves us with the choice of increasing the input subsidies, which should lead to more intensive farming. This increased subsidy to inputs, would result in intensive farming leading to increased productivity from our lands and also simultaneously increase our national food production.

Another dimension to the increased subsidy by the government needs to be analyzed in the context of the prevalent agricultural policies of the Government of India. It is now widely accepted that the subsidy regime in India works at diametrically opposite purposes. The MSP mechanism has the objective of increasing the prices of the farm produce with an ostensible aim of improving the farmers' income. Simultaneously the input subsidies given by the Government to the farmers, Viz., the fertilizer subsidy and other input subsidies have been put in place with an aim of reducing the costs of production and hence the selling price of the farm produce in India. At one point in time these are working at cross-purposes. Increase in the prices of farm produces and thereby benefiting the farmers is to be viewed in direct contrast to the terrible impact of such policies on the poor of the country. Managing this latent contradiction within the policy of the government is the critical issue that the polity needs to address forthwith. This is to be attempted by shifting the food subsidies to a more practical input subsidy regime.

The implicit benefit from such regimentation is too obvious that cannot be missed. As pointed out repeatedly in this document, the fact of the matter is that the domestic food prices in India have consistently risen in the past decade. This is because of the faulty policy of the government of India to increase the MSP of the farm produce. Such a policy is in direct contrast to that prevailing internationally. Thanks due to the subsidy regime prevailing in the developed countries; the international prices of farm produces have registered a successive fall over the past few decades. Consequently despite the huge disparity between the Indian currency and the US Dollar, the gap between the Indian farm prices and the International prices is slowly but steadily narrowing. An increased gap is reflective of the competitiveness of the Indian agriculture. Axiomatically a decreasing gap is indicative of the eroding competitiveness of the Indian agriculture. This fall in the gap needs to be immediately arrested by the polity and the trend reversed. And this natural hedge and the most potent weapon for the Indian farmer in his global intercourse- his competitiveness must be restored forthwith. What is galling is that the erosion of the natural competitiveness is caused by faulty policy implementation rather by anything else. This natural advantage should not be allowed to be eroded through an artificial pricing mechanism of the government of India. This artificial pricing mechanism of the government of India renders the Indian farmer at a tremendous disadvantage and in the case of increased imports the Indian farmer finds himself to be uncompetitive even in India despite high tariffs. The only solution to this vexed issue seems to be to increase the productivity and thus the competitive edge of the Indian farms through a subsidization process of

its inputs. This would cogently fit in to the multifarious demands of the Indian economy. This positioning too calls for the increased input application and to encourage such a paradigm, we need to provide an increased direct subsidy.

Final words

Exports are a function of surpluses. India is not surplus on farm products. Rather it is on huge deficits and on very low consumption levels we have declared our self-sufficiency.

India can neither import food from the rest of the world given her population and her demand. In fact any global intercourse would destabilize the international prices of foodgrains. Thus India has to be self-reliant on food production before we engage in global trade.

Also India has a huge number of population dependent on agriculture, a substantial portion of which are below the poverty line. If we have to bring about a change in their economic fortunes, agriculture sector needs to grow at a far higher rate in India.

That would at-once increase their income and would also act as a growth multiplier on other sectors of the Indian economy.

All these mean that till we put our house in order any further liberalization of agriculture is unacceptable. India needs to approach the WTO regime with a different mindset.